Date: June 29, 2017

IMPORTANT NOTICE

Banco Mercantil del Norte, Institución de Banca Múltiple, Grupo Financiero Banorte – Issue of United States dollar-denominated perpetual callable subordinated non-preferred non-cumulative Tier 1 capital notes (the "Offer")

Dear Sir or Madam,

We refer to the proposed offer of the securities referred to above (the "**Notes**"), further details of which are set out in the Offering Memorandum dated June 29, 2017 (the "**Offering Memorandum**") which is being sent to you with this letter and which will be supplemented by a pricing term sheet relating to the Notes. This letter contains important information relating to restrictions with respect to the offer and sale of the Notes (including pursuant to the PI Rules (as defined below) to retail investors).

Restrictions on marketing and sales of the Notes to retail investors in the European Economic Area

The Notes discussed in the 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 1 October 2015 (the "**PI Instrument**"). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "PI Rules"):

(a) 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

(b) 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.

Certain of the affiliates of each of Morgan Stanley & Co. LLC, UBS Securities LLC (together the "Joint Book-Running Managers") and MUFG Securities Americas Inc. and Wells Fargo Securities, LLC (together the "Co-Managers", and together with the Joint Book-Running Managers, the "Initial Purchasers") are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from Banco Mercantil del Norte, Institución de Banca Múltiple, Grupo Financiero Banorte (the "Issuer") and/or the Initial Purchasers or their affiliates you represent, warrant, agree with and undertake to the Issuer and each of the Initial Purchasers or their affiliates 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 interest therein) to retail clients in the EEA; or

   (b) communicate (including the distribution of the 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 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 Notes (or any

beneficial interests therein) to a retail client in any EEA Member State other than the United Kingdom, where (a) 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 (b) 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 or their affiliates the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

This document is not an offer to sell or an invitation to buy any Notes.

Your offer or agreement to buy any Notes will constitute your acceptance of the terms of this letter and your confirmation that the representations and warranties made by you pursuant to this letter are accurate.

This letter and any non-contractual obligations arising out of or in connection with it are governed by English law. The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to the existence or validity of this letter or any non-contractual obligations arising out of or in connection with this letter) or the consequences of its nullity.

Yours faithfully,

The Initial Purchasers and their respective affiliates licensed to offer and sell the Notes in the UK and the EEA

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT")) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Memorandum following this page, and you are advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. THE OFFERING MEMORANDUM AND THE OFFER OF THE NOTES ARE ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC, AS AMENDED) AND RELATED IMPLEMENTATION MEASURES IN MEMBER STATES ("QUALIFIED INVESTORS"). IN ADDITION, THIS COMMUNICATION IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "ORDER") OR (III) HIGH NET WORTH COMPANIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THE NOTES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE THE NOTES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS. THE NOTES ARE NOT INTENDED TO BE SOLD AND SHOULD NOT BE SOLD TO RETAIL CLIENTS IN 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 "RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA" ON PAGE 268 OF THE OFFERING MEMORANDUM FOR FURTHER INFORMATION.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED 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.

Confirmation of your Representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which this Offering Memorandum has been delivered is not located in the U.S., and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum 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 Offering Memorandum to any other person.

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. 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 the issuer in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the Initial Purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between this Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

BANORTE

U.S.$350,000,000 6.875% NC5 Notes
U.S.$550,000,000 7.625% NC10 Notes
Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple, Grupo Financiero Banorte,
acting through its Cayman Islands Branch

6.875% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes
7.625% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the "Bank" or the "Issuer"), a multiple purpose bank incorporated in accordance with the laws of the United Mexican States ("Mexico"), acting through its Cayman Islands Branch, is offering U.S.$350,000,000 in aggregate principal amount of its 6.875% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the "NC5 Notes") and U.S.$550,000,000 in aggregate principal amount of its 7.625% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the "NC10 Notes") (the NC5 Notes and the NC10 Notes, collectively, the "Notes" and separately, each a "series of Notes"). Each series of Notes will be issued under a separate indenture. The Notes are perpetual instruments with no fixed maturity or fixed redemption date, unless previously redeemed as described in this offering memorandum. The Bank may redeem the NC5 Notes, in whole or in part, subject to certain regulatory requirements, at its option on July 6, 2022 (the "NC5 First Call Date") and on any Interest Payment Date (as defined below) thereafter. The Bank may redeem the NC10 Notes, in whole or in part, subject to certain regulatory requirements, at its option on January 10, 2028 (the "NC10 First Call Date") and on any Interest Payment Date (as defined below) thereafter. **THE BANK MAY ALSO REDEEM EACH SERIES OF NOTES SEPARATELY, IN WHOLE BUT NOT IN PART, SUBJECT TO CERTAIN REGULATORY REQUIREMENTS AND APPROVALS, AT ANY TIME, IF THERE ARE SPECIFIED CHANGES IN (1) MEXICAN OR CAYMAN ISLANDS LAWS AFFECTING THE WITHHOLDING TAX APPLICABLE TO PAYMENTS UNDER SUCH SERIES OF NOTES; (2) MEXICAN LAWS THAT RESULT IN A CAPITAL EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM); OR (3) APPLICABLE TAX LAWS THAT RESULT IN INTEREST ON SUCH SERIES OF NOTES NOT BEING DEDUCTIBLE BY THE BANK, IN WHOLE OR IN PART, FOR MEXICAN INCOME TAX PURPOSES. SEE "DESCRIPTION OF THE NC5 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION," "DESCRIPTION OF THE NC10 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION," "DESCRIPTION OF THE NC5 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION" AND "DESCRIPTION OF THE NC10 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION."**

PRINCIPAL AND INTEREST ON EACH SERIES OF NOTES WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES OF EACH SERIES 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, OR ANY ACCRUED AND UNPAID INTEREST WITH RESPECT THERETO, AS FURTHER DESCRIBED IN THIS OFFERING MEMORANDUM. SEE "DESCRIPTION OF THE NC5 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN" AND "DESCRIPTION OF THE NC10 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN." INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELLED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN "INTEREST CANCELLATION EVENT"). PAYMENTS OF INTEREST DUE ON THE NOTES OF EACH SERIES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELLED, HOLDERS OF EACH SERIES OF NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELLED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON ANY WRITE-DOWN OF THE NOTES OF EACH SERIES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES OF SUCH SERIES WILL BE WRITTEN DOWN AND ANY AND ALL INTEREST WILL CONTINUE TO BE CANCELLED. SEE "DESCRIPTION OF THE NC5 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS" AND "DESCRIPTION OF THE NC10 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS."

The NC5 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs (as defined in this offering memorandum), will bear interest on the then Current Principal Amount (as defined in this offering memorandum) from time to time outstanding from and including July 6, 2017 (the "Issue Date"), to (but excluding) the NC5 First Call Date at an initial fixed rate *per annum* equal to 6.875%. Subject to a prior redemption and/or one or more Write-Downs (as defined in this offering memorandum), the NC5 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) the NC5 First Call Date (such date, and each fifth anniversary thereafter a "NC5 Reset Date") to (but excluding) the next succeeding NC5 Reset Date, at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined in this offering memorandum) on the second Business Day (as defined in this offering memorandum) immediately preceding the applicable NC5 Reset Date (the "NC5 Reset Determination Date") and (b) 503.5 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC5 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC5 Reset Date. The NC10 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs, will bear interest on the then Current Principal Amount from time to time outstanding from and including the Issue Date, to (but excluding) the NC10 First Call Date at an initial fixed rate *per annum* equal to 7.625%. Subject to a prior redemption and/or one or more Write-Downs, the NC10 Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the NC10 First Call Date (such date, and each tenth anniversary thereafter a "NC10 Reset Date") to (but excluding) the next succeeding NC10 Reset Date, at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield on the second Business Day immediately preceding the applicable NC10 Reset Date (the "NC10 Reset Determination Date") and (b) 535.3 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC10 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC10 Reset Date. Subject to the conditions described under "Description of the NC5 Notes—Interest Cancellation," "Description of the NC10 Notes—Interest Cancellation," "Description of the NC5 Notes—Trigger Event and Write-Down—Write-Down" and "Description of the NC10 Notes—Trigger Event and Write-Down—Write-Down," the Bank will pay interest on each series of Notes quarterly in arrears on July 6, October 6, January 6 and April 6 of each year (each an "Interest Payment Date"), commencing on October 6, 2017.

Interest on the Notes of each series will be due and payable only at the Bank's sole discretion and the Bank will have sole and absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. In addition, interest due on the Notes of each series from the Bank will be automatically canceled in an Interest Cancellation Event (as defined in this offering memorandum). Such canceled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of each series of Notes shall not have any right to or claim against the Bank with respect to such unpaid interest amount.

The Notes of each series will be issued by the Bank, acting through its Cayman Islands Branch, and will be the Bank's unsecured subordinated general non-preferred obligations, not different from other subordinated unsecured non-preferred obligations of the Bank. The Notes of each series will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank's present and future senior indebtedness and subordinated preferred indebtedness, (ii) *pari passu* without preference among themselves and with all the Bank's present and future other unsecured subordinated non-preferred indebtedness and (iii) senior only to all classes of the Bank's equity or capital stock, as described in this offering memorandum. See "Description of the NC5 Notes—Subordination" and "Description of the NC10 Notes—Subordination." **THE NOTES ARE NOT DEPOSITS WITH THE BANK, WILL BE UNSECURED AND NOT INSURED OR GUARANTEED BY ANY MEXICAN GOVERNMENTAL AGENCY, INCLUDING, WITHOUT LIMITATION, THE MEXICAN SAVINGS PROTECTION AGENCY (*INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO)* (THE "IPAB"), THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER UNITED STATES GOVERNMENTAL AGENCY**. The Notes of each series will be obligations of the Bank and will not be guaranteed by, Grupo Financiero Banorte, S.A.B. de C.V., the parent company of the Bank, or any other member of the financial group to which the Bank belongs.

Payments of interest (or amounts deemed interest under Mexican law) made by the Bank through its Cayman Islands Branch are generally not subject to Mexican or Cayman Islands withholding tax. See "Taxation—Certain Mexican Income Tax Consequences" and "Taxation—Certain Cayman Islands Income Tax Consequences." However, if any such withholding tax would apply, subject to certain exceptions described in this offering memorandum, the Bank will pay additional amounts so that the net amount received by holders of each series of Notes after Mexican or Cayman Islands withholding tax, if imposed, will equal the amount that would have been received if no withholding tax had been applicable. See "Description of the NC5 Notes—Payment of Additional Amounts" and "Description of the NC10 Notes—Payment of Additional Amounts."

Application is expected to be made to list the Notes of each series on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Admission to the SGX-ST is not to be taken as an indication of the merits of the Notes or the Bank.

Investing in the Notes of either or both series involves risks. See "Risk Factors" beginning on page 30.

NC5 Notes' Price: 100%, plus accrued interest, if any, from July 6, 2017.

NC10 Notes' Price: 100%, plus accrued interest, if any, from July 6, 2017.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers ("QIB") in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). 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.

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area ("EEA"), as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 ("PI Instrument"), 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.

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*) ("CNBV"). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) ("RNV") MAINTAINED BY THE CNBV AND THEREFORE THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED AND SOLD IN MEXICO TO INVESTORS THAT QUALIFY AS INSTITUTIONAL INVESTORS OR QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN 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 AND THE TERMS OF THE NOTES. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION AND STATISTICAL PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, THE BANK'S SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING MEMORANDUM MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

Delivery of the Notes of each series will be made in book-entry form on or about July 6, 2017, through The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream").

Global Coordinator

Morgan Stanley

Joint Book-Running Managers

Morgan Stanley **UBS Investment Bank**

Co-Managers

MUFG **Wells Fargo**

June 29, 2017.

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BANCO DE MÉXICO (THE "MEXICAN CENTRAL BANK") HAS AUTHORIZED THE ISSUANCE OF EACH SERIES OF NOTES, AS REQUIRED UNDER APPLICABLE MEXICAN LAW. FURTHERMORE, THE RESPECTIVE INDENTURE GOVERNING EACH SERIES OF NOTES WILL BE EXECUTED BY AN OFFICER OF THE CNBV, AS REQUIRED UNDER MEXICAN LAW. AUTHORIZATION OF THE ISSUANCE OF EACH SERIES OF NOTES BY THE MEXICAN CENTRAL BANK DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF EACH SERIES OF NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR AS TO THE BANK'S 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 THE MEXICAN CENTRAL BANK AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS ISSUED BY THE CNBV (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE CRÉDITO*).

Neither we nor the initial purchasers have authorized anyone to provide you with different information from that contained in this offering memorandum, and neither we nor the initial purchasers take responsibility for any other information that others may give you. Neither we nor the initial purchasers are making an offer of these securities in any jurisdiction where the offer is not permitted. 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 the securities.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to "the Bank" or "the Issuer" are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte. References to "Banorte," "we," "us" and "our" are references to Banco Mercantil del

Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, together with its subsidiaries, but are not references to Grupo Financiero Banorte, S.A.B. de C.V., our parent company. References to "GFNorte" are to Grupo Financiero Banorte, S.A.B. de C.V. together with its subsidiaries and joint ventures.

In connection with the issuance of the Notes of each series, the initial purchasers (or persons acting on behalf of the initial purchasers) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of each series at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers (or persons acting on behalf of the initial purchasers) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time. Any stabilization action or over-allotment must be conducted by the initial purchasers (or persons acting on behalf of the initial purchasers) in accordance with all applicable laws and rules.

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 accept responsibility for the information contained in this offering memorandum.

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 Notes of either or both series, you will be deemed to have made the acknowledgements, representations and agreements 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.

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.

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 Notes of either or both series. 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 SGX-ST. 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 agree to these restrictions. See "Transfer Restrictions." The SGX-ST takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of SGD$200,000 (or its equivalent in foreign currencies) for so long as such series of Notes are listed on the SGX-ST.

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 each series of Notes, including the risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for 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 prospective purchaser of 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.

Notwithstanding anything in this document to the contrary, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering of Notes and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For these purposes, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the offering of Notes.

Pursuant to Article 119 of the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) ("Financial Groups Law"), a financial services holding company such as Grupo Financiero Banorte, S.A.B. de C.V., our holding company, is secondarily (*subsidiariamente*) and unlimitedly liable for the performance of the obligations undertaken by the members of our financial group (including Banorte), in respect of the operations that each company is allowed to carry out pursuant to applicable law. In addition, Grupo Financiero Banorte, S.A.B. de C.V. is unlimitedly liable for the losses of each company comprising our financial group; provided that for such purposes, a company is deemed to have losses when its assets are insufficient to fulfill its payment obligations. The enforcement of Grupo Financiero Banorte, S.A.B. de C.V.'s liability pursuant to Article 119 of the Financial Groups Law is subject to a specific proceeding provided for in the Financial Groups Law and may not be enforced expeditiously. Thus the timing and outcome of an action against Grupo Financiero Banorte, S.A.B. de C.V. is uncertain. For the avoidance of doubt, the Notes offered hereby are not guaranteed by Grupo Financiero Banorte, S.A.B. de C.V. or any other entity.

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.

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a Plan, it is not purchasing securities on behalf of or using the assets of any such Plan, and it is not a Non-ERISA Arrangement (as defined below) or (ii) its purchase, holding and any subsequent disposition of the Notes will not result in a prohibited transaction under Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (or, in the case of a Non-ERISA Arrangement, any other laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code ("Similar Laws") for which an exemption is not available). Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations."

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

In relation to each Member State of the EEA (each, a "Member State"), offer of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchasers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement by us or any representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Notes in any 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 to the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including Directive 2010/73/EU) and includes any relevant implementing measure in each Member State.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

In June 2015, the U.K. Financial Conduct Authority (the "FCA") published the PI Instrument, which took effect from 1 October 2015.

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.

Certain affiliates of the initial purchasers are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from us, you represent, warrant, agree with and undertake to the us 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 is subject to the PI Rules, you will not

   (A) sell or offer the Notes (or any beneficial interest 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 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 Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) 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 are able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (b) 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 us 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.

EEA RETAIL INVESTORS

The Notes, are not intended, from 1 January 2018, to be offered, sold or otherwise made available to any retail investor in the EEA. 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 ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

CAYMAN ISLANDS SELLING RESTRICTIONS

NO INVITATION, WHETHER DIRECTLY OR INDIRECTLY, MAY BE MADE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR THE NOTES UNLESS THE ISSUER IS LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE. THE NOTES MAY, HOWEVER, BE OFFERED AND SOLD TO ORDINARY NON-RESIDENT AND EXEMPTED COMPANIES IN THE CAYMAN ISLANDS.

AVAILABLE INFORMATION

We are not subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). To preserve the exemption for resales and transfers under Rule 144A under the Securities Act, we have agreed that we will promptly provide any holder or any prospective purchaser of the Notes who is designated by that holder and is a "qualified institutional buyer," as defined under Rule 144A, upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. For so long as the Notes are outstanding, such information will be available at our specified offices and, for so long as the Notes are listed on the SGX-ST, through the Singapore Paying Agent. Following completion of this offering, we are not otherwise obligated to furnish holders or others with any supplemental information, discussion or analysis of our business or financial reports, other than as required by the respective indenture governing each series of Notes.

Application is expected to be made to list the Notes of each series on the SGX-ST, in accordance with its rules. This offering memorandum forms, in all material respects, the listing memorandum for admission to the SGX-ST. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with each series of Notes, and to furnish to it all such information as the rules of the SGX-ST may require in connection with the listing of such series of Notes.

ENFORCEMENT OF JUDGMENTS

The Bank is a multiple purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). All of our directors and officers and experts named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or us in United States courts judgments predicated upon the civil liability provisions of United States federal securities laws. We have been advised by our Mexican counsel, White & Case, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on United States federal securities laws and as to the enforceability in Mexican courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of United States federal securities laws.

We have been advised by such Mexican counsel that no bilateral treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of civil foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the United States judgment, in order to ascertain, among other matters, whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "should," "estimates," "seeks," "forecasts," "will," "expects," "may," "intends," "plans" 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. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements, including the following factors:

- competition in the banking industry in Mexico;
- the profitability of our business;
- acquisitions and divestitures;
- credit and other lending risks, including an increase in defaults on our loan portfolio;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital requirements or other requirements;
- limitations on our ability to freely determine interest rates;
- changes in reserve and/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;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) (the "Mexican Antitrust Commission") with respect to our business and the Mexican banking industry generally, and by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) ("SHCP") with respect to our lending to certain sectors;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- changes in requirements to make contributions to, or the receipt of support from, programs organized by the Mexican government;
- changes in overall economic and political conditions in Mexico and internationally, particularly in the United States;
- changes in exchange rates, market interest rates or the rate of inflation;
- changes in our or Mexico's domestic and international credit ratings;

- changes in regulations relating to the products we offer or otherwise;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives and monetary and/or fiscal policy in Mexico;
- inability to retain certain key personnel and ability to hire additional key personnel; and
- 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 described herein as anticipated, believed, estimated, expected or intended.

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

Prospective investors should read the sections of this offering memorandum entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering memorandum may not occur. All forward-looking statements included in this offering memorandum are based upon information available to us as of the date of this offering memorandum, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements

This offering memorandum includes:

- our audited consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, together with the notes thereto (our "Audited Consolidated Financial Statements"), and

- our unaudited condensed consolidated interim financial statements as of March 31, 2017 and for the three month period ended March 31, 2017 and 2016, together with the notes thereto (our "Unaudited Condensed Consolidated Interim Financial Statements," and together with the Audited Consolidated Financial Statements, our "Financial Statements").

Our Financial Statements have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for credit institutions, as amended ("Mexican Banking GAAP").

Accounting Principles

Mexican Banking GAAP differs in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). For a summary of the principal differences between Mexican Banking GAAP and U.S. GAAP, as they relate to our Financial Statements, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of the Financial Statements to U.S. GAAP has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences. Mexican Banking GAAP also differs from Mexican Financial Reporting Standards (*Normas de Información Financiera*) (the "MFRS"), as currently in effect and issued by the Mexican Council of Financial Information Standards (*Consejo Mexicano de Normas de Información Financiera, A.C.*) ("CINIF").

The Financial Statements and the other financial information contained in this offering memorandum are presented on a consolidated basis.

Retroactive Adjustments to Financial Statements

On October 31, 2016, the Board of Directors of our subsidiaries INB Financial Corporation and Banorte USA Corporation approved the sale of our equity interest in Inter National Bank ("INB"). The sale of INB was effective as of March 31, 2017. This transaction followed a decision to implement our corporate restructuring program followed by the limitations for the development of INB's business strategy caused mainly by the change in the regulatory environment in the United States.

As part of the divestiture process and once the requirements set forth in CINIF's Bulletin C-15 "Impairment of the value of long-lived assets and their disposal" were satisfied, we classified our investment in INB as available for sale, which was recorded on our consolidated balance sheet as of December 31, 2016 at its estimated sale value. Our intention to dispose of this investment meets the requirements to be classified as a discontinued operation, whereby our assets and liabilities as of December 31, 2016 have been presented net on our consolidated balance sheet in accordance with the accounting criteria issued by the CNBV, and our results of operations have been adjusted retroactively to reflect INB's results of operations as discontinued operations for the years ended December 31, 2016, 2015 and 2014, on our consolidated statement of income.

Currencies

The financial information appearing in this offering memorandum is presented in Mexican Pesos. In this offering memorandum references to "Pesos" or "Ps." are to Mexican Pesos and references to "U.S. dollars," "dollars," "U.S.$" or "$" are to United States dollars. This offering memorandum contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.18.7955 per U.S. dollar, the rate calculated by the Mexican Central Bank on March 31, 2017, and published on April 3, 2017, in the Mexican Official Gazette of the Federation (*Diario Oficial de la Federación*) (the "Official Gazette"), based on the average of wholesale foreign exchange market quotes for transactions settling within two banking business days (the "Mexican Central Bank Exchange Rate"). As of March 31, 2017, the noon buying rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps.18.8290 per U.S. dollar. As of June 19, 2017, the Mexican Central Bank Exchange rate was Ps.17.9519 per U.S. dollar. The noon buying rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps.17.9195 per U.S. dollar as of June 16, 2017. See "Exchange Rates and Currency" for information regarding rates of exchange between the Peso and the U.S. dollar for the periods specified therein.

References herein to "UDIs" are to *Unidades de Inversión*, a Peso equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in Pesos is indexed to inflation on a daily basis, as measured by the change in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*) (the "NCPI"). Under a UDI-based loan or financial instrument, the borrower's nominal Peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of Pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. As of March 31, 2017, one UDI was equal to Ps.5.7231 (U.S.$0.3045).

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.

The terms "total performing loans" and "total performing loan portfolio" refer to the aggregate of:

- the total principal amount of loans outstanding as of the date presented;
- amounts attributable to "accrued interest;"
- "rediscounted loans;" and
- the "UDI Trusts" (as explained below).

Under Mexican Banking GAAP, we include as income for any reporting period interest that is accrued but unpaid during that period. Such "accrued interest" is reported as part of our total performing loan portfolio in our Financial Statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with the CNBV's rules.

"Rediscounted loans" are Peso- and 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 by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans. As mandated by the CNBV, total performing loans include the portfolio trusts (the "UDI Trusts") holding our loans converted into UDIs that are consolidated in our Financial Statements. Under the UDI program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See "Selected Statistical Information—Debtor Support Programs."

Unless otherwise specified herein, the terms "total performing loans" and "total performing loan portfolio," as used in this offering memorandum, do not include "total non-performing loans," as defined below. The term "net total performing loans" refers to total performing loans less allowance for loan losses on these loans.

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 “allowance” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item. 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.

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 this offering memorandum under the heading “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. 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.

“Capital Ratios” refers to each of the ratios of (i)(a) the Total Net Capital, (b) Tier 1 Capital or (c) Fundamental Capital plus any Capital Supplement thereof required under the Mexican Capitalization Requirements to (ii) risk weighted assets, market risks and operational risks, calculated in accordance with the methodology established from time to time by the SHCP or the CNBV, as the case may be, pursuant to the Mexican Capitalization Requirements.

“Capital Supplement” means the Countercyclical Capital Supplement and the Systemically Important Bank Capital Supplement, together with any other additional capital conservation or loss absorbency capital requirement to be constituted by the banks pursuant to the Mexican Banking Law (*Ley de Instituciones de Crédito*) (the “Mexican Banking Law”) and the Mexican Capitalization Requirements.

“Countercyclical Capital Supplement” means the additional countercyclical amount of capital that, in its case, is required from banks, as determined by the CNBV, pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“D-SIBs” means any domestic systemically important bank, as determined by the CNBV annually pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“G-7 Mexican Banks” means the seven largest banks in Mexico by total assets, which are Banorte, Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex (“Banamex”), BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (“BBVA Bancomer”), Banco Santander (México) S.A., Institución de Banca Múltiple, Grupo Financiero Santander México (“Santander”), Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (“Scotiabank”), HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (“HSBC”); and Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (“Inbursa”).

“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 on the Official Gazette on December 2, 2005, as amended and supplemented from time to time, and as such regulations may be further amended or superseded.

“Fundamental Capital” (*capital básico fundamental*) or “Core Equity Tier 1 Capital” or “CET1” means the amount of core capital of Tier 1 Capital, as such term is determined based on the Mexican Capitalization

Requirements, including common equity plus any Capital Supplement required under the Mexican Capitalization Requirements, as such determination may be further amended from time to time.

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

"Non-Fundamental Capital" (*capital básico no fundamental*) or "Non-Core Tier 1 Capital" means the amount of non-core capital of Tier 1 Capital, as such term is determined based on the Mexican Capitalization Requirements, as such determination may be further amended from time to time.

"Systemically Important Bank Capital Supplement" means the additional loss absorbency capital to be constituted by D-SIBs to reflect the greater risk that they pose to the domestic financial system.

"Tier 1 Capital" means the basic capital (*capital básico*) of the Total Net Capital, as such term is determined based on the Mexican Capitalization Requirements or Fundamental Capital *plus* Non-Fundamental Capital, as such determination may be further amended from time to time.

"Tier 2 Capital" means the additional capital (*capital complementario*) of the Total Net Capital, as such term is determined based on the Mexican Capitalization Requirements, as such determination may be further amended from time to time.

"Total Net Capital" means the net capital (*capital neto*), as such term is determined based on the Mexican Banking Law and the Mexican Capitalization Requirements, also known as Tier 1 Capital *plus* Tier 2 Capital, as such determination may be further amended from time to time.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this offering memorandum is derived from statistics available through the CNBV, the Mexican Central Bank, the SHCP, the Mexican Bankers' Association (*Asociación de Bancos de México, A.C.*) (the "ABM") or Controladora Prosa, S.A. de C.V. ("Prosa"), a Mexican clearing agency for automated teller machines ("ATMs"), and credit cards.

SUMMARY

This summary highlights selected information from this offering memorandum and may not contain all the information that is important to you. For a more complete understanding of us, our business and this offering, you should read this entire offering memorandum, including, without limitation, the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Statistical Information," and our Financial Statements and notes thereto, appearing elsewhere in this offering memorandum.

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders' equity, that is not controlled by or affiliated with a non-Mexican financial institution. As of March 31, 2017, we ranked fourth among all Mexican banks in terms of total assets, performing loans and core deposits (a combination of demand deposits and time deposits), according to information published by the CNBV. With more than 115 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 12 million customers in Mexico as of March 31, 2017.

We are the banking subsidiary of GFNorte, the third-largest financial services holding company in Mexico in terms of total assets as of December 31, 2016, according to information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte's most significant subsidiary, representing approximately 78% of GFNorte's total assets and 66% of its total equity, as of March 31, 2017.

As of March 31, 2017, we had total assets of Ps.975,193 million, total liabilities of Ps.880,289 million (including total deposits of Ps.578,191 million) and stockholders' equity of Ps.94,904 million. In the three-month period ended March 31, 2017, we generated net income of Ps.4,305 million, and had a return on average equity ("ROAE") of 18.4% (annualized average based on beginning and end-of-period balances) and a return on average total assets ("ROAA") of 1.7% (annualized average based on beginning and end-of-period balances). In 2016, we generated net income of Ps.15,044 million, and had a ROAE of 15.4% (average based on beginning and end-of-period balances) and a ROAA of 1.5% (average based on beginning and end-of-period balances).

Our Capital Ratios were 16.58% for Total Net Capital, 14.04% for Tier 1 Capital and 13.68% for Fundamental Capital as of March 31, 2017, exceeding those required for the end of 2017 under Mexican banking regulations of 10.95%, 8.95% and 7.45%, respectively. Given our status as a bank of systemic importance in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% over a four-year period, to be constituted in four equal parts in December of each year, commencing in December 2016; accordingly the first portion of this supplement is now in place.

Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,139 branches, 7,242 ATMs (66% of which are located outside of our branches) and 153,322 points of sale ("POSs"), in each case, as of March 31, 2017. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We process approximately 204 million banking transactions per month, as of March 31, 2017. As of March 31, 2017, we had 20,598 employees.

The following table presents certain of our financial and operating data as of and for the periods indicated:

	As of or for the three-month period ended March 31,		As of or for the year ended December 31,		
	2017	2017	2016	2016	2015
	(U.S.$ millions, except percentages)[1]	*(Ps. millions, except percentages)*	*(U.S.$ millions, except percentages)*[1]	*(Ps. millions, except percentages)*	
Total loan portfolio	30,360	570,622	30,168	567,032	521,227
Total assets	51,884	975,193	54,823	1,030,435	917,610
Total deposits	30,762	578,191	30,633	575,756	563,670
Total liabilities	46,835	880,289	49,887	937,648	815,027
Total stockholders' equity	5,049	94,904	4,937	92,787	102,583
Net income for the period	229	4,305	800	15,044	13,518
Return on average total assets[2]	1.7%	1.7%	1.5%	1.5%	1.5%
Return on average equity[3]	18.4%	18.4%	15.4%	15.4%	13.7%
Net interest margin[4]	5.7%	5.7%	5.1%	5.1%	4.6%

(1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2017 and as of and for the year ended December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."
(2) Net income for the period divided by average total assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.
(3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.
(4) Net interest income divided by total interest-earning assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

The following map shows our network of branches in Mexico as of March 31, 2017.

The following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of March 31, 2017.

	Banorte's Market Share							
	North	Central	West	Northwest	Mexico City	Peninsula	South	National
Branches	13.1%	10.1%	7.4%	9.0%	10.0%	7.8%	6.1%	9.1%
ATMs	22.0%	19.9%	13.0%	16.3%	12.1%	13.5%	11.0%	15.2%
Bank employees (full time)	24.0%	7.8%	7.3%	8.0%	6.7%	5.8%	4.3%	9.0%
Deposits (principal amount)	26.8%	21.9%	11.9%	15.8%	8.7%	17.5%	9.7%	13.7%

Source: CNBV

Our Lines of Business

Our business is organized in two main segments: retail banking and wholesale banking.

- Retail Banking. This segment serves clients through our branches, ATM network, alternate channels (POSs, third party correspondents and online, telephone and mobile banking) and our contact center. The retail banking segment offers services to individuals, small- and medium-size enterprises ("SME") and state and municipal governments. Products and services offered through this segment include checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, payroll dispersion accounts, as well as car, home and life insurance offered through a cross-selling agreement with our affiliate Seguros Banorte, S.A. de C.V. ("Seguros Banorte").

  - *Consumer Banking*: We offer financial products and services for individuals through a multi-channel approach. Our investments in systems and technology over the past three years allow us to better target our products and services and to focus on the most profitable clients. The main products that we offer in this segment include mortgages, payroll loans, credit cards and automobile loans. As of March 31, 2017, our total mortgage loan portfolio was Ps.120,329 million, our payroll loan portfolio was Ps.46,579 million, our credit card portfolio was Ps.31,176 million and our automobile loan portfolio was Ps.16,062 million, representing 21.1%, 8.2%, 5.5% and 2.8% of our total loan portfolio, respectively.

  - *SME Banking*: We offer financial products and services for SMEs or individuals with business activities. We service our more than 440,000 clients in this segment through a specialized team of executives distributed through a network of over 16 service centers and 1,139 offices in Mexico. We provide, among others, the following main solutions: savings and investment, financing, and business insurance offered through a cross-selling agreement with Seguros Banorte. Products and services may be contracted individually, adapting to the volume of transactions of each company, or through our "Solución Integral PyME," which allows contracting and activating several products and services through a single agreement. One of our main products is *CrediActivo Comercial*, a loan product targeted towards SMEs and issued in amounts of up to 165,244 million UDIs (equivalent to approximately Ps.28,873 million, as of March 31, 2017). As of March 31, 2017, our total SME loan portfolio was Ps.32,878 million, representing 5.8% of our total loan portfolio.

  - *State and Municipal Governments*: We offer products and services for Mexican state and municipal governments, including checking accounts, financing (short and long term loans frequently secured by federal contributions (aportaciones federales), cash management and payroll payment services. As of March 31, 2017, our total state and municipal government loan portfolio was Ps.95,148 million, representing 16.7% of our total loan portfolio.

- Wholesale Banking. Our wholesale banking segment comprises Corporate and Enterprise Banking, Transactional Banking, Government Banking and International Banking.

  - *Corporate and Enterprise Banking*. Through this segment we specialize in comprehensive financial solutions for corporate and enterprise clients through several forms of specialized financing, including structured loans, syndicated loans, financing for acquisitions and investment plans. We also offer cash management, collections, trust services, payroll payment, checking accounts, lines of credit, and loans such as CrediActivo Empresarial (a product partially guaranteed by a Mexican development bank *Nacional Financiera, S.N.C.* ("NAFIN")). Our clients in this segment generally consist of multi-national companies, large Mexican corporations and midsize enterprises operating in a wide range of sectors. We offer a client-oriented banking model, which establishes the role of the relationship managers as the central axis to attend all of our customers' financial needs. As of March 31, 2017, our total corporate and enterprise banking loan portfolio was Ps.226,293 million (including Ps.21,466 million of loans to financial institutions), representing 39.7% of our total loan portfolio.

- *Transactional Banking*. Through our transactional banking division, we offer corporate and enterprise clients a comprehensive model of cash management solutions and online banking encompassing sale, implementation and post-sale service, aiming to increase cross-selling levels. We launched a consolidated business model in 2014, which has resulted in a higher cross-selling ratio and a better service and stronger ties with our clients.

- *Federal Government Banking*. Through this segment we provide financial services to the federal government, productive state enterprises, decentralized entities (such as social security institutions and public trusts) and other entities at the federal level. Products and services offered include checking accounts, loans, cash management and payroll payment services. We also offer comprehensive advisory services on public finance to increase tax collections and control and manage expenses, and we prepare financial diagnosis to design adequate profiles for debt payment through a solid financial and legal structure, aiming to strengthen our clients' financial condition and credit quality. Serving these institutions also allows us to cross-sell checking accounts, credit card services and loan products. As of March 31, 2017, our total federal government loan portfolio was Ps.35,035 million, representing 6.1% of our total loan portfolio.

- *International Banking*. Through this segment we offer products and services to our corporate and enterprise banking and SME clients to assist them with international trade needs. We have strategic agreements with financial institutions abroad, which allow us to offer highly competitive solutions and financial services locally and globally. We offer letters of credit for imports and exports, documentary collections, standbys, financing for letters of credit, international transfers, cash management, payment of domestic utilities and remittances, among others.

Our History

We were founded in 1899 as Banco Mercantil de Monterrey, with a strong regional presence in Northeastern Mexico, particularly in the metropolitan area of Monterrey, Nuevo León, one of the country's most important industrial centers. In 1986, Banco Mercantil de Monterrey merged with Banco Regional del Norte, another financial institution with headquarters in Monterrey, and became Banco Mercantil del Norte, *Sociedad Nacional de Crédito*.

Together with other Mexican commercial banks, Banco Mercantil de Monterrey and Banco Regional del Norte were nationalized by the Mexican government in 1982. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to allow the total privatization of Mexican commercial banks, and the government enacted the Mexican Banking Law which provided for private ownership of Mexican commercial banks. The privatization of Mexican commercial banks began in 1991.

GFNorte, our parent company, was incorporated in 1992 under the name "Grupo Financiero AFIN, S.A. de C.V." ("AFIN") as part of the privatization process of the Mexican banking system. In 1994 our shareholders acquired AFIN through a stock-for-stock exchange. As a result of this exchange, we became a subsidiary of AFIN and AFIN changed its name to "Grupo Financiero Banorte, S.A. de C.V."

The 1995 Mexican Peso crisis and the entrance of foreign institutions in Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks into larger institutions. In March 1997, we acquired Banco del Centro, S.A., Institución de Banca Múltiple ("Bancentro"), increasing our market share in the Central and Western regions of Mexico and adding 195 branches. In August 1997, GFNorte acquired 81% of the shares of Banpaís, S.A., Institución de Banca Múltiple ("Banpaís"), and in January 2000, we merged with Banpaís consolidating the banking activities of GFNorte under Banorte and enabling further expansion of our client base, geographical position and national coverage through the addition of 161 branches. In December 2001, GFNorte acquired Bancrecer, S.A., Institución de Banca Múltiple ("Bancrecer") and in March 2002 we merged with and into Bancrecer. The surviving entity was renamed "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

In 2006, we expanded our operations into the United States, through the acquisition of INB, a regional bank based in Texas with primary presence in the Rio Grande Valley and headquartered in McAllen, Texas. We sold our equity interest in INB in March 2017. See "—Recent Developments—INB Sale." Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, a money transfer company based in California.

In 2011, GFNorte merged with IXE Grupo Financiero, S.A.B. de C.V. ("IXE") in a stock-for-stock transaction. IXE conducted its business through its own subsidiaries, the largest one being Ixe Banco, S.A., Institución de Banca Múltiple, IXE Grupo Financiero ("IXE Banco"), a commercial bank in Mexico focusing on middle- and upper-income customers. In 2012, GFNorte expanded its pension fund manager joint venture, first through a merger with Afore XXI, S.A. de C.V. ("Afore XXI"), and later in 2013, with the acquisition of Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. ("Afore Bancomer"), resulting in the largest pension fund manager in Mexico. On April 15, 2013 and May 7, 2013, IXE Banco and Fincasa Hipotecaria, S.A. de C.V., *Sociedad Financiera de Objeto Múltiple, Entidad Regulada* ("Fincasa"), IXE's specialized mortgage lender, received the authorization from the CNBV to be merged with and into us, with Banorte as the surviving entity. On May 2, 2016, we consolidated our credit card operations by merging our wholly-owned subsidiary Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R, with and into the Bank.

GFNorte's common shares are publicly traded in the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) under the symbol "GFNORTEO."

Market Opportunity

We believe that the credit market in Mexico continues to offer potential for growth given the relatively low levels of access to banking services among the Mexican population, coupled with the country's population age and expected economic growth. In addition, we believe the positive macroeconomic backdrop for Mexico, combined with the enacted legal reforms, is expected to continue triggering positive momentum for our industry.

The Mexican economy was the second largest in Latin America in terms of GDP in 2016. In recent years, it has remained resilient despite foreign exchange volatility and a complex global environment, posting real GDP growth rates of 2.6% and 2.3% in 2015 and 2016, respectively. The combination of a low unemployment rate (3.5% as of March 31, 2017), an increase of salaries in real terms and a stable inflation environment (5.35% inflation rate, for the twelve-months ended March 31, 2017), has provided support to the economy through domestic demand. Mexico's favorable demographics further support the growth prospects in the financial sector. Mexico has the second largest population in Latin America and its young, economically active population is expected to expand considerably through 2030, supporting further the transition from the informal economy to the formal sector. According to the Mexican Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) ("INEGI"), in March 2017, the informal economy represented 57.6% of the total economically active population. Additionally, according to the World Bank, as of December 31, 2016, the domestic credit to private sector as a percentage of GDP in Mexico reached 32.7%, compared to 111.0% in Chile, 66.8% in Brazil and 189.0% in the United States. Mexico's low credit penetration represents a clear opportunity that has been reinforced by the government's efforts to increase access to bank lending and financial services in general in Mexico through the financial reform enacted in 2013.

Such stable macroeconomic environment and favorable country demographics, coupled with low credit penetration has resulted in a healthy and consistent growth trend for the banking sector in Mexico in the last several years. According to CNBV data, Mexico's banking system has experienced a loan growth of 12.6% compounded annual growth rate for the period from December 2010 to December 2016, with stable non-performing loan ratios oscillating between 2.2% and slightly above 3.4% since 2010. The growth rate of total loans in the country has been supported by a consistent growth in the deposit base, growing at 10.2% compounded annual growth rate for the period from December 2010 to December 2016, allowing for a sound liquidity of the banking sector with loans-to-deposits ratios at or below 99% since 2010. Such combination of loans and deposits growth has led to sustained attractive returns for the Mexican banking system, with ROAE persistently above 12% since 2010, as well as a strongly capitalized banking system with an average Total Net Capital at or above 14.5% since 2010. The G-7 Mexican Banks represent over 83% of the total loan portfolio and also over 83% of total deposits since 2010. The ROAE for the G-7 Mexican Banks has been above 12% since 2010 and the average Total Net Capital for the same group has been at or above 14% since 2010.

Lastly, Mexico has been at the forefront in the implementation of a strong regulatory banking framework, which results in capitalization requirements, and alerts relating to such requirements, that are consistent with global standards. Mexico was one of the first countries in the world to implement Basel III rules. Unlike other countries that implemented or are in the process of implementing Basel III capitalization rules over the course of several years, the Mexican government took advantage of the strong capitalization levels of the Mexican banking system and required that all banks operating in Mexico adopt Basel III capitalization rules beginning in 2013. Additionally, in May 2016, the CNBV imposed additional capital requirements to certain D-SIBs, including us, and also mandated the constitution of a Countercyclical Capital Supplement to further shield the Mexican banking system. Though Mexican banks are required to constitute and comply with these additional capital requirements over a period of four years, to be constituted in four equal parts in December of each year, commencing in December 31, 2016, many of the banks already fully comply with such capital requirements given their high capitalization levels.

Competitive Strengths

We believe the following competitive strengths differentiate us from our competitors:

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, the fourth largest financial group in Mexico in terms of assets, deposits and loan portfolio, and the largest controlled by Mexican investors. GFNorte has operated in the Mexican financial industry for 23 years under the "Banorte" brand name. We believe GFNorte's long standing history in the Mexican market is recognized by our customers and the general public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

GFNorte has an in-depth knowledge of the Mexican market and local efficient decision-making processes that allow us to provide timely, specialized and integral responses to our clients' requests and rapidly adapt to changes in the Mexican banking sector. For instance, during the global financial crisis of 2008, while international groups retrenched to shore up capital, GFNorte seized the opportunity and filled the void by expanding its presence in Mexico. GFNorte focuses on providing comprehensive services to our clients through a multi-product, multi-entity strategy that seeks to meet all of its clients' banking, insurance, retirement saving and brokerage needs.

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of March 31, 2017, GFNorte had the largest retirement fund manager (*administradora de fondos para el retiro*) ("Afore") in Mexico in terms of assets under management, with a market share of 23.2% of the pension system managed by Afores.

Leading Market Presence across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 19,947 corporate clients and over 12 million individual customers as of March 31, 2017. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 3.0% market share in terms of performing loans in 1992 to becoming the fourth largest bank in Mexico in terms of total assets (Ps.975,193 million), performing loans (Ps.560,589 million) and total deposits (Ps.578,191 million), with nationwide presence and a 13.2% market share of performing loans as of March 31, 2017.

We are the third largest operator of POSs in Mexico, the third in ATMs and the fourth in branches, according to the CNBV, as of February 28, 2017. As of March 31, 2017, we had a 23.8% market share of the government banking sector, the second largest in the Mexican banking system. As of the same date, we had a market share of 17.4% and 10.1% of mortgage loans and commercial loans, the third and fourth largest in each case, in the Mexican banking system, respectively.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We have maintained a solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 11 of the last 12 operating quarters (considering the period from March 2014 through March 2017). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and contact center with products and differentiated services. With a clear segmentation of customers, in retail banking we can offer services according to their specific profiles, through appropriate channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

The positive trend of our financial performance continued in 2016 as we increased our net income by 11.3% as compared to 2015, while our ROAE and ROAA reached 15.4% and 1.5%, respectively, in 2016 compared to 13.7% and 1.5%, respectively, in 2015. Our efficiency ratio remained relatively stable at 47.5% in 2016 and 50.6% in 2015. As of March 31, 2017, we had a non-performing loans to total loans ratio of 1.8% and a coverage ratio, defined as allowance for loan losses divided by total non-performing loans, of 137.6%. We believe these ratios reflect our prudent risk management practices. We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and operating efficiency.

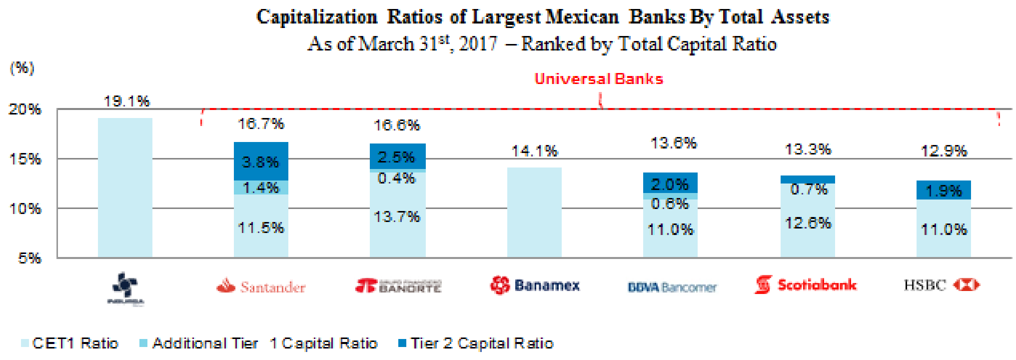
Strong Capital Base and Capitalization Ratios

We believe we have a strong capital base, as evidenced by each of our Capital Ratios, which have been above the average for the G-7 Mexican banks during the past five quarters (January 2016 to March 2017). Mexican banks already comply with Basel III capitalization requirements and are well capitalized compared to other banks in more developed economies, and within this group of Mexican banks, we compare very favorably in terms of capitalization levels and composition of capital. As of March 31, 2017, our Fundamental Capital ratio was 13.68%, the third highest among the G-7 Mexican banks; our Tier 1 Capital was 14.04%, the third highest among the G-7 Mexican banks; and our Total Net Capital ratio was 16.58%, also the third highest among the G-7 Mexican banks; in each case, according to data published by CNBV.

With the offering of the Notes, we expect to strengthen further our Total Net Capital ratio, by increasing the Tier 1 Capital component. Tier 1 Capital is an important component of our capitalization and with a Tier 1 Capital ratio of 14.04% as of March 31, 2017, we are 5.31% above the current minimum of 8.73% required to us by the Mexican banking regulations to be classified as a Grade II D-SIB. Our strong capital base permits us to continue our prudent growth, while maintaining an acceptable risk profile for our clients and shareholders.

In May 2016, given our status as a bank of systemic importance in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. We were also required to implement an additional initial Countercyclical Capital Supplement which we have estimated would correspond to 0.001%. We are required to implement and comply with these Capital Supplements over a four-year period starting on December 31, 2016. Given our strong capital base, our Capital Ratios as of March 31, 2017 already comply with such Capital Supplement requirements as if they were to be fully implemented as of the date hereof.

The chart below presents the Capital Ratios for the G-7 Mexican Banks by total assets as of March 31, 2017.



Source: CNBV

Expanding Business Platform with a Focus on Customer-Oriented Multi-Channel Banking

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013 and February 28, 2017, we increased the number of ATMs and POSs by 11% and 60% respectively, reaching a total, 7,242 ATMs and 153,322 POSs, ranking third and third in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking fifth in terms of market share. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of March 31, 2017, we had over 2.2 million active internet banking customers and around 1.1 million of our customers utilized *Banorte Móvil*. We also consider ourselves pioneers in banking services through third parties in Mexico, reaching a total of 24,628 contact points as of March 31, 2017.

Over the years, we have moved from a product-oriented to a customer-oriented business approach. We believe our new focus provides us with more value by generating opportunities and giving our clients a better customized service. In 2013, we entered into a strategic agreement with IBM México, Comercialización y Servicios, S. A. de C.V. ("IBM"), which allowed us to further align our information systems with our customer-oriented business philosophy and benefit from increased cross-selling opportunities and a better overall experience for our customers.

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 14 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. This demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

- assets and businesses that are aligned with our business model and growth strategy;
- transactions that are accretive to earnings;
- operations that offer potential for significant synergies; and
- transactions with limited integration risk and disruption to our business.

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 13 years of experience with us and has more than 21 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the fourth largest bank in Mexico, generating significant profitability while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, employees of acquired companies have remained with our team and have broadened the experience of our team. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed by a majority of independent directors (currently 73%), which ensures collegial decision-making for the benefit of our stakeholders, as well as having several supporting committees, including an audit committee and a risk policies committee, each chaired by independent directors with recognized experience. Our corporate governance model not only complies with applicable standards, but also seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Track Record of Product Innovation

We have a history of innovation and new product development that has been fundamental to our growth story and competitive position. We have been leaders in the development of the banking sector in Mexico through new product launches; for example, we launched a new and easy way for customers to access online mortages; and mortgages with rate reduction mechanisms for timely payment of interest. Over the years, we have demonstrated the ability to introduce new product offerings focused on our individual, corporate and SME customers. Among the innovative products and services that we have successfully launched are our *Adelanto Nómina* payroll loan product for individuals which can be drawn through ATMs and online banking, and *Banorte Móvil*, our state-of-the-art mobile banking platform.

Strategy

As part of our short- to medium-term strategy, we intend to:

Selectively Increase our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in performing loans and deposits has increased from 8.0% and 6.6%, respectively, as of December 31, 2000, to 13.2% and 13.6% respectively, as of March 31, 2017. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and the internet banking to increase the origination of payroll loans in Mexico. As of March 31, 2017, we had a 20.2% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan, and vice-versa. We intend to leverage our central customer repository (“CCR”), database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand our Credit Card Business

We have enhanced our fees and risk-based pricing strategy, improved our underwriting standards, implemented cross-selling initiatives in response to market demand, and have developed new sales channels to increase credit card issuance. We believe we have an opportunity to increase our market share in this segment through further product penetration of our existing banking customers.

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products to our customers depending on their needs: *Banorte Básica; Banorte Fácil; Banorte Clásica; Banorte Oro; Tarjeta de Crédito Mujer Banorte; Banorte Pachuca; Banorte Platinum; Banorte Infinite; Banorte Empresarial; Tarjeta 40; Ixe Clásica; Ixe Oro*; *Ixe Platino*, *Ixe Infinite* and the recently launched *Banorte Por Ti*. We also have two credit cards which are co-branded with United Airlines, the Platinum and Universe – Infinite. In addition, we offer various rewards programs for our credit card holders.

Our market share in the Mexican credit card segment was 8.8% as of March 31, 2017, according to the CNBV. As of that date, we had approximately 1.8 million credit cards outstanding, with past due balances of 5.6%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio, through more active marketing and promotions to our current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as performing loans and deposits.

Expand our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of March 31, 2017, our market share was 15.1% according to the CNBV, excluding financings by automobile manufacturers, against whom we compete in this business. We also believe that, given the expected growth in GDP in Mexico, the automobile sector, and consequently the automobile loan business will experience growth in the coming years.

Increase Mortgage Lending to the Middle- and High-Income Segment

We plan to focus on increasing our sales of mortgage products to middle- and high-income customers, which we see as an increasingly attractive segment due to higher margins, less competition and a relatively low level of credit risk. As of March 31, 2017, this segment accounted for 96.6% of our mortgage performing loan portfolio. In particular, we intend to attract customers in this segment by providing high-quality service through rapid approval response times and more frequent and customized interactions at the time of sale and afterwards. We intend to offer a "mortgage improvement" product to attract customers from other commercial banks and we also intend to cross-sell mortgages to customers who seek to purchase a new home or remodel their existing home.

In addition, we have implemented new sales channels and deployed specialized sales forces that will enhance our presence with home developers and generate strategic alliances with real estate brokers, which will strengthen our mortgage broker channel. We also expect to increase the origination of co-financing products with the Mexican National Fund Institute for Workers' Housing (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*) ("Infonavit"), and the Mexican Housing Fund for the Institute of Social Security and Services for Public Workers (*Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*) ("Fovissste"). Finally, we expect to grow our special program mortgage loans developed exclusively for large corporations, state and municipal governments, productive state enterprises or public agencies, such as Petróleos Mexicanos ("PEMEX"), the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*) ("CFE") and the Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*) (the "IMSS") with centralized payments through payrolls that also generate a high volume of payroll loan origination.

Strengthen our Relationships with Government Entities and their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which as of March 31, 2017 together comprised 22.8% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling opportunities and attractive return on equity.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today. Currently, the use of mobile devices for these purposes is limited; however, we believe consumers in Mexico are becoming increasingly comfortable with conducting mobile banking transactions.

We intend to continue to develop new specialized sales forces, telemarketing efforts and use "*Banorte Visita*" in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of ATMs, providing us with a 15.2% of market share as of March 31, 2017, according to the CNBV.

Enhance our Customer-Oriented Business Model

We seek to strengthen our customer-oriented organizational model, focusing on customer segments instead of product segments, optimizing and consolidating processes per business instead of per product and investing in information technology ("IT") infrastructure. We intend to stay connected with our customers and devote resources to learning more about our customers' needs and expectations from their banking relationships. Our strategic agreement with IBM is aimed at helping us increase our knowledge of our customers by creating a CCR database that consolidates all available customer information, enabling us to gain deeper insight into ways to build more loyal and profitable customer relationships. Our project with IBM has redesigned business processes and applications around customer segments instead of around products and develops a new IT infrastructure to support these new processes.

We believe this new IT platform, which will allow us to manage large transaction volumes, will further improve the quality of service and segmentation as well as cross-selling, which will drive revenue increases, higher loyalty, cost efficiencies and increased profitability.

Increase Wallet-Share Penetration with Corporate and SME Customers

We have developed a role as a "relationship banker" for our corporate and SME customers by offering a variety of transactional banking and investment banking products through our network of regional service centers dedicated to these customers. Our Transactional Banking team intends to offer liability management solutions in the foreign exchange markets as well as cash management services to support our customers' international operations. Our investment banking team intends to offer a full range of services in advisory and capital markets transactions.

Continue to Increase our Profitability

We intend to continue increasing profitability based on the following initiatives:

Improve the Profitability of our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;

- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;

- increasing non-interest income through the offering of services and using cross-selling efforts;

- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and

- channeling less value-added transactions to online and mobile services.

We will continue to review the profitability of our branch network by determining its optimal size and seeking to identify non-profitable units.

A central strategy to improve our cost efficiencies is to lower our IT and operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts which are continuously implemented. For the three-month period ended March 31, 2017, our efficiency ratio was 46.4%, as compared to 47.5% for the corresponding period in 2016.

Promote Synergies within the GFNorte Group

We intend to increase our market share and profitability by increasing our cross-selling of services and products to our customers and customers of GFNorte's other subsidiaries. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte's other subsidiaries, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We plan to continue our cross-selling efforts within GFNorte and improving synergies and efficiencies within GFNorte's other subsidiaries.

Increase Our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities, income from advisory activities, income from trust activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. We seek to increase our fee income by:

- continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices;

- increasing our cross-selling efforts within the GFNorte group;

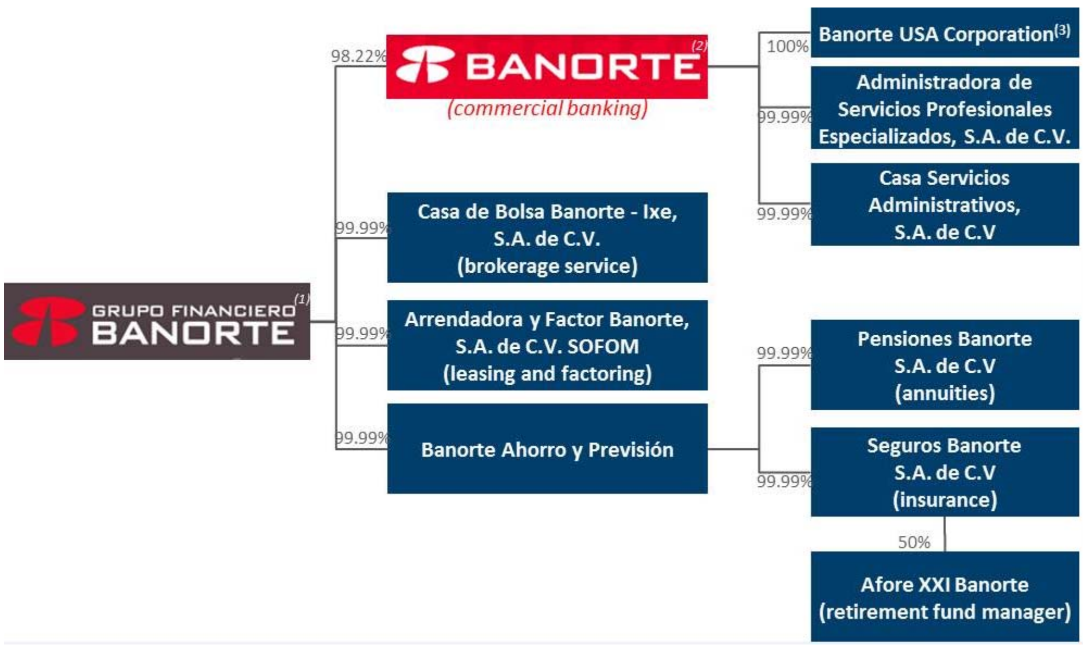
- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;

- establishing new relationships with businesses generating high volume point-of-sale transactions;

- promoting our checking, ATM and debit card services; and
- optimizing customer profitability by increasing fees and reducing transactional costs to low-value customers and increasing cross-selling within affluent customer base.

Our Ownership Structure

The following chart presents our ownership structure, indicating our principal shareholder, affiliates and our principal subsidiaries as of the date of this offering memorandum.



(1) Grupo Financiero Banorte, S.A.B. de C.V.

(2) The Notes will be issued by Banco Mercantil del Norte, S.A., acting through its Cayman Islands Branch.

(3) Subsidiaries of Banorte USA Corporation include UniTeller México, S.A. de C.V., UniTeller Filipino Inc., UniTeller Card Services Inc., UniTeller Canada ULC, Servicio UniTeller, Inc., Motran Services, Inc. and INB Financial Corporation.

Principal Offices

Our registered office is located at Avenida Revolución 3000, Colonia Primavera, Monterrey, Nuevo León, México 64830, and the telephone number at this office is +52 (0181) 83-19-65-00. Our corporate headquarters are located at Prolongación Paseo de la Reforma 1230, Colonia Cruz Manca, Santa Fe, Delegación Cuajimalpa, Mexico City, Mexico, 05349.

Recent Developments

INB Sale

On October 31, 2016, the Board of Directors of our subsidiaries INB Financial Corporation and Banorte USA Corporation approved the sale of INB. The sale of INB was effective as of March 31, 2017. This transaction followed a decision to implement our corporate restructuring program followed by the limitations for the development of INB's business strategy caused mainly by the change in the regulatory environment in the United States.

Dividend

On April 27, 2017, our Board of Directors approved the payment of a dividend to our shareholders of Ps.11,000 million. This dividend distribution was approved by our shareholders at the shareholders' meeting held on April 28, 2017 and was paid on May 24, 2017.

Redemption of Subordinated Notes (Obligaciones Subordinadas BANORTE 12) due 2022

On June 8, 2017, we obtained the authorization from the Mexican Central Bank to redeem the aggregate principal amount outstanding under our Ps.3,200,000,000.00 Preferred Subordinated Tier 2 Notes due 2022 ("our 2022 notes"). On June 16, 2017, we delivered the relevant notice of redemption to the holders of our 2022 notes, which specified a redemption date of June 30, 2017. As of March 31, 2017, the aggregate principal amount outstanding under our 2022 notes was Ps.3,200,000,000.00. Nothing in this offering memorandum shall be deemed to be a notice or communication to any holder of any of our 2022 notes in connection with the redemption or otherwise.

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 of each series, see "Description of the NC5 Notes" and "Description of the NC10 Notes" in this offering memorandum.

Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch.
Notes	*NC5 Notes*: 6.875% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes, and *NC10 Notes*: 7.625% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes.
Principal Amount	*NC5 Notes*: U.S.$350,000,000; and *NC10 Notes*: U.S.$550,000,000.
Interest	*NC5 Notes*: Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC5 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date (as defined below), to (but excluding) the NC5 First Call Date (as defined below), at an initial fixed rate *per annum* equal to 6.875%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank's net retained earnings (*utilidades netas acumuladas*) account. Subject to a prior redemption and/or one or more Write-Downs, the NC5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC5 Reset Date, including the NC5 First Call Date, to (but excluding) the next succeeding NC5 Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined in "Description of the NC5 Notes—Interest") and (b) 503.5 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). *NC10 Notes*: Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC10 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date (as defined below), to (but excluding) the NC10 First Call Date (as defined below), at an initial fixed rate *per annum* equal to 7.625%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank's net retained earnings (*utilidades netas acumuladas*) account.

Subject to a prior redemption and/or one or more Write-Downs, the NC10 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC10 Reset Date, including the NC10 First Call Date, to (but excluding) the next succeeding NC10 Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined in "Description of the NC10 Notes—Interest") and (b) 535.3 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

Upon the occurrence of a Write-Down, any holder of the Notes of each series will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of such series of Notes or any interest with respect thereto (or Additional Amounts), including any and all unpaid interest.

Issue Price

NC5 Notes: 100% of the principal amount, plus accrued and unpaid and not cancelled interest, if any, from and including July 6, 2017; and

NC10 Notes: 100% of the principal amount, plus accrued and unpaid and not cancelled interest, if any, from and including July 6, 2017.

Issue Date

July 6, 2017.

First Call Date

NC5 Notes: July 6, 2022; and

NC10 Notes: January 10, 2028.

Reset Date

NC5 Notes: The NC5 First Call Date and every fifth anniversary thereafter; and

NC10 Notes: The NC10 First Call Date and every tenth anniversary thereafter.

Reset Determination Date

NC5 Notes: With respect to any NC5 Reset Date, the second Business Day immediately preceding such NC5 Reset Date; and

NC10 Notes: With respect to any NC10 Reset Date, the second Business Day immediately preceding such NC10 Reset Date.

Interest Payments Discretionary and Non-Cumulative

Interest on the Notes of each series will be due and payable at the Bank's sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under "—Other Restrictions on Certain Payments" below, the Bank may use the funds corresponding to such cancelled payments to meet the Bank's other obligations as they become due or to be kept by it to satisfy capitalization requirements under the Mexican Capitalization Requirements.

If the Bank elects not to make an interest payment on the relevant Interest Payment Date, or if the Bank elects to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence its exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall be cancelled and shall not be or become due and payable. For the avoidance of doubt, if the Bank provides notice to cancel a portion, but not all, of an interest payment in respect of a series of Notes, and the Bank subsequently does not make a payment of the remaining portion of such interest payment on the relevant Interest Payment Date, such non-payment will evidence the Bank's exercise of its discretion to cancel such remaining portion of such interest payment, and accordingly such remaining portion of the interest payment will also not be due and payable.

Such cancelled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of the Notes of each series shall not have any right to or claim against the Bank with respect to such unpaid interest amount. Any such cancellation shall not constitute a default or an Enforcement Event (as defined below) under the terms of the Notes of each series or the respective indentures and the holders and beneficial owners of such series of Notes shall have no rights thereto or to receive any additional interest or amounts, penalty or compensation as a result of such cancellation.

Mandatory Cancellation of Interest Payments

Interest due on the Notes of each series from the Bank will be automatically cancelled if (A) the Bank is classified as Class II or below pursuant to Articles 121 and 122 of the Mexican Banking Law and the regulations thereunder, which specify capitalization requirements, or (B) as a result of the applicable payment of interest, the Bank would be classified as Class II or below (an "Interest Cancellation Event"). Currently, the minimum Capital Ratios to be classified as Class I (and as a result, not Class II or below) are (i) 10.5% in respect of 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 (currently, a Systemically Important Bank Capital Supplement for Grade II Banks of 0.90%) and any other Countercyclical Capital Supplement applicable to the Bank).

Other Restrictions on Certain Payments

With respect to each series of Notes, unless the most recent payable interest and any Additional Amounts on such series of Notes have been paid, the Bank 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 its capital stock; or

(2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Current Principal Amount

In respect of each Note of any series, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) 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 relevant series of Notes as permitted under the respective indenture, as the case may be.

Original Principal Amount

In respect of each Note of any series, the amount of the denomination of such Note on the Issue Date.

Indentures

NC5 Notes: The NC5 Notes will be issued under an indenture, dated as of July 6, 2017 among us and the Trustee, and executed by an officer of the CNBV; and

NC10 Notes: The NC10 Notes will be issued under an indenture, dated as of July 6, 2017 among us and the Trustee, and executed by an officer of the CNBV.

Unsecured; Not Guaranteed

The Notes of each series will be unsecured and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, any United States governmental agency, GFNorte or by any of its subsidiaries (other than the Bank), and neither series of Notes are convertible, by their terms, into any of our debt securities, shares or any of our equity capital or any debt securities, shares or equity capital of any of our subsidiaries or affiliates.

Trigger Event

A Trigger Event will be deemed to have occurred if:

- the CNBV publishes a determination, in its official publication of capitalization levels for Mexican banks, that the Bank's Fundamental Capital Ratio, as calculated pursuant to the applicable Mexican Capitalization Requirements, is equal to or below 5.125%;

- both (A) the CNBV notifies the Bank that it has made a determination, pursuant to Article 29 Bis of the Mexican Banking Law, that a cause for revocation of the Bank's license has occurred resulting from (x) the Bank's assets being insufficient to satisfy its liabilities, (y) the Bank's non-compliance with corrective measures imposed by the CNBV pursuant to the Mexican Banking Law, or (z) the Bank's non-compliance with the capitalization requirements set forth in the Mexican Capitalization Requirements and (B) the Bank has 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% of its 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 the Bank of such determination; or

- the Banking Stability Committee 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 the Bank to avoid revocation of the Bank's license because the Bank's assets are insufficient to satisfy the Bank's liabilities, or 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 the Bank (for the avoidance of doubt, pursuant to Annex 1-R 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 (each, a "Write-Down") shall be deemed to have occurred on the Write-Down Date, automatically and without any additional action by the Bank, the Trustee or the holders of any series of Notes: (i) the Current Principal Amount of each series of Notes will automatically be reduced by one or more Write-Downs by each applicable Write-Down Amount and such Write-Down shall not constitute a default or an Enforcement Event (as defined below); 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 the Bank 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 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.

"Write-Down Amount" means an (i) amount of the then Current Principal Amount of the Notes of each series that would be sufficient, together with any concurrent *pro rata* *w*rite down or conversion of any other Subordinated Non-Preferred Indebtedness issued by the Bank and then outstanding, to return the Fundamental Capital (*capital básico fundamental*) ratio of the Bank to the then-applicable Fundamental Capital (*capital básico fundamental*) ratio required by the CNBV in accordance with Section IV, c), 1 of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum is 7% (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 (as defined below), or (ii) if any Write-Down of the Current Principal Amount, together with any concurrent *pro rata* write down or conversion of any Subordinated Non-Preferred Indebtedness, would be insufficient to return the Fundamental Capital (*capital básico fundamental*) ratio of the Bank to the aforementioned amount, 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.

As required under the Mexican Capitalization Requirements and in accordance to the CNBV request, 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 the Bank 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 liabilities of the Bank (iv) granting of guaranties and (v) the transfer of assets and liabilities.

Subordination

The Notes of each series constitute Subordinated Non-Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank's present and future Senior Indebtedness and Subordinated Preferred Indebtedness (ii) *pari passu* without preference among themselves and with all other present or future unsecured Subordinated Non-Preferred Indebtedness of the Bank and (iii) senior only to all classes of the Bank's equity or capital stock.

Redemption

The Bank may not redeem the Notes of any series, in whole or in part, other than as described below under "Optional Redemption," "Withholding Tax Redemption" and "Special Event Redemption."

Optional Redemption

NC5 Notes: The Bank has the option, but no obligation, under the respective indenture to redeem the NC5 Notes on the NC5 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not cancelled) interest due on, or with respect to, the NC5 Notes, plus Additional Amounts, if any, up to the date of redemption.

NC10 Notes: The Bank has the option, but no obligation, under the respective indenture to redeem the NC10 Notes on the NC10 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not cancelled) interest due on, or with respect to, the NC10 Notes, plus Additional Amounts, if any, up to the date of redemption.

Withholding Tax Redemption

The Bank has the option, but no obligation, under each indenture to redeem each series of Notes at any time, in whole (up to the then Current Principal Amount) but not in part, at par plus accrued and unpaid (and not cancelled) interest due on, or with respect to, such series of Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption, upon the occurrence of a Withholding Tax Event affecting the Notes. A "Withholding Tax Event" is defined in each indenture to mean (i) the receipt by the Bank and the delivery to the Trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that certain changes in applicable law affecting the payment of Additional Amounts under the respective series of Notes have occurred, and (ii) the delivery to the Trustee of an officer's certificate stating that the requirement to pay such Additional Amounts cannot be avoided by taking reasonable measures available to the Bank.

Special Event Redemption

The Bank has the option, but no obligation, under each indenture to redeem each series of Notes at any time, in whole (up to the then Current Principal Amount) but not in part, at par plus accrued and unpaid (and not cancelled) interest due on, or with respect to, such series of Notes, plus Additional Amounts, if any, up to but excluding the date of redemption, upon the occurrence of a Special Event affecting such series of Notes. A "Special Event" is the occurrence of certain changes in the treatment of the Notes of each series under the Mexican Capitalization Requirements or tax deductibility of payments under the Notes of each series.

Enforcement Events and Remedies

There are no events of default under the Notes of any series. In addition, under the terms of each indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Each of the following events is an "Enforcement Event":

(1) certain events involving the liquidation (*resolución*) of the Bank;

(2) a Principal Non-Payment Event (as defined below); or

(3) breach of a Performance Obligation (as defined below).

(1) If a liquidation (*resolución*) of the Bank occurs, the Current Principal Amount of the Notes of each series, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to a liquidation (*resolución*) may affect the timing or amount paid to holders of the Notes.

(2) In the event of any redemption of the Notes of any series, if the Bank does not make payment of principal in respect of the Notes of such series for a period of fourteen (14) calendar days or more after the date on which such payment is due (a "Principal Non-Payment Event"), then the Trustee, on behalf of the holders and beneficial owners of the Notes of such series, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes of such series, subject to any applicable laws, institute proceedings for the Bank's liquidation (*resolución*). In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes of such series and the Trustee.

(3) In the event of a breach of any term, obligation or condition binding on the Bank under the Notes of any series or the respective indenture (other than any of the Bank's payment obligations under or arising from the Notes of each series or the respective indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a "Performance Obligation"), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay

any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes of such series or the respective indenture, if any.

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes of any series) or to the holders and beneficial owners of the Notes of any series.

The Notes of each series are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders and beneficial owners of each series of Notes may not request redemption of the Notes of any series at any time.

Use of Proceeds

We intend to use the net proceeds of the issuance of the Notes to strengthen our regulatory capital and for general corporate purposes.

Payment of Additional Amounts

All payments made by or on our behalf in respect of the Notes of each series 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 Cayman Islands, 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 NC5 Notes—Payment of Additional Amounts" and "Description of the NC10 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 each series of Notes or their nominees (collectively, holders) 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 NC5 Notes—Payment of Additional Amounts" and "Description of the NC10 Notes—Payment of Additional Amounts."

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by the holders.

Book-Entry Issuance, Settlement and Clearance

The Notes of each series will be represented by one or more fully global notes registered in the name of a nominee of

DTC. Investors will hold beneficial interests in the Notes through DTC and its direct and indirect participants, including Euroclear and Clearstream, and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes except as described in this offering memorandum. Settlement of the Notes will occur through DTC. For information on DTC's book-entry system, see "Form of Notes, Clearing and Settlement."

Listing	Application will be made to list the Notes of each series on the Singapore Exchange Securities Trading Limited — SGX-ST. No assurance can be given that the Notes will be approved for listing on the Singapore Exchange Securities Trading Limited — SGX-ST.
Governing Law	The indentures 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 an Interest Cancellation Event (leading to a Cancellation of Interest) 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 the Bank. Whether a capital event has occurred is determined by the Bank, 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). Any proceedings in respect of the Bank's liquidation (*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 will be 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.
Transfer Restrictions	The Notes have not been registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale. The Notes are not intended to be sold and should not be sold to retail clients in 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. See "Transfer Restrictions."

Trustee and Paying Agent

The Bank of New York Mellon.

Risk Factors

You should carefully consider all of the information in this offering memorandum. See "Risk Factors" for a description of the principal risks involved in making an investment in the Notes of either or both series.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The summary consolidated financial and operating data presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with "Presentation of Financial and Other Information," "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Financial Statements and the notes thereto included elsewhere in this offering memorandum. Results of the three-month period ended March 31, 2017 are not necessarily indicative of results to be expected for the full year ending December 31, 2016.

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from U.S. GAAP. For a summary of the differences between Mexican Banking GAAP and U.S. GAAP, see "Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Summary Statement of Income Data:	**For the three-month period ended March 31,**			**For the Year ended December 31,**			
	2017	**2017**	**2016**	**2016**	**2016**	**2015**	**2014**
	(U.S.$ millions)[1]	***(Ps. millions)***		***(U.S.$ millions)***[1]	***(Ps. millions)***		
Interest income	1,172	22,029	15,842	3,693	69,407	58,970	57,815
Interest expense	(466)	(8,757)	(5,074)	(1,237)	(23,244)	(19,369)	(19,889)
Net interest income	**706**	**13,272**	**10,768**	**2,456**	**46,163**	**39,601**	**37,926**
Allowance for loan losses	(172)	(3,227)	(3,170)	(695)	(13,070)	(10,370)	(11,087)
Net interest income after allowance for loan losses	**534**	**10,045**	**7,598**	**1,761**	**33,093**	**29,231**	**26,839**
Commission and fee income	228	4,282	3,577	839	15,764	13,476	11,592
Commission and fee expense	(78)	(1,465)	(982)	(239)	(4,498)	(3,527)	(3,091)
Intermediation revenues	37	693	467	98	1,839	2,606	3,807
Other operating income	30	566	399	111	2,078	1,851	2,420
Non-interest expense	(428)	(8,043)	(7,212)	(1,551)	(29,155)	(27,334)	(26,448)
	(211)	**(3,967)**	**(3,751)**	**(742)**	**(13,972)**	**(12,928)**	**(11,720)**
Operating income	**323**	**6,078**	**3,847**	**1,019**	**19,121**	**16,303**	**15,119**
Equity in earnings of unconsolidated subsidiaries and associated companies	1	14	333	55	1,043	1,280	1,241
Income before income tax	**323**	**6,092**	**4,180**	**1,074**	**20,164**	**17,583**	**16,360**
Current income tax	(82)	(1,541)	(1,122)	(292)	(5,479)	(4,063)	(6,787)
Deferred income tax (expense) benefit	(17)	(320)	105	6	116	(235)	2,154
Discontinued operations	**4**	**74**	**59**	12	243	233	**209**
Net income	**229**	**4,305**	**3,222**	**800**	**15,044**	**13,518**	**11,936**

(1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2017 and as of and for the year ended December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

Balance Sheet Data:	Three-Month Period Ended March 31, 2017	2017	Year Ended December 31 2016	2016	2015
	(U.S.$ millions)[(1)]	*(Ps. millions)*	*(U.S.$ millions* [(1)]	*(Ps. millions)*	
Assets:					
Cash and cash equivalents	3,214	60,405	3,503	65,844	107,457
Margin securities	102	1,909	116	2,185	91
Investment in securities	14,048	264,044	15,369	288,863	210,998
Debtor balances under repurchase and resale agreements	0	2	0	0	493
Derivatives financial instruments	1,231	23,125	2,214	41,623	18,850
Valuation adjustments for assets hedging	6	110	6	113	128
Total performing loan portfolio	29,825	560,589	29,633	556,972	509,593
Total past-due loan portfolio	532	10,033	535	10,060	11,634
Loan portfolio	30,357	570,622	30,168	567,032	521,227
Allowance for loan losses	(734)	(13,805)	(742)	(13,941)	(13,334)
Total loan portfolio, net	29,702	558,293	29,500	554,491	509,269
Receivables generated by securitizations	8	151	8	155	184
Other accounts receivable, net	1,935	36,363	2,128	39,989	21,164
Foreclosed assets, net	63	1,182	65	1,222	1,800
Property, furniture and equipment, net	645	12,120	635	11,927	11,364
Permanent stock investments	11	199	10	185	13,485
Deferred taxes, net	192	3,601	225	4,228	3,096
Other assets	728	13,689	761	14,311	19,231
Total assets	**51,885**	**975,193**	**54,822**	**1,030,435**	**917,610**
Liabilities:					
Deposits	30,762	578,191	30,633	575,756	563,670
Interbank and other loans	906	17,043	1,130	21,260	14,943
Creditor balances under repurchase and resale agreements	11,223	210,936	12,476	234,490	171,133
Repurchase or resale agreements (creditor balance)	0	2	0	0	1
Derivatives financial instruments	1,524	28,627	2,649	49,775	24,944
Other account payables	1,478	27,777	1,813	34,119	21,893
Subordinated debentures	934	17,551	1,166	21,917	17,385
Deferred credits and advanced collections	8	142	18	331	1,058
Total liabilities	**46,835**	**880,289**	**49,885**	**937,648**	**815,027**
Stockholders' equity:					
Paid-in capital	974	18,285	967	18,177	31,756
Other capital	4,075	76,609	3,969	74,600	70,817
Noncontrolling interest	1	10	1	10	10
Total stockholders' equity	**5,050**	**94,904**	**4,937**	**92,787**	**102,583**
Total liabilities and stockholders' equity	**51,885**	**975,193**	**54,822**	**1,030,435**	**917,610**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

	As of or for the three-month period ended March 31,		As of or for the year ended December 31,		
	2017	2017	2016	2016	2015
	(U.S.$ millions, except percentages) (1)	*(Ps. millions, except percentages)*	*(U.S.$ millions, except percentages)* (1)	*(Ps. millions, except percentages)*	
Profitability and Efficiency:					
Return on average total assets(2)	1.7%	1.7%	1.5%	1.5%	1.5%
Return on average equity(3)	18.4%	18.4%	15.4%	15.4%	13.7%
Net interest margin(4)	5.7%	5.7%	5.1%	5.1%	4.6%
Efficiency ratio(5)	46.4%	46.4%	47.5%	47.5%	50.9%
Credit Quality Data:					
Total performing loans	29,825	560,589	29,633	556,972	509,593
Total non-performing loans	532	10,033	535	10,060	11,634
Total loans	30,357	570,622	30,168	567,032	521,227
Loans graded "C," "D" and "E"(6)	1,411	26,526	1,458	27,400	26,849
Allowance for loan losses	734	13,805	742	13,941	13,334
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	2.4%	2.4%	2.5%	2.5%	2.6%
Allowance for loan losses as a percentage of total non-performing loans(7)	137.6%	137.6%	138.6%	138.6%	114.6%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E"(6)	52.0%	52.0%	50.9%	50.9%	49.7%
Total non-performing loans as a percentage of total loans	1.8%	1.8%	1.8%	1.8%	2.2%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(0.7%)	(0.7%)	(0.7%)	(0.7%)	(0.3)%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	(4.0%)	(4.0%)	(4.2%)	(4.2%)	(1.7)%
Loans graded "C," "D" and "E" as a percentage of total loans(6)	4.6%	4.6%	4.8%	4.8%	5.2%

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

(2) Net income from the period divided by average total assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(4) Net interest income divided by total interest-earning assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.

(6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."

(7) Corresponds to end-of-period balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

Capital Ratios

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

	As of March 31,		As of December 31,		
	2017	2017	2016	2016	2015
	(U.S. millions, except for percentages) [(1)]	*(Ps. millions, except for percentages)*	*(U.S. millions, except for percentages)* [(1)]	*(Ps. millions, except for percentages)*	
Capital:					
Fundamental Capital (CET1)	4,527	85,080	4,124	77,518	68,348
Additional Tier 1 Capital	120	2,255	204	3,830	4,469
Tier 2 Capital	841	15,808	885	16,643	7,692
Total Net Capital	**5,488**	**103,143**	**5,213**	**97,991**	**80,509**
Risk-Weighted Assets:					
Credit risk	25,489	479,075	25,425	477,880	398,908
Market risk	3,043	57,203	4,286	80,556	80,392
Operational risk	4,564	85,789	4,371	82,153	72,342
Total Risk-Weighted Assets	**33,096**	**622,067**	**34,082**	**640,589**	**551,642**
Capital Ratios (credit, market and operational risk):					
Tier 1 Capital to risk-weighted assets	14.04%	14.04%	12.70%	12.70%	13.20%
Tier 2 Capital to risk-weighted assets	2.54%	2.54%	2.60%	2.60%	1.39%
Total Net Capital to risk-weighted assets	**16.58%**	**16.58%**	**15.30%**	**15.30%**	**14.59%**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

RISK FACTORS

Before making a decision to invest in the Notes of either or both series, you should carefully consider the risks described below as well as the other information contained in this offering memorandum. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones we or prospective investors in the Notes of either or both series in general face and the importance of the risk that we attribute to it today may change in the future. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also materially adversely affect our ability to make payments on each series of Notes.

Risks Relating to Our Business

Our results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

Since 2008, financial systems worldwide have experienced periods and events of difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, loss of confidence in the financial sector, declining interest rates, currency devaluations, restrictions on the convertibility of funds and erosion of consumer confidence. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries, including the United States, fell into recession. Although macroeconomic conditions have generally improved since 2012, the sharp decline and volatility in oil prices, uncertainty in global economic growth, and diverging monetary policies around the world have exacerbated global imbalances and risks. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced, and some continue to experience, significant difficulties. Around the world there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted or taken over by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions). Within this context, decreasing oil prices and a continuous reduction in Mexico's oil production, together with weaker-than-expected manufacturing activity in the U.S., constitute significant risks for the Mexican economy and its growth prospects, which could have an adverse effect on our business. In addition, normalization of U.S. monetary policy, including the end of its quantitative easing stimulus, and different monetary policies around the world, including in Mexico, might also have a negative impact on the Mexican economy and adversely affect our business and results of operations.

In particular, we may face, among others, the following risks related to international market and economic conditions:

- increased regulation of the financial industry. Compliance with such regulation will continue to increase our costs, may require us to increase our capital or reserves, may affect the pricing of our products and services, and may limit our ability to grow our loan portfolio or pursue business opportunities;
- a global economic slowdown could result in reduced demand for financial products and services;
- inability of corporate and individual borrowers to timely or fully comply with their existing obligations.
- the process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans, as well as the operational risks we face. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates, which may, in turn, impact the reliability of the process;
- the derivatives markets and similar operations, including volatility affecting those instruments, could impact financial systems and the solvency of its participants; and
- the value and liquidity of our portfolio of investment securities may be adversely affected.

Despite recent improvements in certain segments of the global economy, and in particular the strength of domestic demand in Mexico, uncertainty remains concerning the future economic environment. There can be no assurance that local or global economic conditions as a whole will improve significantly. Such economic uncertainty could have a negative impact on our business and results of operations. Global investor confidence remains cautious. A slowing or failing of the economic recovery in the U.S. and the uncertainty of its monetary policy would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry. Increased disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access funding, capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers and/or become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins and liquidity.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financial condition and our results from operations.

Our financial results are subject to fluctuations in interest rates and other market risks.

Market risk refers to the probability of variations in our net interest income, or in the market value of our assets and liabilities and securities positions, due to changes in interest rate and other market risk factors, such as exchange rates and equity market volatility. Changes in the above mentioned market risks affect the following areas, among others, of our business:

- our net interest income;
- our cost of funding;
- the value of our capital;
- the volume of loans we originate;
- the market value of our financial assets; and
- our gains and losses from the sale of loans and securities.

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors. A significant portion of our assets, including our loans, are long-term assets. At the same time, a significant percentage of our financial borrowings are short-term. Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue. When interest rates rise, we may be required to pay higher interest on our borrowings while interest earned on our assets may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Accordingly, increases in short-term interest rates may reduce our net interest income, which could affect our ability to meet our short-term obligations. We monitor our interest rate risk using the Net Interest Margin (“NIM”) sensitivity, which is the difference between the return on assets and the financial cost of our financial liabilities based on a one-year time frame and a parallel movement of 100 basis points (1%) in market interest rates. As of March 31, 2017, the 1% NIM sensitivity was Ps.755 million.

In addition, increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in asset quality. Increases in interest rates may also reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive arising from our investments in securities as well as loans with similar maturities, which could in turn adversely affect our net interest income. In addition, we may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions.

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

Increases in interest rates may reduce gains or require us to record losses on sales of loans or securities. In recent years, the Mexican government has engaged in "monetary easing," a monetary policy designed to boost money supply by decreasing and stabilizing interest rates. As a result, the Mexican interbank interest rate has remained low at 4.15%, 3.01% and 3.21% during 2016, 2015 and 2014, respectively. Recent international financial volatility, the external environment and low oil prices have had a negative impact on the Mexican economy, affecting macroeconomic variables, such as the exchange rate between U.S. dollars and Pesos. As a consequence, on February 17, 2016, the Mexican Central Bank increased the overnight interbank interest rate (*tasa de fondeo interbancario*) by 50 basis points to 3.75%, and has been increasing the reference rate regularly since then, to 6.50% as of March 31, 2017, in order to ease pressure on the exchange rate and the Mexican economy.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our ability to repay our foreign currency-denominated liabilities, net interest income, our earnings and the value of our balance sheet.

Furthermore, we are exposed to equity price risk in connection with our trading investments in equity securities. The performance of financial markets may cause adverse changes in the value of our investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility may affect the value and liquidity of our investments in entities in this sector and, depending on their fair value and recovery expectations, could become a permanent impairment which would be subject to write-offs against our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be adversely affected, impacting us.

Our loan and investment portfolios are subject to prepayment risk, which could negatively affect our net interest income.

Our loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a low interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest earning assets and therefore our expected results relating to these assets. To date, prepayment activity in our loan portfolio has not had a significant effect on our financial results, but if such activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and 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 our business, financial condition and results of operation. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

We engage in transactions with our parent GFNorte 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 GFNorte or any of its 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, we have also entered into certain service agreements with our affiliates Casa de Bolsa Banorte-Ixe, S.A. de C.V. ("Casa de Bolsa Banorte"), Operadora de Fondos Banorte, S.A. de C.V., Seguros Banorte and Pensiones Banorte, S.A. de C.V., to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery.

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 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 GFNorte or any of its 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 GFNorte or any of its subsidiaries or affiliates will not have an adverse effect on our financial position.

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

We are part of a financial group controlled by GFNorte. Other entities within the group include, among others, Sólida Administradora de Portafolios, S.A. de C.V. ("Sólida"), which maintains some non-performing loan portfolios, and Casa de Bolsa Banorte, which maintains trading positions. GFNorte could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints or other criteria. Sólida generated Ps.635 million in losses during the three-month period ended March 31, 2017 and Ps.538 million for the year ended December 31, 2016. Casa de Bolsa Banorte contributed 4.2% of GFNorte's net income as of March 31, 2017 and approximately 3.1% of GFNorte's net income in 2016. Sólida currently has no employees of its own and primarily relies upon Banorte to conduct its business. Should more of our resources be diverted, or our business or business opportunities be diverted, to other subsidiaries of GFNorte, or if unprofitable operations of other subsidiaries of GFNorte are transferred to us, our financial position and results of operations could be adversely affected.

We may be unable to successfully implement and continue to improve our credit risk management system, which could substantially and adversely affect our results of operations and financial position.

As a commercial bank, one of the principal types of risks we face is credit risk. Our credit risk management system may not effectively identify and quantify our credit risk exposure. For example, an important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it involves judgments by our management team and employees and, therefore, 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, or to effectively identify the risks relating to the business, industry or region where a customer operates, which may result in a higher credit risk exposure for us 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 related losses 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, our failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect our results of operations and financial position.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the Mexican credit bureaus and other sources. Due to limitations in the availability of information and the developing information infrastructure in Mexico, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. We cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our impairment losses and allowance for impairment losses may be materially adversely affected.

The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers.

The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. There is no assurance that we will be able to effectively compete for and retain customers in this competitive segment. Moreover, our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers, their economic condition and level of employment and income. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly faster rate than the market, which may increase our exposure to risk in our loan portfolio, which could have a material adverse effect on us.

Furthermore, credit card products are characterized by higher consumer default than other consumer credit products, and defaults are highly correlated with macroeconomic indicators that are beyond our control. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers, we may be faced with unexpected losses that could have a material adverse effect on us, including our financial condition and results from operations.

We may be unable to effectively control the level of non-performing or low credit quality loans in our loan portfolios and our loan loss reserves may be insufficient to cover actual loan losses.

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 collect impaired loans or control and reduce the level of the impaired loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio, or factors beyond our control, such as the impact of a global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting certain industries to which we lend.

As of March 31, 2017 and December 31, 2016, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single commercial group or to the Mexican government) represented 19.2% and 20.0%, respectively, of our total loan portfolio (on an unconsolidated basis). If the financial well-being of any of these clients were to be negatively impacted by political, economic or industry-related developments or any other factor, it could lead to an increase in our non-performing or low credit quality loans.

In addition, our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our loan loss reserves, which are calculated in accordance with CNBV regulations, are based on our current assessment of, and expectations concerning, various factors affecting us, including the quality of our loan portfolio. These factors include, among others, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for guarantor support, government macroeconomic policies, interest rates and the legal and regulatory environment. As a result, 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 our assessment of, and expectations concerning, the above-mentioned factors differ from actual developments; if the quality of our total loan portfolio deteriorates, for any reason, including an increase in lending to individuals and SMEs, an increase in our credit card portfolio and our introduction of new products; or if future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or low credit quality loans, or to adequately reserve such loans, our financial position and results of operations could be materially and adversely affected.

We have experienced asset quality problems, including with respect to collateral, and have reported relatively large loan loss provisions.

The asset quality of our loan portfolio, including with respect to collateral, has been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis that commenced in 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain "available for sale securities" to "held to maturity securities" and broadening the class of securities available for repurchase. Other regulatory responses have included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of outstanding loans. Such reserve requirements could have a direct adverse impact on our financial results. Unfavorable financial and economic conditions in Mexico and these regulatory initiatives have caused the Mexican banking sector to experience asset quality problems and to record relatively large loan loss provisions. See "Selected Statistical Information—Non-Performing Loan Portfolio." We also believe that recoveries from those non-performing loans as a percentage of the non-performing loan portfolio are likely to decline over time as a consequence of the aging of such non-performing loan portfolio, as well as the decreased value of the collateral supporting these loans.

Moreover, in Mexico, foreclosure procedures are generally subject to delays and procedural uncertainties and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers, attachments by other creditors obtaining priority over collateral, or a reduction in the value or liquidity of the collateral 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.

Lower recovery rates, asset quality deterioration, decreased value of collateral and lower levels of recovery on collateral compared to its value could have a material and adverse effect on our business, financial condition and results of operations.

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.

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

One of our main strategies is to grow our retail loan portfolio. The recoverability of our existing retail loan portfolio, our ability to increase our loans outstanding, and, in general, our results of operations and financial condition, may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses, which in turn could have a material adverse effect on us. Although Mexican GDP has grown since 2010, the Mexican economy has historically experienced cycles of growth followed by slowdowns. We can provide no assurance that previously observed GDP growth rates will continue.

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 devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments.

The Mexican Capitalization Requirements and the rules governing the creation of reserves for loan losses applicable to credit institutions generally require significantly lower capitalization levels or reserves (if any) in connection with loans made to Mexican federal, state or municipal governments (together, the "Government Loans"). As of March 31, 2017, our Government Loans amounted to Ps.130,183 million, or 22.8% of our total gross loan portfolio. Although as of March 31, 2017, we had no Government Loans categorized as non-performing loans, a deterioration in the credit quality of our Government Loans could result in an adverse impact on our financial position and results of operations. The magnitude of this impact would be a function of the size of our exposures to the relevant government entities, the extent of the deterioration in their internal credit ratings assigned by our risk management area according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors.

Some of our loans to Mexican states and municipalities may be renegotiated.

The Mexican government and commercial banks, including us, have from time to time agreed to modify the terms of Government Loans. Such modifications have included maturity extensions, amendments to collateral received, reductions in interest rates and the inclusion of prepayment features and/or options. As of March 31, 2017, Ps.2,109 million of these loans, or 2.0% of our total state and municipal government loan portfolio, have been renegotiated. There can be no assurance that these or other Government Loans will not be similarly renegotiated in the future in a way that could reduce our margins in this line of business, which could adversely affect our results of operations.

We can provide no assurance that in the event that borrowers in our state and municipal government segment or our federal government segment implement any plan to reduce their cost of funding , the loans that we have granted to such borrowers will not be renegotiated on terms favorable to us or early repaid. Any such renegotiation or early repayment could adversely affect our business, financial condition and results of operations.

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*. 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. 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 our Government Loan portfolio and our results of operations.

Our borrowers that are Mexican federal, state or municipal governments or agencies may claim privileges under Mexican law, and our ability to sue and recover may be limited.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. Article 9 of the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) provides that *participaciones federales* used by states or municipalities may not be subject to attachment or liens, may not be assigned or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities, provided they have the authorization of the state's congress and are registered with the SHCP in the Registry of Obligations and Loans of the States (*Registro de Obligaciones y Empréstimos de Entidades Federativas*).

In addition, Article 4 of the Mexican Federal Code for Civil Procedure (*Código Federal de Procedimiento Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the federal, state or municipal governments. As a result, the ability to enforce judgment against such governments or agencies, upon the occurrence of a default, may be limited, and this could materially affect our business, financial condition and results of operation. Furthermore, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair our ability to recover on our collateral. Accordingly, we can give no assurance that we will be able to realize the full value of our collateral or realize it in a timely manner. Furthermore, many secured creditors may compete for collateral granted by state or municipal governments, as *participaciones federales* are available, on a pro rata basis, to secured creditors. As a result, lower recovery rates, asset quality deterioration and decreased value of collateral could have a material and adverse effect on our results of operations and financial position.

We are exposed to the Mexican home building sector, and the amount of non-performing loans to this sector could adversely affect our results of operations and financial condition.

We have extended loans to, and participated through specialized trust operations in, home development projects. Some companies in this sector have experienced, and continue to experience, financial difficulties. As a result of challenging market conditions in 2013, three of the largest companies in the home building sector were subject to equity and debt restructurings.

As of March 31, 2017, we had outstanding loans to Urbi Desarrollos Urbanos, S.A.B. de C.V. ("Urbi"), Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. in an aggregate principal amount of Ps.2,458 million, representing 0.4% of our total loan portfolio. Of these loans, Ps.2,206 million, or 89.7%, were non-performing as of March 31, 2017. Of our total loans to these clients at such date, 100% was secured by land reserves. As of March 31, 2017, we had allocated Ps.941 million in loan loss reserves for loans to these clients, representing 38.3% of our total loan loss reserves for this sector.

Recent judicial decisions affecting the in-court restructuring of Corporación Geo, S.A.B. de C.V. may have an impact on our ability to continue to collect on our related assets that had been recognized as a result of this restructuring. As of March 31, 2017, we had outstanding loans to Corporación Geo, S.A.B. de C.V. in an aggregate principal amount of Ps.506 million, 100% of which were secured by real estate. As of March 31, 2017, we had allocated Ps.86 million in loan loss reserves for loans to this client.

We cannot provide assurance of the level of recovery that we can achieve from the loans to this sector or that we will be able to realize our target level of reserves or, if we do, that such reserves will cover the total losses expected from loans in the home building development sector, which could adversely affect our results of operations and financial condition.

Liquidity and funding risks are inherent to our business.

Liquidity risk is the risk that we either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk can be heightened by a number of company-specific factors, including over- reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While we have liquidity management processes designed to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to completely eliminate these risks. Adverse and continued constraints in our liquidity, including interbank lending, has affected and may materially and adversely affect the cost of funding our business, and extreme liquidity constraints may affect our current operations and our ability to fulfill regulatory liquidity requirements, as well as limit growth possibilities. Disruption and volatility in the global financial markets could also have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

In 1994 and 1995, many Mexican banks suffered severe liquidity problems as a result of a financial crisis in Mexico, particularly in connection with refinancing short- and medium-term U.S. dollar liabilities in the international capital markets. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, no assurance can be given that we will be able to repay such liabilities or refinance such liabilities on favorable terms.

We rely, and will continue to rely, primarily on customer deposits to fund lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of customer depositors in the economy, in general, and the financial services industry in particular, the availability and extent of deposit guarantees, and competition between banks for deposits. Any of these factors could significantly increase the amount of customer deposit withdrawals in a short period of time, thereby reducing our ability to access customer deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and that we will maintain our reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. As of March 31, 2017, 96.5% of our local and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

We are exposed to volatility in Peso exchange rates and interest rates in Mexico.

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate re-pricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility in recent years.

As of March 31, 2017, the Value at Risk ("VaR") associated with our financial instruments sensitive to interest rates was U.S.$2.7 million (Ps.50 million). Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities" and "Risk Management." In addition, our foreign currency liabilities are subject to regulation by the Mexican Central Bank, which imposes liquidity requirements in matching currencies, depending upon the maturities of such liabilities.

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. It may also 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 a negative impact on our ability to pay our U.S. dollar-denominated liabilities and on our financial condition.

In 2008 and 2009, as a result of negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. During 2008, the Peso depreciated by 26.7% compared to the U.S. dollar. During 2010, 2011 and 2012, the Peso appreciated by 5.5%, depreciated by 12.9% and appreciated by 7.0%, respectively. During 2013, 2014, 2015 and 2016, the Peso depreciated by 0.9%, 12.7%, 17.0% and 19.5%, respectively. As of March 31, 2017, the Peso had appreciated to Ps.18.7955 per U.S. dollar as compared to the exchange rate of Ps.20.6194 per U.S. dollar as of December 31, 2016. The Peso continues to be affected by uncertainty and volatility in the global markets. 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 effective or maintained or how such measures will impact the Mexican economy.

In recent years, interest rates in Mexico have been low by historical standards at 4.15%, 3.01% and 3.21% for the years ended December 31, 2016, 2015 and 2014, respectively. International financial volatility and the external environment have had a negative impact over the Mexican economy. Furthermore, low oil prices have affected macroeconomic variables, such as the exchange rate between U.S. dollars and Pesos. As a consequence, on February 17, 2016, the Mexican Central Bank increased the one day interbank interest rate by 50 basis points to 3.75%, and has been increasing the reference rate regularly since then, to 6.50% as of March 31, 2017.

There can be no assurance that such interest rates will continue to increase in the future. A sustained increase in interest rates will 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 a deterioration in our asset quality.

In addition, 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 fifteen years, has not restricted the ability of 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 any such restrictive exchange control policies were to be instituted in the future in the event of shortages of foreign currency, our ability to transfer or convert Pesos into U.S. dollars and other currencies to service our foreign currency obligations, including the Notes, would be adversely affected and foreign currency may not be available without substantial additional cost.

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, and for many years has not restricted, 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 has taken such measures in the past and could institute restrictive exchange control policies in the future. Accordingly, fluctuations in the value of the Peso against the U.S. dollar could have a material adverse effect on us and impair our ability to make payments under the Notes.

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

We enter into financial derivative transactions primarily for hedging purposes and to a lesser extent, on behalf of our customers. Accordingly, 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).

Mexican courts have 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 outcomes of disputes regarding derivatives reaching the Mexican judicial system are not fully predictable. Derivative transactions are usually documented under ISDA master agreements or similar agreements that differ from agreements typically used in the Mexican market, which further increases the unpredictability of their interpretation by Mexican courts. Given that for certain of our financial derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that our documentation will not incorporate accurately the terms and conditions of such derivative transactions.

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

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, 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 laws and the publication of information, such as imposing fines that may be detrimental to our business and reputation. Actions taken by CONDUSEF against us, whether on an isolated or recurrent basis, may have a material impact on us.

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 to grow, remain competitive, enter into new businesses and meet regulatory capital adequacy requirements, we may require additional 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 shareholders' 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 or corporate approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- social, economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain needed capital in a timely manner or on acceptable terms or at all.

Downgrades in our credit ratings or those of any of our subsidiaries would increase our cost of borrowing and negatively impact our ability to raise new funds, attract deposits or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy and leverage, 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. Our lenders and counterparties in financial derivative transactions are sensitive to the risk of a ratings downgrade. Changes in our credit ratings would increase the cost of raising funds in the capital markets or of borrowing funds or could restrict our participation in certain activities. In addition, our ability to roll over maturing debt may be more difficult and expensive. There can be no assurance that rating agencies will maintain our current ratings or outlook.

Our ability to compete successfully in the marketplace for deposits depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit ratings may adversely affect perception of our financial stability and our ability to raise deposits or obtain other funding, which could significantly affect our business, financial conditions and results of operations.

We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including broker-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 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. Concerns relating to the financial health of a number of European governments and the European sovereign debt crisis have recently intensified, contributing to volatility of the capital and credit markets, and the risk of contagion throughout the European financial system (in which the parent companies of some of our most important competitors operate) and beyond the Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. 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 adverse effect on our business, financial position and results of operation.

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

We face strong competition in all aspects of our business, including loan origination and growing our deposits base. The competition in loan origination comes principally from other Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other institutional lenders and purchasers of loans. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. In addition, 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. The SHCP has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants.

In addition, legal and regulatory reforms in the Mexican banking industry have increased competition among banks and other financial institutions. Various reforms to the Mexican Banking Law allow for the incorporation of limited purpose banks (*bancos de nicho*), which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to lesser regulatory requirements (including lower capital requirements) depending on such authorized activities. Therefore, we could experience higher competition in certain sectors of our business should the CNBV grant many limited-purpose banking licenses. We believe that the Mexican government's commitments to adopt accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry have resulted in increased competition among financial institutions in Mexico. As the reform to the financial sector continues, foreign financial institutions, many with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial position or operating results.

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

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on us.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future or that we will have the information systems, personnel or innovative capacity sufficient to offer our clients the products and services they demand. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect our business, financial position and results of operation.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and the experience of our partners may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on our business, financial position and results of operation.

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

Approximately 37.5% of the value of our total gross loan portfolio as of March 31, 2017 consisted of exposure to individuals, while SMEs comprised approximately 5.8% of the value of the total gross loan portfolio as of March 31, 2017. As part of our business strategy, we are seeking to further increase lending and other services to individuals and SMEs, which are more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, we may experience higher levels of non-performing loans, which could result in higher provisions for loan loss reserves, which in turn would negatively affect us.

For the three-month period ended March 31, 2017, non-performing loans were Ps.10,034 million and total charge-offs against our allowance for loan losses were Ps.13,805 million. Non-performing loans related to individuals and SMEs represented 1.9% and 6.1%, respectively, of our total non-performing loans for the three-month period ended March 31, 2017, as compared to 2.1% and 8.3%, respectively, for the three-month period ended March 31, 2016. Charge-offs related to individual and SME loans represented 90% and 10%, respectively, of our total charge-offs for the three-month period ended March 31, 2017, as compared to 83% and 16%, respectively, for the three-month period ended March 31, 2016.

There can be no assurance that our levels of non-performing loans and subsequent charge-offs will not be materially higher in the future and affect our financial condition and results of operations.

We are subject to substantial regulation and changes to these regulations may further limit and adversely affect us.

As a financial institution, we are subject to extensive laws and regulations regarding our organization, operations, lending and funding activities, capitalization, transactions with related parties, and taxation and other matters, including regulation by the Mexican Central Bank, the CNBV and the SHCP. These laws and regulations impose numerous requirements on us, including the maintenance of minimum credit, market and operating-risk capital levels and allowance for impairment losses, and otherwise regulate prohibited activities, our business practices and practices relating to risk-profile and sales of securities, money laundering, derivatives, rates charged, application of required accounting regulations and tax obligations. 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. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on our financial condition.

Moreover, there may be future changes in the legal or regulatory system or in the interpretation and enforcement of the laws and regulations. In addition, the volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands, and we may face supervisory measures as a result.

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 (*Ley del Impuesto sobre la Renta*, "Income Tax Law"), the 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*). On November 26, 2013, the Mexican Congress approved a financial reform package that granted broader authority to financial authorities and ordered the Mexican competition authorities to initiate an investigation into the fairness of trade practices in the Mexican financial system.

In June 2013, the CNBV modified the methodology applicable to the classification of our commercial loans portfolio from an allowance for loan losses based on the incurred loss model to an expected loss model wherein losses of the following twelve months are estimated with the best available credit information.

In July 2010, the Mexican government enacted the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*) which requires us to ensure the confidentiality of information received from clients. Although we have modified our processes, procedures and systems as required to implement this law, including procedures to supervise our activities thereunder, we can provide no assurances as to how this legislation will be interpreted and how strictly it will be enforced by Mexican authorities. An unfavorable interpretation and enforcement of this legislation could have a material adverse effect on us, including increasing our operating costs and subjecting us to fines and penalties in the event of violations of the provisions of such law.

One of the main aspects of the changes in recent years in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. The guidelines for such evaluations were published in the Official Gazette on December 31, 2014, and the final results of the first evaluation for 2015 were published on July 31, 2016, in which we received a positive evaluation, and no corrective measures were ordered. Negative or deficient results of evaluations may result in corrective measures being ordered, including a requirement that the bank present a plan to correct such deficiencies. In the event that we receive a negative or deficient evaluation in the future, it is uncertain what corrective measures may be ordered by the SHCP and whether the imposition of such measures may have a material adverse effect on our business.

In June 2014, the Mexican Supreme Court of Justice decided that federal judges have discretion to determine whether or not an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are:

- the type of relationship between the parties;
- the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated;
- the purpose of the credit;
- the amount of the loan;
- the term of the loan;
- the existence of guaranties for the payment of the loan;
- the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference;
- the variation of the national inflation index during the term of the loan;
- market conditions; and
- other issues that may be considered relevant by the judge.

The mandatory and partly discretionary application of such criteria in the lawsuits affecting our portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

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. As some of the banking laws and regulations have been recently adopted, such as the regulations implementing Basel III in Mexico (described below), the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

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

In December 2010, the Basel Committee 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 also requires institutions to maintain a capital conservation buffer above the minimum Capital Ratios in order to avoid certain capital distribution constraints. The capital conservation buffer, to be comprised of common equity Tier 1 Capital, would result in an effective Tier 1 Capital requirement of 6% of risk-weighted assets and other risks. In addition, Basel III directs national regulators to require certain institutions to maintain a Countercyclical Capital Supplement during periods of excessive credit growth. 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 bank of systemic importance, we were required by CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% with Tier 1 Capital. Also, an initial

Countercyclical Capital Supplement of 0.001% 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.

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 the Mexican Central Bank 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.

We are subject to comprehensive regulation and supervision by U.S. and Mexican regulatory authorities. The Mexican regulatory authorities include the Mexican Central Bank, the CNBV, the IPAB and the SHCP. See "The Mexican Financial System." 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. See "Supervision and Regulation."

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 operating results, 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.

We may be subject to future Mexican government restrictions on interest rates or changes in allowance for loan loss requirements.

A portion of our revenues and operating cash flow is generated by the interest rates we charge to our customers, and any limitations or requests for additional information relating to interest rates we charge may have a material adverse effect on us. In Mexico, the Law for the Protection and Defense of Financial Services Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) does not impose any specific limit on the interest rate that a bank may charge, subject to certain exceptions. However, under the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), the Mexican Central Bank has broad authority to determine that reasonable competitive conditions do not exist and to issue temporary regulations that relate to interest rates and fees. In addition, the Mexican Central Bank has broad authority to issue regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users.

As of the date of this offering memorandum, the Mexican Congress and Mexican regulators (including the Mexican Central Bank) have not yet proposed any specific limit on the interest rates we may charge. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations, although it is likely to require amendments to the way in which we operate and may adversely impact our financial results.

Our banking license may be revoked by the CNBV.

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

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

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

Allowances for loan losses in Mexico differ from those applicable to banks in the United States and certain other countries and are subject to change from time to time.

Except for Government Loans and loans to certain Mexican development banks guaranteed by the federal government and the Mexican Central Bank, 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. Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different than those applicable to banks in other countries, including the United States. The criteria to establish reserves include both qualitative and quantitative factors and involve certain discretionary determinations.

We may be required or deem it necessary to increase our allowances for loan losses in the future, as a result of changes in CNBV rules or for other reasons. Moreover, the CNBV could further change accounting regulations for determination of allowance for loan losses or the methodology to measure credit risk of government institutions, which could require a substantial increase in our allowances, and could result in an adverse effect to our business, financial condition and results of operations.

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

GFNorte acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB in 2006, UniTeller in 2006, Motran in 2007 and IXE in 2011. We faced difficulties and delays in the integration of the banking operations of these entities that affected our performance by diverting our management's attention and human resources. We could face similar problems if we engage in similar transactions in the future. 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 depend on our retention of certain key personnel and on our ability to hire additional key personnel and maintain good labor relations.

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

We depend on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel.

In addition, as of March 31, 2017, approximately 26.8% 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.

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—Litigation and Regulatory 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 35 to our Audited Consolidated Financial Statements and Note 23 to our Unaudited Condensed Consolidated Interim 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 relies heavily on data collection, processing and storage systems in order for our internal control systems and other operating systems to function properly.

Our business is dependent on our ability to timely collect and process a large volume of financial and other information across numerous and diverse markets and products at our various locations or branches, at a time when transaction processes have become increasingly complex. The proper functioning of our internal control, accounting and data collection and processing systems is critical to our business. A partial or complete failure of any of these systems could materially and adversely affect our decision making processes and the functioning of 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, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we depend on information systems to operate our website, provide information to customers, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products or result in loss of customers, and could materially and adversely affect our financial position and results of operations.

We depend on our ability to effectively improve or upgrade our IT infrastructure and management information systems in a timely manner.

Our ability to remain competitive in the markets in which we operate depends in part on our ability to upgrade our IT infrastructure on a timely and cost-effective basis, through continuous investment. Our opening of new offices and branches requires us to improve our IT infrastructure and to maintain and upgrade our software and hardware systems and back-office operations.

Additionally, any failure or interruption in the improvement, development and expansion of our information systems could result in a delay in our ability to respond to the demands of our customers, our ability to manage risk, or defects in our service. This could adversely affect our customers or our reputation for reliability. Further, our strategic agreement with IBM requires additional investments and significant time to be devoted by our executives and may not achieve the expected results.

Any failure to effectively improve or upgrade our IT infrastructure and management information systems in a timely manner or to achieve the expected results from our alliance with IBM could materially and adversely affect our competitiveness, financial position and results of operations, and result in losses for our customers, resulting in liabilities for us.

We have seen in recent years computer systems of companies and organizations being targeted by cyber criminals and activists. We have been and continue to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. In March 2015, we detected that a third party had gained unauthorized access to certain customer records. The unauthorized access did not compromise any records containing sensitive information, such as transactional data, or identifying or authenticating information for accessing electronic banking services or means of payment. This event was investigated by the competent authorities and we were cleared of any wrongdoing. No fines resulted from the incident and we have not received any customer complaints related to the event. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of our IT systems used to service our customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to our customers. If we fail to effectively manage our cybersecurity risk, e.g., by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, loss of customers, regulatory penalties and fines and/or through the loss of assets

Our Financial Statements have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP.

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

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 liability and harm our business.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the jurisdictions in which we operate. These laws and regulations have become more strict and require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. 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. See "Supervision and Regulation—Money Laundering Regulations."

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted recently and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. 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.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') operations as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. 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 our reputation, business, financial condition or results of operations.

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 such industry. Although such recommendations are not legally binding, the Mexican Antitrust Commission has authority to begin, at any time, a specific investigation for alleged antitrust practices by any financial institution, including us, which could have a material adverse effect on our reputation, business, financial condition or results of operations.

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 our reputation, business, financial condition or results of operations.

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

Under Mexican law, banks are required to make monthly contributions to support the operations of the IPAB, in an amount equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. The IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by the IPAB for funding.

We contributed Ps.2,325 million and Ps.2,101 million to the IPAB during 2016 and 2015, respectively. In the event that the IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, the IPAB maintains the discretionary right to require extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude of circumstances, cannot be predicted and could adversely affect our business, financial condition or results of operations.

Depending upon the value and the nature of our assets and the amount and nature of our income over time, we could be classified as a passive foreign investment company for U.S. federal income tax purposes.

The Bank will be classified as a passive foreign investment company ("PFIC") in any taxable year if either: (a) 50% or more of the fair market value of our gross assets (determined on the basis of a quarterly average) for the taxable year produce passive income or are held for the production of passive income or (b) 75% or more of our gross income for the taxable year is passive income. The application of the PFIC rules is subject to uncertainty in several respects. If we are a PFIC for any taxable year during which a U.S. Holder (as defined under "Taxation—Certain United States Federal Income Tax Considerations") held any series of Notes, the U.S. Holder might be subject to increased U.S. federal income tax liability and to additional reporting obligations. We do not intend to provide the information necessary for the U.S. Holder to make a qualified electing fund election with respect to the Notes of any series. See "Taxation—United States Federal Income Tax Considerations—PFIC Rules."

Risks Relating to Mexico

We are subject to economic and political developments in Mexico that could affect Mexican economic policy and our business.

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, changes in Mexico's gross domestic product ("GDP"), per capita disposable income, unemployment rates, 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. Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income may result in lower demand for our services and products. The Mexican government recently cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

Our revenues are subject to risk of loss from unfavorable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies. As a result, the actions of the Mexican government concerning the economy and regulating certain industries, including the banking sector, could have a significant effect on Mexican private sector entities, including us, and on market conditions, prices and returns on Mexican securities, including our securities.

Presidential and federal congressional elections in Mexico were held in July 2012. The candidate from the *Partido Revolucionario Institucional* ("PRI"), Enrique Peña Nieto, took office in December 2012. As part of its electoral platform, the current administration along with the Mexican Congress approved significant reforms such as labor, energy, fiscal, education, telecommunications, transparency, and financial reforms, which are in different stages of implementation. In 2015, federal elections for the House of Deputies and nine governorships took place, with the PRI winning 207 seats, while the *Partido Acción Nacional* ("PAN") and the *Partido de la Revolución Democrática* ("PRD") won 109 and 60 seats, respectively. During 2016, 12 states held elections for governor, with the PRI winning five governorships, while the PAN won seven governorships. Elections for governor in the State of Mexico and other states were held in June 4, 2017, during which parties opposed to the PRI had a strong showing. The Presidential and federal congressional elections in Mexico will be held 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 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 could have an adverse effect on us.

We cannot provide any assurance that future economic or political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or operating results.

We may be subject to adverse economic conditions in Mexico.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as the Peso-U.S. dollar exchange rate, 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 deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our business, financial condition or results of operation.

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 worst drop 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 three months of 2017, GDP grew 2.8% and inflation was 5.0% on average.

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%, 4.17% and 6.09% for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 and the for the three-month period ended March 31, 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 result in a decrease in our loan portfolio, revenues and net income.

Developments in other countries, especially the United States, may affect us, including the prices for our securities.

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 ("NAFTA") 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 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 the Mexican Central Bank 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 new president in November 2016. Donald Trump's victory in the U.S. presidential election, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States in the congressional election, has 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 of NAFTA), immigration (anti-immigration rhetoric and a stated intention to build a wall on the border with Mexico) or fiscal (stated intentions to reduce tax rates and increase infrastructure expenditures) 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 the new U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted. We cannot assure you that any developments in the U.S. or elsewhere will not materially and 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 ("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.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy, including controlling inflation.

The Mexican government frequently intervenes in the Mexican economy and occasionally makes significant changes in policies 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, taxation on investment flows, capital controls and limits on imports. We and the market price of our securities may be adversely affected by changes in policies or regulations involving, among others:

- interest rates;
- exchange rates and 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;
- inflation;
- liquidity of the domestic capital and lending markets; and
- tax and regulatory policies.

Mexico has experienced high rates of inflation in the past and has therefore implemented monetary policies that have resulted in high nominal interest rates. The Mexican government's measures to fight inflation, principally through the Mexican Central Bank, have had and may in the future have significant effects on the Mexican economy and our business. Tight monetary policies with high interest rates and high compulsory deposit requirements may restrict Mexico's growth and the availability of credit, reduce our loan volumes and increase our loan loss provisions. Conversely, more lenient government and the Mexican Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our interest rate spreads.

Although the Mexican government has implemented what we believe to be sound economic policies over the past few years, uncertainty over whether the Mexican government will implement changes in policy or regulation in the future may contribute to economic uncertainty in Mexico and to heightened volatility in the Mexican securities markets and in the securities issued abroad by Mexican issuers. These uncertainties and other developments in the Mexican economy may adversely affect us and the market value of our securities.

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

The Mexican government regularly 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. 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, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing credit portfolio.

Major tax reforms in Mexico have been discussed over the last few years. 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*).

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 March 31, 2017, approximately 21.2% of our total assets, and 78.2% of our investment portfolio (excluding investment in equity securities), was comprised of debt securities issued by the Mexican government (including those issued by the Mexican Central Bank). Any failure by the Mexican government to make timely payments under the terms of these securities, or a significant decrease in their market value, will 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 our business, financial position and results of operation.

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

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 negatively affected by events in other emerging markets or the global economy in general.

Risks not contemplated in our insurance policies may affect our results of operation.

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, such lack of coverage 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 adversely affect our business.

Risks Relating to the Notes

The Notes have no scheduled maturity and no fixed redemption date and you do not have the right to cause the Notes to be redeemed or otherwise accelerate the repayment of the principal amount of the Notes except in very limited circumstances.

The Notes of each series are perpetual securities and have no fixed maturity date or fixed redemption date and holders and beneficial owners of the Notes of each series may not require any redemption of their Notes at any time. Although under certain circumstances as described under "Description of the NC5 Notes—Redemption" and "Description of the NC10 Notes—Redemption" the Bank may redeem the Notes or each series, the Bank is under no obligation to do so and you have no right to call for their redemption. Therefore, you have no ability to cash in your investment except under limited circumstances.

There is no right of acceleration in the case of any non-payment of principal of, or interest on, the Notes of each series or in the case of a failure by us to perform any other covenant under the Notes of each series or under the respective indenture. Accordingly, we are not required to make any repayment of the principal amount of Notes of any series at any time or under any circumstances other than in connection with certain events involving the liquidation (*resolución*) of the Bank. In connection with such a liquidation, you may receive some of any resulting liquidation proceeds, depending upon the outcome of the proceedings, but only following payment in full of all creditors that are senior to the holders of the Notes.

Interest payments on the Notes will be due and payable in the Bank's sole and absolute discretion and the Bank may (and in certain circumstances must) cancel interest payments, in whole or in part, at any time. Canceled interest shall not be due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto.

Interest on the Notes of each series will be due and payable only at the Bank's sole discretion and the Bank shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not canceled in accordance with the terms of each series of Notes, including as a result of a mandatory cancellation as required under applicable law. Therefore, there can be no assurances that you will receive interest payments in respect of the Notes.

If the Bank elects to cancel any scheduled interest payment or any such interest payment is mandatorily canceled, such interest payment shall not be or become due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto or claim against it with respect to such interest amount or be able to accelerate the principal of the Notes of each series as a result of such interest cancellation. If the Bank does not make an interest payment on the relevant Interest Payment Date (or if it elects to make a payment of a portion of, but not all of such interest payment) such non-payment shall evidence the exercise of the Bank's discretion to cancel such interest payment, or the portion of such interest payment not paid. Furthermore, no cancellation of interest in accordance with the terms of the respective indenture or the Notes of each series shall constitute a default in payment or otherwise under the terms of such series of Notes. If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to you through DTC (or, if you hold the Notes in definitive form, directly to the address shown in the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

Following cancellation of any interest payment, and until it makes a scheduled interest payment in full, the respective indenture will restrict our ability to (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; or (ii) make any payment of premium, principal or interest on or repay, repurchase or redeem any other of our Subordinated Non-Preferred Indebtedness. However, our ability to make payments with respect to securities that rank senior to our Subordinated Non-Preferred Indebtedness will not be in any way limited or restricted. We may therefore cancel (in whole or in part) any interest payment on the Notes at our discretion and may without restriction use funds that could have been applied to make such canceled payments to meet our obligations under securities that rank senior to our Subordinated Non-Preferred Indebtedness as they become due or to meet our other obligations as they become due, regardless of their nature.

In addition to the Bank's right to cancel, in whole or in part, interest payments at any time, the terms of the Notes also restrict the Bank from making interest payments on the Notes in certain circumstances, in which case such interest shall be canceled. Interest that is canceled shall not be due and shall not accumulate or be payable at any time thereafter and you shall have no right to such interest.

In addition to its right to cancel, in whole or in part, interest payments at any time as described above and, subject to the extent permitted in the following paragraphs in respect of partial interest payments, we shall not make an interest payment on the Notes of each series on any Interest Payment Date if an Interest Cancellation Event takes place, and such interest payment shall therefore be automatically canceled and thus shall not be due and payable on such Interest Payment Date. Currently, the minimum Capital Ratios to be classified as Class I (and, as a result, not Class II or below) are (i) 10.5% in respect of 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 (currently, a Systemically Important Bank Capital Supplement for Grade II banks of 0.90% and any Countercyclical Capital Supplement applicable to the Bank, both to be created by the Bank over a four-year period, to be constituted in four equal parts in December of each year, commencing in December 2016).

Although we may, at our sole discretion, elect to make a partial interest payment on the Notes on any Interest Payment Date, we may only do so to the extent that such partial interest payment may be made without breaching the restrictions in the preceding paragraphs. In addition, we may elect to make a full or partial interest payment with respect to any security ranking senior to the Notes without making an interest payment on any or all of the Notes on any Interest Payment Date.

We will be responsible for determining compliance with this restriction, and neither the Trustee nor any other agent will be required to monitor such compliance or to perform any calculations in connection therewith.

Any interest canceled on any relevant Interest Payment Date shall not be due and shall not accumulate or be payable at any time thereafter, and you shall have no rights thereto or to receive any additional interest, penalty or compensation as a result of such cancellation. Furthermore, no cancellation of interest in accordance with the terms of the respective indenture or the Notes of each series as described above shall constitute a default in payment or otherwise under the terms of such series of Notes. If practicable, we will provide notice of any cancellation of interest (in whole or in part) to you through DTC (or, if you hold the Notes in definitive form, directly to the address shown in the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

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 of each or both series 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 of each or both series 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 each series of 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. A potential investor should not invest in the Notes of either or both series unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how each series of Notes will perform under changing conditions, the resulting effects on the likelihood of a Write-Down and the value of such series of 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.

The Notes may be traded with accrued interest, but under certain circumstances described above, such interest may be canceled and not paid on the relevant Interest Payment Date.

Each series of Notes may trade, and/or the prices for such series of Notes may appear, on the SGX-ST and in other trading systems with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is canceled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or if the Bank elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date. This may affect the value of your investment in the Notes.

The interest rate on the Notes will be reset on each Reset Determination Date, which may affect the market value of the Notes.

From and including the Issue Date to (but excluding) (i) the NC5 First Call Date, interest will accrue on the then Current Principal Amount of the NC5 Notes at an initial fixed rate equal to 6.875% per annum and (ii) the NC10 First Call Date, interest will accrue on the then Current Principal Amount of the NC10 Notes at an initial fixed rate equal to 7.625% per annum. From and including the NC5 Reset Date, including the NC5 First Call Date, to (but excluding) the next succeeding NC5 Reset Date, interest will accrue on the then Current Principal Amount of the NC5 Notes at a fixed rate per annum equal to the sum of the then-prevailing Treasury Yield on the NC5 Reset Determination Date and 503.5 basis points. From and including the NC10 Reset Date, including the NC10 First Call Date, to (but excluding) the next succeeding NC10 Reset Date, interest will accrue on the then Current Principal Amount of the NC10 Notes at a fixed rate per annum equal to the sum of the then-prevailing Treasury Yield on the NC10 Reset Determination Date and 535.3 basis points. These reset rates following each NC5 Reset Date and/or NC10 Reset Date, as applicable, could be less than the initial interest rate and/or the interest rate that applies immediately prior to such reset date, which could affect the amount of any interest payments under the Notes of each series and, by extension, could affect the market value of such Notes.

The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.

The terms of the Notes of each series do not provide for any events of default. You may not at any time demand repayment or redemption of your Notes, although in certain events involving our liquidation (*resolución*) you may have a claim. There is no right of acceleration in the case of non-payment of principal or interest on the Notes or of the Bank's failure to perform any of its obligations under or in respect of the Notes.

The sole remedy in the event of any non-payment of principal under the Notes subject to certain conditions as described under "Description of the NC5 Notes—Enforcement Events and Remedies" and "Description of the NC10 Notes—Enforcement Events and Remedies" is that the Trustee, on your behalf may, at its discretion, or shall at the direction of the holders of 25% or more of the aggregate principal amount of the outstanding Notes of each series, subject to any applicable laws, institute proceedings for the Bank's liquidation.

Prior to the occurrence of certain events involving the liquidation (*resolución*) of the Bank, the Notes of each series will remain subject to one or more Write-Downs upon a Trigger Event, which does not constitute an Enforcement Event under the indentures. The Bank is entitled to cancel any interest payment as described under "Description of the NC5 Notes—Interest Cancellation" and "Description of the NC10 Notes—Interest Cancellation," and such cancellation (in whole or in part) will not constitute an Enforcement Event.

The remedies under the Notes of each series are more limited than those typically available to the Bank's unsubordinated creditors. For further detail regarding the limited remedies of the Trustee and the holders of the Notes of each series, see "Description of the NC5 Notes—Enforcement Events and Remedies" and "Description of the NC10 Notes—Enforcement Events and Remedies."

Changes in law may adversely affect your rights under the Notes or may adversely affect the Bank's business, financial performance and capital plans.

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 the Bank's 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, management of the Bank, and use of capital and requirements for loss-absorbing capacity of the Bank, which may have an adverse effect on an investment in the Notes of either or both series.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Notes and therefore affect the trading price of the Notes of each series given the extent and impact on the Notes that one or more regulatory or legislative changes could have on the Notes.

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

The Notes of each series constitute our subordinated non-preferred indebtedness (*obligaciones subordinadas no preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our present and future senior indebtedness and subordinated preferred indebtedness, and will rank *pari passu* without preference among themselves with all our other present or future subordinated non-preferred indebtedness.

By reason of the subordination of the Notes of each series, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes of each series would become immediately due and payable at their principal amount together with any unpaid and not canceled interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness and subordinated preferred indebtedness have been paid in full. As of March 31, 2017, we had, on a consolidated basis, an aggregate of Ps.15,199 million (U.S.$809 million) of subordinated preferred indebtedness outstanding, and an aggregate of Ps.2,352 million (U.S.$125 million) of subordinated non-preferred indebtedness outstanding. The indentures will not limit our ability to incur additional senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness from time to time. See "Description of the NC5 Notes—Subordination" and "Description of the NC10 Notes—Subordination."

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 our Fundamental Capital equals or falls below 5.125%, or other events described in "Description of the NC5 Notes—Trigger Event and Write-Down—Write-Down" and "Description of the NC10 Notes—Trigger Event and Write-Down—Write-Down," as applicable, as Trigger Events occur, interest on the Notes of each series will cease to accrue and the outstanding principal amount of the Notes of each series will be written down in an aggregate amount as described in this offering memorandum without the possibility of any future write-up or reinstatement of principal. The holders of the Notes of each series will automatically be deemed to have irrevocably waived their right to claim or receive repayment of the written-down principal amount of the Notes of each series then outstanding, and any unpaid interest and any additional amounts with respect thereto. Holders would not receive any of our shares or the shares of our affiliates or be entitled to 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 NC5 Notes—Trigger Event and Write-Down—Write-Down" and "Description of the NC10 Notes—Trigger Event and Write-Down—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 of each series, 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 our control.

The occurrence of a Trigger Event resulting in a 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 Fundamental Capital and whether such ratio equals or has fallen below 5.125%. Fluctuations in our Fundamental Capital may be caused by changes to Mexican Capitalization Requirements and applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules, among other external factors.

In addition, any disclosure that our Capital Ratios are 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 of any series by holders of such Notes after its receipt of a Write-Down Notice that causes the principal amount of such Notes to be reduced to zero, and any transfer of such 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 of any series by holders after its receipt of a Write-Down Notice that causes the principal amount of such Notes to be reduced to zero. We have agreed to provide a Write-Down Notice (as defined in the "Description of the NC5 Notes" and the "Description of the NC10 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 such 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 such 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 such Notes to be reduced to zero. In such circumstances, transferees of such Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under such Notes will thereafter become due, and such transferees will have no rights whatsoever under the respective indenture or such 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 of any series following a Trigger Event will be subject to procedures of DTC that are in place at such time.

The Notes are subject to redemption in the event of specified changes affecting the treatment of the Notes under the Mexican Capitalization Requirements 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 Mexican Capitalization Requirements, as described under "Description of the NC5 Notes—Redemption—Withholding Tax Redemption," "Description of the NC10 Notes—Redemption—Withholding Tax Redemption," "Description of the NC5 Notes—Redemption—Special Event Redemption" and "Description of the NC10 Notes—Redemption—Special Event Redemption," we will have the option, but not the obligation, under the indenture of each series of Notes, to redeem the Notes, at any time in whole (but not in part) subject to any regulatory requirements.

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.

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 the 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 NC5 Notes" and "Description of the NC10 Notes." Our Capital Ratios could be affected by a number of factors, including business decisions taken by us in coordination with our controlling shareholder, GFNorte. In this regard, our business strategy and operations may depend on the decisions of GFNorte relating to its overall business, including its operations carried on by us, as well as the overall management of our 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 GFNorte, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event. In addition, holders will not have any claim against us relating to decisions that affect the business and operations of GFNorte, 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, GFNorte, 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 of either or both series.

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 will be made to have the Notes of each series listed on the SGX-ST, although no assurance can be given that such listing will be accomplished. Even if the Notes of each series are listed on this exchange we may delist such Notes. The Notes constitute a separate and new issue of securities with no established trading market. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the SGX-ST is unduly burdensome. See "General Information."

No assurance can be given as to:

- the liquidity of any markets that may develop for each series of Notes;
- whether an active public market for each series of Notes will develop;
- your ability to sell your Notes (or beneficial interests therein); or
- the price at which you will be able to sell your Notes, as the case may be.

We have not and will not register the Notes with the RNV 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 offer the Notes in Mexico to institutional and qualified investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See "Transfer Restrictions." 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 may make a market in the Notes, but they 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. 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 the Mexican Central Bank every business banking day in Mexico and published the following business banking day in the Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations 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.

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 Law, if the CNBV declares us insolvent, our authorization to organize and operate as a bank 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*). We would be in liquidation as of the date following the notification by CNBV of the revocation of the authorization to operate as a bank and our payment obligations denominated in foreign currency, including the Notes:

- would be converted to Pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt,
- would cease accruing interest to the extent such debt is not secured,
- would be paid at the time claims of creditors are satisfied, and
- 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 NC5 Notes are estimated to be approximately U.S.$348 million, and our net proceeds from the issuance of the NC10 Notes are estimated to be approximately U.S.$548 million, in each case after deducting the initial purchasers' discounts and commissions and estimated offering expenses. Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes of each series to strengthen our regulatory capital and for general corporate purposes.

EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1994, allowing the Peso to float freely against the U.S. dollar and other foreign currencies. Exchange rate policy is determined by the Exchange Rate Commission (Comisión de Cambios), which is formed by officers from the SHCP and the Mexican Central Bank. The Mexican Central Bank is in charge of managing international reserves through rule-based operations (1996-2001 and 2003-onwards) and/or discretional interventions (last intervention was on February 19, 2016) to promote a clean float and prevent excess accumulation or reduction of Mexico's international reserves. Furthermore, the Mexican Central Bank intervenes directly in the foreign exchange market only to reduce excessive short-term volatility. Since late 2003, the Mexican Central Bank has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. The Mexican Central Bank conducts open market operations on a regular basis to determine the size of Mexico's monetary base. The Mexican Central Bank may increase or decrease the reserve of funds that financial institutions are required to maintain. Changes in Mexico's monetary base have an impact on the Peso exchange rate. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if the reserve requirements are reduced. This mechanism, known as "*corto*" or "*largo*," as the case may be, or more formally "the daily settlement balance target," represents a device used by the Mexican Central Bank to adjust the level of interest and foreign exchange rates.

There can be no assurance that the Mexican government will maintain its current policies with respect 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 period-end, average, high and low, the Mexican Central Bank Exchange Rate expressed in Pesos per U.S. dollar. The Mexican Central Bank Exchange Rate is currently determined by the Mexican Central Bank every business day in Mexico based on an average of wholesale foreign exchange market quotes and published the following business banking day in the Official Gazette and on the Mexican Central Bank's website (www.banxico.org.mx). The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.18.7955 to U.S.$1.00, the Mexican Central Bank Exchange Rate determined by the Mexican Central Bank on March 31, 2017, and published on the Official Gazette on April 3, 2017.

	Mexican Central Bank Exchange Rate(1)			
Year Ended December 31,	**Period-End**	**Average(2)**	**High**	**Low**
2012	12.9658	13.1689	14.3949	12.6299
2013	13.0843	12.7696	13.4394	11.9807
2014	14.7414	13.3032	14.7853	12.8462
2015	17.2487	15.8810	17.3776	14.5559
2016	20.6194	18.6886	21.0511	17.1767
Month				
January 2017	20.7908	21.3853	21.9076	20.7323
February 2017	19.9957	20.2905	20.7752	19.7011
March 2017	18.7955	19.3010	19.9373	18.7079
April 2017	18.9594	18.7875	19.1119	18.4863
May 2017	18.6909	18.7557	19.1364	18.4185
June 2017 (through June 19)	17.9519	18.2058	18.5941	17.9321

(1) Source: Mexican Central Bank.
(2) Average of end-of-month rates for 2012, 2013, 2014, 2015 and 2016. Average of daily rates for each complete or partial month of 2017.

CAPITALIZATION

The following table sets forth our total capitalization as of March 31, 2017, as follows:

- on an actual basis;
- as adjusted for (i) the payment of a dividend to our shareholders of Ps.11,000 million on May 24, 2017, as described under "Summary—Recent Developments—Dividend" and (ii) the redemption of the aggregate principal amount outstanding under our 2022 notes expected to take place on June 30, 2017, as described under "Summary—Recent Developments—Redemption of Subordinated Notes (Obligaciones Subordinadas BANORTE 12) due 2022"; and
- as further adjusted to reflect the two subsequent events previously described under the caption "As Adjusted" and the issuance of the Notes offered hereby and the application of the net proceeds of this offering as described herein under "Use of Proceeds."

This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" our Financial Statements appearing elsewhere in this offering memorandum.

	Actual		**As Adjusted** (2)		**As Further Adjusted for this Offering** (3)	
	(U.S.$ millions)(1)	***(Ps. millions)***	***(U.S.$ millions)***(1)	***(Ps. millions)***	***(U.S.$ millions)***(1)	***(Ps. millions)***
Long-Term Debt:						
Bank and other loans	907	17,043	907	17,043	907	17,043
Subordinated debentures:						
Preferred subordinated debentures	806	15,157	636	11,957	636	11,957
Non-preferred subordinated debentures	120	2,255	120	2,255	120	2,255
Accrued interest	7	139	7	139	7	139
NC5 Notes offered hereby	–	–	–	–	348	6,541
NC10 Notes offered hereby	–	–	–	–	548	10,300
Total subordinated debentures	933	17,551	763	14,351	1,659	31,192
Total long-term debt	1,840	34,594	1,670	31,394	2,566	48,235
Stockholders' Equity:						
Paid-in capital (4)	973	18,285	973	18,285	973	18,285
Other capital (2)	4,076	76,609	3,491	65,609	3,491	65,609
Minority interest	1	10	1	10	1	10
Total stockholders' equity	5,050	94,904	4,465	83,904	4,465	83,904
Total Capitalization (5)	6,890	129,498	6,135	115,298	7,031	132,139

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

(2) The "As Adjusted" columns reflect (i) the payment of a dividend to our shareholders of Ps.11,000 million on May 24, 2017, which resulted in a decrease in the same amount in other capital and (ii) the repayment of Ps.3,200 million of our preferred subordinated debentures, corresponding to the aggregate principal amount outstanding of our 2022 notes.

(3) The "As Further Adjusted for this Offering" columns reflect the issuance of the NC5 Notes in an aggregate principal amount of U.S.$350 million and the NC10 Notes in an aggregate principal amount of U.S.$550 million, in each case less the initial purchasers' discounts and commissions and estimated offering expenses.

(4) As of March 31, 2017, our capital stock consisted of 137,303,109,559 Series O Shares, par value Ps.0.10 per share, which were issued, outstanding and fully paid. Of these shares, 134,857,805,707 (98.22% of our capital stock) are held by GFNorte.

(5) Total capitalization is the sum of total long-term debt and total stockholders' equity. For a discussion of our Capital Ratio, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk—Based Capital."

Except as disclosed in this offering memorandum, there has been no material change in our total capitalization since March 31, 2017.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Financial Statements and the notes thereto included elsewhere in this offering memorandum. Results of the three-month period ended March 31, 2017 are not necessarily indicative of results to be expected for the full year.

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from U.S. GAAP. For a summary of the differences between Mexican Banking GAAP and U.S. GAAP, see "Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

	For the three-month period ended March 31,			**For the Year ended December 31,**			
	2017	**2017**	**2016**	**2016**	**2016**	**2015**	**2014**
Statement of Income Data:	*(U.S.$ millions)*[(1)]	*(Ps. millions)*		*(U.S.$ millions*[(1)]	*(Ps. millions)*		
Interest income	1,172	22,029	15,842	3,693	69,407	58,970	57,815
Interest expense	(466)	(8,757)	(5,074)	(1,237)	(23,244)	(19,369)	(19,889)
Net interest income	**706**	**13,272**	**10,768**	**2,456**	**46,163**	**39,601**	**37,926**
Allowance for loan losses	(172)	(3,227)	(3,170)	(695)	(13,070)	(10,370)	(11,087)
Net interest income after allowance for loan losses	**534**	**10,045**	**7,598**	**1,761**	**33,093**	**29,231**	**26,839**
Commission and fee income	228	4,282	3,577	839	15,764	13,476	11,592
Commission and fee expense	(78)	(1,465)	(982)	(239)	(4,498)	(3,527)	(3,091)
Intermediation revenues	37	693	467	98	1,839	2,606	3,807
Other operating income	30	566	399	111	2,078	1,851	2,420
Non-interest expense	(428)	(8,043)	(7,212)	(1,551)	(29,155)	(27,334)	(26,448)
	(211)	**(3,967)**	**(3,751)**	**(742)**	**(13,972)**	**(12,928)**	**(11,720)**
Operating income	**323**	**6,078**	**3,847**	**1,019**	**19,121**	**16,303**	**15,119**
Equity in earnings of unconsolidated subsidiaries and associated companies	1	14	333	55	1,043	1,280	1,241
Income before income tax	**323**	**6,092**	**4,180**	**1,074**	**20,164**	**17,583**	**16,360**
Current income tax	(82)	(1,541)	(1,122)	(292)	(5,479)	(4,063)	(6,787)
Deferred income tax (expense) benefit	(17)	(320)	105	6	116	(235)	2,154
Discontinued operations	**4**	**74**	**59**	13	243	**233**	**209**
Net income	**229**	**4,305**	**3,222**	**800**	**15,044**	**13,518**	**11,936**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

	Three-Month Period Ended March 31,		Year Ended December 31		
	2017	2017	2016	2016	2015
	(U.S.$ millions)[1]	*(Ps. millions)*	*(U.S.$ millions)*[1]	*(Ps. millions)*	
Balance Sheet Data:					
Assets:					
Cash and cash equivalents	**3,214**	**60,405**	**3,503**	**65,844**	**107,457**
Margin securities	**102**	**1,909**	**116**	**2,185**	**91**
Investment in securities					
Trading securities	8,029	150,913	6,889	129,477	130,211
Securities available for sale	5,687	106,886	8,147	153,128	73,026
Securities held to maturity	332	6,245	333	6,258	7,761
	14,048	**264,044**	**15,369**	**288,863**	**210,998**
Debtor balances under repurchase and resale agreements	**0**	**2**	**0**	**0**	**493**
Derivatives financial instruments					
For trading purposes	1,210	22,738	2,175	40,881	18,771
For hedging purposes	21	387	39	742	79
	1,231	23,125	2,214	41,623	18,850
Valuation adjustments for assets hedging	**6**	**110**	**6**	**113**	**128**
Performing loan portfolio					
Commercial loans					
Business loans	10,596	199,150	10,734	201,753	189,522
Financial institutions' loans	1,123	21,122	1,077	20,240	17,317
Government loans	6,926	130,183	7,105	133,540	128,567
Consumer loans	4,832	90,824	4,609	86,632	74,235
Mortgage loans	6,348	119,310	6,108	114,807	99,952
Total performing loan portfolio	**29,825**	**560,589**	**29,633**	**556,972**	**509,593**
Past-due loan portfolio					
Commercial loans					
Business loans	302	5,677	291	5,467	7,723
Financial institutions' loans	17	344	18	344	-
Consumer loans	159	2,993	170	3,200	2,839
Mortgage loans	54	1,019	56	1,049	1,072
Total past-due loan portfolio	**532**	**10,033**	**535**	**10,060**	**11,634**
Loan portfolio	30,357	570,622	30,168	567,032	521,227
(Less) allowance for loan losses	(734)	(13,805)	(742)	(13,941)	(13,334)
Loan portfolio, net	29,623	556,817	29,426	553,091	507,893
Acquired collection rights	79	1,476	74	1,400	1,376
Total loan portfolio, net	29,702	558,293	29,500	554,491	509,269
Receivables generated by securitizations	8	151	8	155	184
Other accounts receivable, net	1,935	36,363	2,128	39,989	21,164
Foreclosed assets, net	63	1,182	65	1,222	1,800
Property, furniture and equipment, net	645	12,120	635	11,927	11,364
Permanent stock investments	11	199	10	185	13,485
Deferred taxes, net	192	3,601	225	4,228	3,096
Other assets	728	13,689	761	14,311	19,231
Total assets	**51,885**	**975,193**	**54,822**	**1,030,435**	**917,610**
Liabilities:					
Deposits					
Demand deposits	19,497	366,454	20,346	382,409	351,045
Time deposits					
General public	11,131	209,212	10,137	190,536	208,019
Money market	59	1,115	78	1,459	4,606
Time deposits	75	1,410	72	1,352	–
Senior debt issued	0	0	0	0	–
	30,762	**578,191**	**30,633**	**575,756**	**563,670**

	Three-Month Period Ended March 31,		Year Ended December 31		
	2017	2017	2016	2016	2015
	(U.S.$ millions)[(1)]	*(Ps. millions)*	*(U.S.$ millions)*[(1)]	*(Ps. millions)*	
Balance Sheet Data:					
Interbank and other loans					
Demand loans	60	1,137	214	4,019	1
Short-term loans	383	7,204	429	8,063	7,557
Long-term loans	463	8,702	487	9,178	7,385
	906	**17,043**	**1,130**	**21,260**	**14,943**
Creditor balances under repurchase and resale agreements	**11,223**	**210,936**	**12,476**	**234,490**	**171,133**
Collateral sold or pledged					
Repurchase or resale agreements (creditor balance)	0	2	0	0	**1**
Derivatives financial instruments					
For trading purposes	1,175	22,092	2,150	40,403	19,940
For hedging purposes	349	6,555	499	9,372	5,004
	1,524	**28,647**	**2,649**	**49,775**	**24,944**
Other account payables					
Income tax	79	1,476	105	1,965	703
Employee profit sharing	26	495	21	396	375
Creditors from settlements of transactions	347	6,516	372	6,988	7,464
Creditors from cash collateral	318	5,981	549	10,326	–
Sundry creditors and other payables	708	13,309	766	14,444	13,351
	1,478	27,777	1,813	34,119	21,893
Subordinated debentures	**934**	**17,551**	**1,166**	**21,917**	**17,385**
Deferred credits and advanced collections	**8**	**142**	**18**	**331**	**1,058**
Total liabilities	**46,835**	**880,289**	**49,885**	**937,648**	**815,027**
Stockholders' equity					
Paid-in capital					
Common stock	963	18,105	963	18,105	20,074
Additional paid-in capital	11	180	4	72	11,682
	974	**18,285**	**967**	**18,177**	**31,756**
Other capital					
Capital reserves	612	11,509	612	11,509	10,157
Retained earnings from prior years	3,335	62,685	2,672	50,215	48,398
Result from valuation of securities available for sale	(61)	(1,139)	(88)	(1,645)	(1,310)
Result from valuation of instruments for cash flow hedging	(97)	(1,827)	(113)	(2,131)	(936)
Cumulative foreign currency translation adjustment	84	1,579	106	1,985	990
Remeasurements defined benefits for employees	(27)	(503)	(20)	(377)	-
Net income	229	4,305	800	15,044	13,518
	4,075	**76,609**	**3,969**	**74,600**	**70,817**
Noncontrolling interest	**1**	**10**	**1**	**10**	**10**
Total stockholders' equity	**5,050**	**94,904**	**4,937**	**92,787**	**102,583**
Total liabilities and stockholders' equity	**51,885**	**975,193**	**54,822**	**1,030,435**	**917,610**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

	As of or for the Three-Month Period Ended March 31,		As of or for the Year Ended December 31,		
	2017[1]	2017	2016[1]	2016	2015
	(U.S.$ millions, except percentages)	*(Ps. millions, except percentages)*	*(U.S.$ millions, except percentages)*	*(Ps. millions, except percentages)*	
Profitability and Efficiency:					
Return on average total assets[2]	1.7%	1.7%	1.5%	1.5%	1.5%
Return on average equity[3]	18.4%	18.4%	15.4%	15.4%	13.7%
Net interest margin[4]	5.7%	5.7%	5.1%	5.1%	4.6%
Efficiency ratio[5]	46.4%	46.4%	47.5%	47.5%	50.9%
Credit Quality Data:					
Total performing loans	29,8265	560,589	29,633	556,972	509,593
Total non-performing loans	532	10,033	535	10,060	11,634
Total loans	30,357	570,622	30,168	567,032	521,227
Loans graded "C," "D" and "E"[6]	1,411	26,526	1,458	27,400	26,849
Allowance for loan losses	734	13,805	742	13,941	13,334
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	2.4%	2.4%	2.5%	2.5%	2.6%
Allowance for loan losses as a percentage of total non-performing loans[7]	137.6%	137.6%	138.6%	138.6%	114.6%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E"[6]	52.0%	52.0%	50.9%	50.9%	49.7%
Total non-performing loans as a percentage of total loans	1.8%	1.8%	1.8%	1.8%	2.2%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(0.7%)	(0.7%)	(0.7%)	(0.7%)	(0.3)%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	4.0%	4.0%	(4.2%)	(4.2%)	(1.7)%
Loans graded "C," "D" and "E" as a percentage of total loans[6]	4.6%	4.6%	4.8%	4.8%	5.2%

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

(2) Net income for the period divided by average total assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(4) Net interest income divided by total interest-earning assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.

(6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."

(7) Corresponds to end-of-period balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

Capital Ratios

The table below presents our risk-weighted assets and Capital Ratios for the periods indicated.

	As of March 31,		As of December 31,		
	2017	2017	2016	2016	2015
	(U.S. millions, except for percentages) [1]	*(Ps. millions, except for percentages)*	*(U.S. millions, except for percentages)* [1]	*(Ps. millions, except for percentages)*	
Capital:					
Fundamental Capital (CET1)	4,527	85,080	4,124	77,518	68,348
Additional Tier 1 Capital	120	2,255	204	3,830	4,469
Tier 2 Capital	841	15,808	885	16,643	7,692
Total Net Capital	**5,488**	**103,143**	**5,213**	**97,991**	**80,509**
Risk-Weighted Assets:					
Credit risk	25,489	479,075	25,425	477,880	398,908
Market risk	3,043	57,203	4,286	80,556	80,392
Operational risk	4,564	85,789	4,371	82,153	72,342
Total Risk-Weighted Assets	**33,096**	**622,067**	**34,082**	**640,589**	**551,642**
Capital Ratios (credit, market and operational risk):					
Tier 1 Capital to risk-weighted assets	14.04%	14.04%	12.70%	12.70%	13.20%
Tier 2 Capital to risk-weighted assets	2.54%	2.54%	2.60%	2.60%	1.39%
Total Net Capital to risk-weighted assets	**16.58%**	**16.58%**	**15.30%**	**15.30%**	**14.59%**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

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

The following discussion should be read in conjunction with our Financial Statements, together with the notes thereto, included elsewhere in this offering memorandum. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain significant respects from MFRS and U.S. GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" for a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP. No reconciliation of any of our Financial Statements to U.S. GAAP has been performed. Any such reconciliation would likely result in material quantitative differences. See "Presentation of Financial and Other Information" and "Risk Factors—Risks Relating to Our Business—Our Financial Statements have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP."

Principal Factors Affecting Our Financial Condition and Results of Operations

A substantial portion of our operations are located in Mexico. Consequently, our results of operations and our financial condition are strongly affected by the general economic environment and political conditions existing in Mexico.

Mexican Economic Environment

In 2014, the Mexican economy grew by 2.1%, reflecting the slowdown of the U.S. economy during the first quarter of 2014, as well as an increase in taxes as a result of the tax reform adopted in Mexico in 2014 and a decline in Mexican oil production. Primarily as a result of the tax increases implemented by the Mexican tax reform, inflation increased to 4.5% in January 2014 and averaged 4.0% during the year.

In 2015, the Mexican economy grew by 2.5%, driven by a more dynamic external sector, along with the remaining effects of the tax reform and the recovery of the Mexican construction sector. Nevertheless, economic growth was limited by the reduction in the oil production in Mexico. Inflation at year end reached historically low levels of 2.1%, averaging 2.7% in 2015, mainly due to the favorable effects of Mexico's telecommunications reform –which resulted in the elimination of local phone line tariffs, and to changes in the gasoline pricing formula.

In 2016, the Mexican economy grew by 2.3%, reflecting a strong domestic demand. Nevertheless, falling Mexican oil production and a recession in the mining sector continued to adversely affect the Mexican economy. The inflation rate in Mexico in 2016 was 2.8% on average, 0.10 percentage points lower than during 2015.

In the first three months of 2017, the Mexican economy grew 2.8%, on an annualized basis, driven by a strong performance of the services sector, along with a pickup in manufacturing activity. Inflation has remained under control despite the depreciation of the Peso against the U.S. dollar at the beginning of the year and the impact of the liberalization of energy prices.

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, Value Added Tax Law and the Mexican Federal Tax Code, and the repeal of the Single Rate Corporate Tax Law and the Tax Law on Cash Deposits.

As part of the tax reform, the Mexican government repealed the provision that allowed banks to deduct the increase to the loan loss reserve from their taxable income. Instead, banks are allowed to deduct the write-offs related to their loan portfolio in accordance with the rules issued by the CNBV. According with the transitory provisions, banking institutions may begin deducting credit losses at the time in which the amount of such losses equals the value of the Mexican Banking GAAP loan loss reserve as of December 31, 2013.

The abovementioned reforms included, among other changes, the following:

- *Global Preventive Reserves*: Pursuant to the previous Income Tax Law, we were able to deduct our loan loss reserves in an amount equivalent to up to 2.5% of its loan portfolio. With the tax reform, this credit reserve deduction was replaced by a penalty deduction.

- *Deduction of Labor Benefits Exempted from Income Taxes*: The new Income Tax Law provisions limit the deductions of certain labor benefits paid to employees, including pension plans and saving funds, union fees and social security fees, among others. These benefits may be deducted in an amount up to 53% and in the event we reduce such benefits compared to the previous year, only 47% could be deducted.

- *Income Tax of 10% on Dividend distributions*: An additional income tax on dividend distributions to individuals and foreign persons of 10% was implemented. This income tax must be withheld by the entity making the distribution.

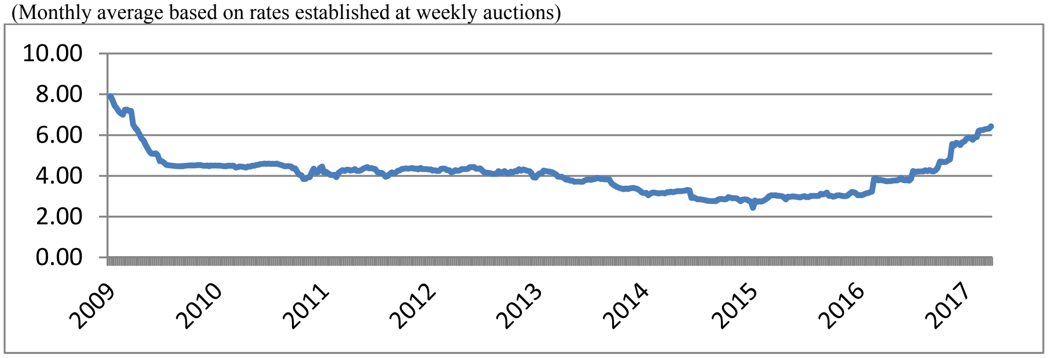
During 2014, 2015 and 2016, the income tax rate applicable to us was 30%, and this rate was not changed pursuant to the Income Tax Law. The income tax rate applicable to us for the year ending December 31, 2017 continues to be 30%.

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. 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.

The table below shows the annual interest rate paid in connection with primary offerings of *Cetes*, which are Mexican government Peso-denominated treasury bills, with 28-day maturities.

Average Monthly CETES Rate
(Monthly average based on rates established at weekly auctions)



Source: Mexican Central Bank

During 2014, the weakness of the Mexican economy prompted the Mexican Central Bank to cut the overnight interbank interest rate (*tasa de fondeo interbancario*) by an additional 50 basis points to 3.0% on June 6, 2014. Interest rates on 28-day and 91-day *Cetes* averaged 3.02% and 3.12%, respectively, in 2014.

During 2015, the Mexican Central Bank maintained the overnight interbank interest rate (*tasa de fondeo interbancario*) at a historically low level of 3.0%, in the absence of inflationary pressures and given the feeble recovery of economic activity levels. Nevertheless, the monetary authority increased the overnight interbank interest rate (*tasa de fondeo interbancario*) by 25 basis points to 3.25% on December 17, 2015, in order to maintain a relative monetary position against the United States, which had previously increased its federal funding rate by 25 basis points. Interest rates on 28-day and 91-day *Cetes* averaged 2.99% and 3.14% in 2015, respectively.

During 2016, the Mexican Central Bank increased its overnight interbank interest rate (*tasa de fondeo interbancario*) by 250 basis points from 3.25% as of December 31, 2015 to 5.75% as of December 31, 2016, in response to exchange rate volatility. Interest rates on 28-day and 91-day *Cetes* averaged 4.17% and 4.36%, respectively, in 2016.

During the three-month period ended March 31, 2017, the Mexican Central Bank increased interest rates by 75 basis points to 6.5%. Interest rates on 28-day and 91-day *Cetes* averaged 6.09% and 6.41%, respectively, in the first three months of 2017, as compared with average rates on 28-day and 91-day *Cetes* of 3.44% and 3.61%, respectively, in the first three months of 2016. For further detail, see "Risk Management—Market Risk."

Trends Affecting our Financial Condition and Results of Operations

The Mexican financial services sector is likely to remain competitive with a large number of financial services providers and alternative distribution channels. Additionally, further consolidation in the sector (through mergers, acquisitions or alliances) is likely to occur as other major banks look to increase their market share, combine with complementary businesses or strengthen their balance sheets. In addition, regulatory changes will take place in the future that we expect will increase the overall level of regulation in the sector.

The following are the most important trends, uncertainties and events that we believe are reasonably likely to have a material adverse effect on us or that would cause the disclosed financial information not to be indicative of our future operating results or our financial condition:

- uncertainties relating to economic growth expectations and interest rate cycles in Mexico and continued instability and volatility in the financial markets, and the impact they may have over the yield curve and exchange rates;
- the resulting effect of the global economic slowdown and fluctuations in local interest and exchange rates;
- changes in the credit quality of our loan portfolio as a result of inorganic or organic growth and weakness in certain sectors of the Mexican economy, such as the home building sector;
- increases in our cost of funding that could adversely affect our net interest margin as a consequence of timing differences in the repricing of our assets and liabilities;
- increased competition that may lead to tightening of our margins;
- inflationary pressures that may lead to increases in interest rates and decreases in growth;
- acquisitions or restructurings of businesses that do not perform in accordance with our expectations or that subject us to previously unknown risks; and
- increased regulation, government intervention and new laws prompted by the global financial crisis which could change our industry and require us to modify our businesses or operations.

Recognition of the effects of inflation in financial information

We recognize inflation in our Financial Statements pursuant to MFRS B-10 "Effects of Inflation," which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is equal to or higher than 26%, in which case the effects of inflation must be acknowledged; and b) non-inflationary, when in the same period inflation is less than 26%, in which case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2016 and 2015 was 10.6% and 11.9%, respectively. Therefore, pursuant to the provisions of MFRS B-10 described above, the Mexican economy was considered as non-inflationary during these periods. However, assets, liabilities and stockholders' equity as of December 31, 2016 and 2015 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended on December 31, 2016 and 2015 were 2.8% and 2.7%, respectively, and the inflation rate for the three-month period ended March 31, 2017 was 5.00%.

Changes in accounting policies

As of January 1, 2015, we adopted changes regarding the following MFRS:

Improvements to MFRS 2015 - Enhancements issued that caused accounting changes:

- MFRS B-8, Consolidated or combined financial statements - It clarifies the elements evaluated to identify an investment entity, and indicates that since an entity will unlikely have control over the entities in which it participates, given its primary business, an analysis should be performed to conclude whether or not there is such control.

Additionally, the following standards were adopted that did not generate accounting changes:

- MFRS B-13, Events after the date of the financial statements and Circular C-9, Liabilities, provisions, contingent assets and liabilities, and commitments. MFRS B-13 mentions in a footnote the revelations in an entity's financial statements when such statements are not drawn up based on the current business, as per MFRS A-7, Presentation and disclosure. Said requirement was included as part of the regulatory text in the section regarding disclosure rules in MFRS B-13, and as part of Circular C-9 to disclose the contingencies created when an entity is not operating based on the current business, thereby cancelling Circular 57, Sufficient disclosure derived from the Insolvency Law.

- MFRS B-15, Conversion of foreign currency - The definition of "foreign operation" was modified to clarify that it not only refers to a legal entity or cash generating unit whose transactions are based or performed in a financial environment or currency other than that of the reporting entity, but also to entities that with respect to the reporting entity (its controlling or holding company) must be classified as foreign operations because they operate in a currency other than that of the reporting entity even when such entities operate in the same country.

As of December 31, 2016, there were no effects of these new standards in our consolidated financial information.

As of January 1, 2016, we adopted changes regarding the following new accounting pronouncements:

Changes in MFRS D3, "Employee Benefits:"

- On December 31, 2015, the CNBV issued a resolution amending the application of MFRS D-3, "Employee Benefits" by providing for a transition period for financial institutions to implement the accounting changes required by MFRS D-3. As permitted by the amending CNBV resolution, we elected to prospectively recognize in our stockholders equity the impact of the amendments set forth in subparagraphs (a) and (b) of paragraph 81.2 of MFRS D-3, "Employee Benefits," which became effective on January 1, 2016. Beginning on January 1, 2016, we recognize the impact of these amendments, with 20% of the amount of the effect recognized in 2016 and an additional 20% in each of the subsequent year, up to 100% within a maximum period of 5 years, as indicated in the tables below:

The balance of unrecognized plan amendments impacted by these amendments is as follows:

Discount rate	Total outstanding balance as of December 31, 2016	Annual 20% to be recognized in 2017	Gradual recognition for the three-month period ended March 31, 2017
		(*in Ps. millions*)	
Corporate bonds..................	Ps.183	Ps.37	Ps.46

The balance of actuarial gains impacted by these amendments is as follows:

Discount rate	Total outstanding balance as of December 31, 2016	Annual 20% to be recognized in 2017	Gradual recognition for the three-month period ended March 31, 2017
		(*in Ps. millions*)	
Corporate bonds..................	Ps.2,729	Ps.546	Ps.682

The 20% annual amortization of these items is recognized on a monthly straight-line basis.

Amendment to the grading methodology of our revolving consumer portfolio:

- On December 16, 2015, the CNBV published a new rating methodology for accounting of revolving consumer loan portfolios, which is 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 April 1, 2016. The implementation of the new methodology resulted in an increase in our allowance for credit risk of Ps.672 million (liability), an increase of deferred tax of Ps.201 million (asset) and a decrease of results from previous years of Ps.471 million (stockholders' equity).

Retroactive Adjustments to Financial Statements

On October 31, 2016, the Board of Directors of our subsidiaries INB Financial Corporation and Banorte USA Corporation approved the sale of our equity interest in INB. The sale of INB was effective as of March 31, 2017. This transaction followed a decision to implement our corporate restructuring program followed by the limitations for the development of INB's business strategy caused mainly by the change in the regulatory environment in the United States.

As part of the divestiture process and once the requirements set forth in CINIF's Bulletin C-15 "Impairment of the value of long-lived assets and their disposal" were satisfied, we classified our investment in INB as available for sale, which was recorded on our consolidated balance sheet as of December 31, 2016 at its estimated sale value. Our intention to dispose of this investment meets the requirements to be classified as a discontinued operation, whereby our assets and liabilities as of December 31, 2016 have been presented net on our consolidated balance sheet in accordance with the accounting criteria issued by the CNBV, and our results of operations have been adjusted retroactively to reflect INB's results of operations as discontinued operations for the years ended December 31, 2016, 2015 and 2014, on our consolidated statement of income.

Critical Accounting Policies

We have identified certain critical accounting policies on which our financial position and results of operations are dependent. These critical accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of management, our critical accounting policies under Mexican Banking GAAP are those described further below. Our management uses certain assumptions and estimates based on historical experience and other factors that are considered to be relevant for the preparation of our audited consolidated financial statements and are applied consistently to our condensed interim financial statements. These assumptions and estimates are continuously reviewed by our management. We recognize amendments to our accounting estimates in the period in which the amendment is introduced and subsequent periods if the amendment affects both current and subsequent periods. Actual results may differ from these assumptions and estimates. For a complete description of our significant accounting policies, see Note 4 to our Audited Consolidated Financial Statements.

Fair Value of Financial Instruments

Financial instruments, including securities and derivatives, included in our portfolio are recorded at fair value. Our management uses assumptions and estimates in the determination of the fair value of these financial instruments. Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Although, we believe these assumptions to be appropriate, limitations to obtain daily prices may occur, which could affect the determination of the fair value of financial instruments and the results of the period in which the related changes in fair value occur. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Allowance for Loan Losses

We classify our loan portfolio according to the rules issued by the SHCP and by the methodology established by the CNBV. Such regulations establish the general methodology for grading our loan portfolio and estimating the loan loss allowance for each type of loan.

In the case of consumer mortgage and commercial loans, we apply the General Rules Applicable to Mexican Banks for rating the loan portfolio as issued by the CNBV and published in the Official Gazette on June 24, 2013.

On June 24, 2013, the CNBV issued changes to the General Rules Applicable to Mexican Banks regarding commercial loan ratings. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

Such rules also establish general methodologies for the rating and calculating the allowance for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the CNBV.

The commercial loan portfolio grading procedure requires that credit institutions apply the established methodology based on quarterly information for the periods ending in March, June, September and December of each year whereas also recording in their financial statements the allowances determined at the end of each month. Furthermore, during the months following each quarter, financial institutions may apply to the respective loan the grading methodology used at the close of the immediately preceding quarter, based on the outstanding balance of such loan in effect on the last day of the aforementioned months. The allowances for loan losses that have exceeded the amount required to grade the loan will be cancelled against the period's results on the following quarterly grading date. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of rules established by the CNBV

The rules for grading consumer, mortgage and commercial loans (other than loans for investment projects having their own source of payment) provided that the loan losses allowance for such loans should be determined based on an estimate of the loan's expected loss over the next twelve-month period. The grading methodology requires that the estimation of such loss takes into consideration the probability of a default, the loss given default and the exposure at default. The result of multiplying these three factors is the estimated expected loan loss that is the same as the amount of the reserves needed in order to cover the loan loss.

The probability of default, the loss given default and the exposure at default are determined by type of loan considering the following:

- *Probability of Default*:
    - For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
    - For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
    - For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.
    - For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, socioeconomic risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.
- *Loss Given Default*
    - For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
    - For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
    - For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.
- *Exposure at Default*
    - For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
    - For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
    - For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
    - For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

The regulatory loan classification and grading rules establish the following categories corresponding to levels of risk based on allowance percentage: Grade "A" loans, representing minimal risk of non-payment; grade "B" loans, representing low risk loans; grade “C” loans, representing loans with moderated risk; grade “D” loans, representing high risk loan; grade “E” loans, representing non-collectible loans.

	% of Allowance for Loan Loss Reserves			
	Consumer Loans			
Risk Levels	Non Revolving	Revolving	Mortgage Loans	Commercial Loans
A-1	0 a 2.0	0 a 3.0	0 a 0.50	0 a 0.9
A-2	2.01 a 3.0	3.01 a 5.0	0.501 a 0.75	0.901 a 1.5
B-1	3.01 a 4.0	5.01 a 6.5	0.751 a 1.0	1.501 a 2.0
B-2	4.01 a 5.0	6.51 a 8.0	1.001 a 1.50	2.001 a 2.50
B-3	5.01 a 6.0	8.01 a 10.0	1.501 a 2.0	2.501 a 5.0
C-1	6.01 a 8.0	10.01 a 15.0	2.001 a 5.0	5.001 a 10.0
C-2	8.01 a 15.0	15.01 a 35.0	5.001 a 10.0	10.001 a 15.5
D	15.01 a 35.0	35.01 a 75.0	10.001 a 40.0	15.501 a 45.0
E	35.01 a 100.0	> 75.01	40.001 a 100.0	> a 45.0

Employee Retirement Obligations

Our employee retirement obligations include employee pension plans, seniority premium benefits and severance indemnities and medical reserves at the end of the work relationship. The determination of our obligations and expenses is dependent on our selection of certain assumptions to determine the best estimate for our retirement obligations. These assumptions include demographic factors, discount rates and expected increases in compensation and life expectancy, among others. Although we believe these assumptions to be appropriate, a change in such assumptions could affect the value of the employee retirement liability and the results of the period in which it occurs. We evaluate our assumptions at least annually. Those assumptions are described in Notes 4 and 2 to our Audited Consolidated Financial Statements and include the expected return on plan assets, discount rate and rate of increase in compensation costs. Our assumptions depend on Mexico’s economic circumstances.

In accordance with the provisions of MFRS D-3, “Employee Benefits,” actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods 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 substantially affect our employee retirement obligations and our future expenses.

Property, Plant and Equipment

Property, furniture and equipment are recorded at acquisition cost. The acquisition balance of such property, furniture and equipment up to December 31, 2007 is restated using factors derived from the UDI value up to such date. Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by internal and external independent appraisers. Useful lives are reviewed at least once a year and are based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits to us. If there are changes in the estimate of useful lives, the carrying amount of assets is affected prospectively, as well as the amortization or depreciation expense, as applicable.

Deferred Income Tax Assets

We calculate our deferred income tax by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery. The balance of deferred tax assets is determined based on our projections of recoverability through the generation of future net income for tax purposes. These projections are based on our management’s judgments and estimates of future transactions to conclude on the likelihood of recoverability of deferred tax assets.

Results of Operations for the Three-month Period Ended March 31, 2017 Compared to the Three-month Period Ended March 31, 2016

Net Interest Income

Our net interest income was Ps.13,272 million for the three-month period ended March 31, 2017 compared to Ps.10,768 million for the corresponding period in 2016, an increase of Ps.2,504 million, or 23.3%. This increase was mainly due to the growth of the loan portfolio and the interest rate increases that the Mexican Central Bank implemented during 2016 and the first quarter of 2017, which resulted in a 29.5% increase in our net interest income from loans, and an a growth of 72.2% in our net interest income from cash and cash equivalents and securities, from hedging operations and from repurchase operations. During the three-month period ended March 31, 2017, the rate on 28-day Mexican benchmark interbank money market rate (*Tasa de Interés Interbancaria de Equilibrio*) ("TIIE") averaged 6.39%, 260 basis points higher than 3.79% average rate for the corresponding period in 2016, which had a positive impact on our NIM.

In terms of margins, our average interest rate earned on interest-earning assets was 9.4% in the three-month period ended March 31, 2017, and our average interest rate paid on interest-bearing liabilities was 5.1%, resulting in a yield spread of 4.3%. Our average interest rate earned on interest-earning assets was 7.3% for the three-month period ended March 31, 2016, and our average interest rate paid on interest-bearing liabilities was 3.0%, resulting in a yield spread of 4.3%.

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

	For the three-month period ended March 31,	
	2017	**2016**
	(Ps. millions)	
Interest Income:		
Interest on loans	15,192	11,730
Fees on loans[1]	282	305
Interest on cash and cash equivalents and securities	4,830	2,699
Income on hedging operations	1,037	665
Interest on repurchase operations[2]	688	443
UDI valuation[5]	0	0
Foreign exchange valuation[4]	0	0
Total interest income	22,029	15,842
Interest Expense:		
Interest on deposits and funding	(3,534)	(2,043)
Interest on repurchase operations[3]	(3,816)	(2,096)
Expense on hedging operations	(1,000)	(800)
UDI valuation[5]	(68)	(27)
Foreign exchange valuation[4]	(196)	(7)
Fees paid[6]	(143)	(101)
Total interest expense	(8,757)	(5,074)
Monetary (loss) gain, net	0	0
Net interest income	**13,272**	**10,768**

(1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.

(2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.

(3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.

(4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.

(5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.

(6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.22,029 million for the three-month period ended March 31, 2017 compared to Ps.15,835 million for the corresponding period in 2016, an increase of Ps.6,194 million, or 39.1%. Our average interest rate earned on interest-earning assets increased by 210 basis points from 7.3% during the three-month period ended March 31, 2016 to 9.4% during the corresponding period in 2017. Our average balance of interest-earning assets increased by 8.4% from Ps.864,212 million during the three-month period ended March 31, 2016 to Ps.937,041 million during the corresponding period in 2017. The average balance of our interest-earning assets increased primarily as a result of an increase in the average balance of our total loan portfolio of Ps.57,398 million, or 11.3%.

Our interest on loans was Ps.15,192 million (or 69.0% of our interest income) for the three-month period ended March 31, 2017 compared to Ps.11,730 million (or 74.1% of interest income) for the corresponding period in 2016, an increase of Ps.3,462 million, or 29.5%. This increase was primarily the result of an 11.3% increase in the average balance of our loans, mostly in our consumer portfolio, and the increase in interest rates that the Mexican Central Bank carried out during 2016 and the first quarter of 2017. Our fees on loans were Ps.282 million (or 1.3% of our interest income) for the three-month period ended March 31, 2017 compared to Ps.305 million (or 1.9% of interest income) for the corresponding period in 2016, a decrease of Ps.23 million, or 7.5%. This decrease was primarily the result of lower fees on our commercial loans.

Our interest income from cash and cash equivalents and securities was Ps.4,830 million (or 21.9% of our interest income) for the three-month period ended March 31, 2017 compared to Ps.2,699 million (or 17.0% of our interest income) for the corresponding period in 2016, an increase of Ps.2,131 million, or 79.0%. This increase was primarily due to higher market interest rates (primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which in turn resulted in higher *Cetes* rates during the three-month period ended March 31, 2017 as compared to the corresponding period in 2016) and a higher growth of 18.8% in the average balance of our securities in the three-month period ended March 31, 2017 as compared to the corresponding period in 2016.

Our interest income from hedging operations was Ps.1,037 million (or 4.7% of our interest income) for the three-month period ended March 31, 2017 compared to Ps.665 million (or 4.2% of our interest income) for the corresponding period in 2016, an increase of Ps.372 million, or 55.9%. This increase was due to higher market interest rates and a 19.0% increase in the average balance of our hedging operations in the three-month period ended March 31, 2017 as compared to the corresponding period in 2016.

Our interest income from repurchase operations was Ps.689 million (or 3.1% of our interest income) for the three-month period ended March 31, 2017 compared to Ps.443 million (or 2.8% of our interest income) for the corresponding period in 2016, an increase of Ps.246 million, or 55.5%. This increase was primarily due to higher market interest rates (on the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during the three-month period ended March 31, 2017 as compared to the corresponding period in 2016) despite the 10.5% decrease in the average balance of our repurchase operations in the three-month period ended March 31, 2017 as compared to the corresponding period in 2016.

Interest Expense

Our interest expense was Ps.8,757 million for the three-month period ended March 31, 2017 compared to Ps.5,067 million for the corresponding period in 2016, an increase of Ps.3,690 million, or 72.8%. This increase was mainly the result of Ps.1,491 million increase in interest payments on deposits and funding, and an increase of Ps.1,720 million on interest on repurchase operations, which was due to higher market interest rates, as well as an increase in the average balance of both liabilities in the three-month period ended March 31, 2017 as compared to the corresponding period in 2016. Our average interest rate paid on interest-bearing liabilities increased by 207 basis points from 3.0% for the corresponding period in 2016 to 5.1% for the three-month period ended March 31, 2017 and our average balance of these liabilities increased by 2.8% from Ps.667,049 million for the corresponding period in 2016 to Ps.685,637 million for the three-month period ended March 31, 2017. The increase in our average rate paid on interest-bearing liabilities was primarily due to higher market interest rates (overnight interbank interest rate (*tasa de fondeo interbancario*)). The rate on 28-day *Cetes* averaged 6.09% for the three-month period ended March 31, 2017, compared to 3.39% for the corresponding period in 2016.

Our interest payments on deposits and funding was Ps.3,534 million (or 40.3% of our interest expense) for the three-month period ended March 31, 2017 compared to Ps.2,043 million (or 40.3%% of our interest expense) for the corresponding period in 2016, an increase of Ps.1,491 million, or 73.0%. This increase was primarily the result of a Ps.1,489 million increase on total deposits, mainly due to a Ps.1,181 million in time deposits.

Our interest expense from repurchase operations was Ps.3,816 million (or 43.6% of interest expense) for the three-month period ended March 31, 2017 compared to Ps.2,096 million (or 41.4% of interest expense) for the corresponding period in 2016, an increase of Ps.1,720 million, or 82.1%. This increase was the result of higher market interest rates (primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during the three-month period ended March 31, 2017 as compared to the corresponding period in 2016), and a 6.4% higher average balance of repurchase operations in the three-month period ended March 31, 2017 as compared to the corresponding period in 2016.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.3,227 million for the three-month period ended March 31, 2017 compared to Ps.3,170 million for the corresponding period in 2016, an increase of Ps.57 million, or 1.8%. This increase was primarily due to the lower reserve requirements on the government, commercial and corporate portfolios, while the consumer book required higher reserve because of the growth in this segment.

Our allowance for loan losses as a percentage of non-performing loans decreased to 137.6% as of March 31, 2017 from 105.9% as of March 31, 2016. The decrease in the ratio of our allowance for loan losses to non-performing loans reflects a 29.6% decrease in non-performing loans.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.10,045 million for the three-month period ended March 31, 2017 compared to Ps.7,598 million for the corresponding period in 2016, an increase of Ps.2,447 million, or 32.2%.

Commission and Fee Income

Our total commission and fee income was Ps.4,282 million for the three-month period ended March 31, 2017 compared to Ps.3,577 million for the corresponding period in 2016, an increase of Ps.705 million, or 19.7%, primarily due to an increase in core banking services on higher transaction volume, such as electronic banking services , account management and fund transfers, as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for the periods indicated:

	For the three-month period ended March 31,	
	2017	**2016**
	(Ps. millions)	
Commissions and Fees:		
Fund transfers	373	278
Account management	614	484
Fiduciary	91	80
Credit card	966	835
Income from real estate loan portfolios acquired and other investment projects	5	8
Electronic banking services	1,639	1,341
Other commissions and fees	593	551
Total commissions and fees income	**4,282**	**3,577**

Commission and Fee Expense

Our total commission and fee expense was Ps.1,465 million for the three-month period ended March 31, 2017 compared to Ps.982 million for the corresponding period in 2016, an increase of Ps.483 million, or 49.2%, primarily due to an increase in our POS activity in terms of number of transactions and amounts transacted, which caused an increase on our fees paid on interbanking transactions, as well as an increase in our commissions paid for origination of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps.693 million in the three-month period ended March 31, 2017 compared to Ps.467 million for the corresponding period in 2016, an increase of Ps.226 million, or 48.5%, due to higher gains on securities intermediation and foreign exchange gains.

Our foreign exchange gains were Ps.395 million in the three-month period ended March 31, 2017 compared to Ps.260 million for the corresponding period in 2016, an increase of Ps.135 million, or 51.9%, due primarily to higher volumes on foreign exchange intermediation with our clients.

Our realized gains on securities intermediation increased to Ps.345 million for the three-month period ended March 31, 2017 compared to Ps.34 million for the corresponding period in 2016, an increase of Ps.311 million, or 914.7%, which was attributable mainly to higher intermediation volumes. We recorded negative unrealized gains on securities of Ps.47 million in the three-month period ended March 31, 2017 compared to positive unrealized gains on securities of Ps.173 million for the corresponding period in 2016, which was attributable principally to a decrease in intermediation revenues on securities and mark-to-market gains, reflecting market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.566 million for the three-month period ended March 31, 2017 compared to Ps.399 million for the corresponding period in 2016, an increase of Ps.167 million, or 41.9%, mainly due to income from a better management on loan recovery and liabilities optimization.

Non-interest expense

Our non-interest expense was Ps.8,043 million for the three-month period ended March 31, 2017 compared to Ps.7,212 million for the corresponding period in 2016, an increase of Ps.831 million, or 11.5%. This increase was the result mainly of the following expenses:

- a Ps.344 million increase in our salaries and employee benefits;
- a Ps.100 million increase in our administrative and marketing expenses, mainly related to our credit cards segment;
- a Ps.175 million increase in our leases, depreciation and amortization, mainly due to amortizations of our information technology expenses, or IT expenses; and
- a Ps.72 million increase, or 12.8%, in our contributions to the IPAB on our deposits growth.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in the three-month period ended March 31, 2017 was 46.4%, compared to 50.7% for the corresponding period in 2016.

Operating Income

As a result of the factors discussed above, our operating income was Ps.6,078 million for the three-month period ended March 31, 2017 compared to Ps.3,847 million for the corresponding period in 2016, an increase of Ps.2,231 million, or 58.0%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.14 million in the three-month period ended March 31, 2017 compared to Ps.333 million for the corresponding period in 2016, a decrease of Ps.319 million, or 95.8%. This decrease was primarily due to the corporate restructuring undertaken by our parent company that became effective on October 17, 2016, as a result of which we transferred our equity interest in Afore XXI Banorte to Banorte Futuro, a subsidiary of Seguros Banorte. Following this transfer, the results of operations of Afore XXI Banorte are reported under the results of operations of Seguros Banorte since the fourth quarter of 2016.

Income Taxes

Our current income tax expense was Ps.1,541 million for the three-month period ended March 31, 2017 compared to Ps.1,122 million for the corresponding period in 2016, an increase of Ps.419 million, or 37.3%. This increase was mainly due to higher operating profit.

We recorded a deferred income tax expense of Ps.320 million in the three-month period ended March 31, 2017, compared to a Ps.105 million deferred income tax benefit for the corresponding period in 2016, mainly as a result of expenses made for profitable business.

The net increase in our income tax expense was Ps.844 million in the three-month period ended March 31, 2017 compared to the corresponding period in 2016.

Net Income from Discontinued Operations

Net income from discontinued operations represents INB's net income, which we present separate from our continuing operations following the CNBV's criteria. Our net income from discontinued operations was Ps.74 million for the three-month period ended March 31, 2017 compared to Ps.59 million for the corresponding period in 2016, an increase of Ps.15 million. This increase represents INB's net income for the three-month period ended March 31, 2017.

Net Income

Our net income was Ps.4,305 million for the three-month period ended March 31, 2017 compared to Ps.3,222 million for the corresponding period in 2016, an increase of Ps.1,083 million, or 33.6%, due to the results of our operations discussed above.

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

Net Interest Income

Our net interest income was Ps.46,163 million for 2016 compared to Ps.39,601 million for 2015, an increase of Ps.6,562 million, or 16.6%. This increase was mainly due to the growth of the loan portfolio and the interest rate increases that the Mexican Central Bank implemented during 2016, which resulted in a 17.2% increase in our net interest income from loans and a growth of 21.3% in our net interest income from cash, cash equivalents and securities, from hedging operations, and from repurchase operations. During 2016, the TIIE rate averaged 4.47%, 115 basis points higher than 3.32% average rate for 2015, which had a positive impact on our NIM.

In terms of margins, our average interest rate earned on interest-earning assets was 7.7%% in 2016, and our average interest rate paid on interest-bearing liabilities was 3.4%, resulting in a yield spread of 4.3%. Our average interest rate earned on interest-earning assets was 6.9% in 2015, and our average interest rate paid on interest-bearing liabilities was 2.9%, resulting in a yield spread of 4.0%.

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

	For the years ended December 31,	
	2016	2015
	(Ps. millions)	
Interest Income:		
Interest on loans	51,091	43,583
Fees on loans[(1)]	1,199	1,198
Interest on cash and cash equivalents and securities	13,214	10,759
Income on hedging operations	2,324	2,337
Interest on repurchase operations[(2)]	1,417	884
UDI valuation[(5)]	0	0
Foreign exchange valuation[(4)]	162	209
Total interest income	69,407	58,970
Interest Expense:		
Interest on deposits and funding	(9,662)	(7,832)
Interest on repurchase operations[(3)]	(10,435)	(8,050)
Expense on hedging operations	(2,588)	(3,069)
UDI valuation[(5)]	(74)	(42)
Foreign exchange valuation[(4)]	0	0
Fees paid[(6)]	(485)	(376)
Total interest expense	(23,244)	(19,369)
Monetary (loss) gain, net	0	0
Net interest income	**46,163**	**39,601**

(1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
(2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
(3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
(4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
(5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
(6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.69,407 million for 2016 compared to Ps.58,970 million for 2015, an increase of Ps.10,437 million, or 17.7%. There was a 80 basis point increase in the average interest rate earned on interest-earning assets from 6.9% during 2015 to 7.7% during 2016. There was a 5.6% increase in the average balance of interest-earning assets from Ps.853,878 million during 2015 to Ps.901,686 million during 2016. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our total loan portfolio of Ps.48,866, or 10.2%.

Our interest on loans was Ps.51,091 million or 73.6% of our interest income for 2016 compared to Ps.43,583 million or 73.9% of interest income for 2015, an increase of Ps.7,508 million, or 17.2%. This increase was primarily the result of 10.2% increase in the average balance of loans, mostly consumer portfolio, and the increase in overnight interest rates that the Mexican Central Bank carried out during 2016.

Our fees on loans were Ps.1,199 million (or 1.7% of our interest income) for 2016 compared to Ps.1,198 million (or 2.0% of interest income) for 2015, a decrease of Ps.2 million.

Our interest income from cash and cash equivalents and securities was Ps.13,214 million (or 19.0% of our interest income) for 2016 compared to Ps.10,759 million (or 18.2% of our interest income) for 2015, an increase of Ps.2,455 million, or 22.8%. This increase was primarily due to higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during 2016 as compared to 2015, despite the 2.6% lower growth in the average balance of our cash and cash equivalents and securities in 2016 as compared to 2015.

Our interest income from repurchase operations was Ps.1,417 million (or 2.0% of our interest income) for 2016 compared to Ps.884 million (or 1.5% of our interest income) for 2015, an increase of Ps.533 million, or 60.3%. This increase was primarily due to higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during 2016 as compared to 2015 and a 23.1% increase in the average balance of repurchase operations in 2016 as compared to 2015.

Interest Expense

Our interest expense was Ps.23,244 million for 2016 compared to Ps.19,369 million for 2015, an increase of Ps.3,875 million, or 20.0%. This increase was the result of Ps.1,830 million increase in interest on deposits and funding and an increase of Ps.2,385 million of interest on repurchase operations, which was due to the impact of higher market interest rates. Our average interest rate paid on interest-bearing liabilities increased by 50 basis points from 2.9% for 2015 to 3.4% for 2016 and our average balance of these liabilities increased by 1.0% from Ps.670,317 million for 2015 to Ps.676,957 million for 2016. The increase in our average rate paid on interest-bearing liabilities was due to an increase of 28-day *Cetes* rates that averaged 4.22% for 2016, compared to 2.99% for 2015.

Our interest on deposits and funding was Ps.9,662 million (or 41.6% of our interest expense) for 2016 compared to Ps.7,832 million (or 40.4% of our interest expense) for 2015, an increase of Ps.1,830 million, or 23.4%. This increase was primarily the result of higher market interest rates, however, our average total deposits and funding increased 3.2%, mainly due to a 2.5% increase in our total deposits.

Our interest expense from repurchase operations was Ps.10,435 million (or 44.9% of interest expense) for 2016 compared to Ps.8,050 million (or 41.6% of interest expense) for 2015, an increase of Ps.2,385 million, or 29.6%. This increase was the result of higher market interest rates, however, our average repurchase operations decreased 4.8% year to year.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.13,070 million for 2016 compared to Ps.10,370 million for 2015, an increase of Ps2,700 million, or 26.0%. This increase was primarily due to higher reserve requirements on payroll, credit-card and corporate loans.

Our allowance for loan losses as a percentage of non-performing loans increased to 138.6% as of December 31, 2016 from 114.6% as of December 31, 2015. The increase in the ratio of our allowance for loan losses to non-performing loans reflects a 13.5% decrease in non-performing loans.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.33,093 million for 2016 compared to Ps.29,231 million for 2015, an increase of Ps.3,862 million, or 13.2%.

Commission and Fee Income

Our total commission and fee income was Ps.15,764 million for 2016 compared to Ps.13,476 million for 2015, an increase of Ps.2,288 million, or 17.0%, primarily due to an increase in core banking services, such as account management, fund transfers and electronic banking services, as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for years ended December 31, 2016 and 2015:

	For the year ended December 31,	
	2016	2015
	(Ps. millions)	
Commissions and Fees:		
Fund transfers	1,303	857
Account management	2,138	1,982
Fiduciary	346	386
Credit card	3,544	3,077
Income from real estate loan portfolios acquired and other investment projects	52	98
Electronic banking services	5,808	5,070
Other commissions and fees	2,573	2,006
Total commissions and fees income	**15,764**	**13,476**

Commission and Fee Expense

Our total commission and fee expense was Ps.4,498 million for 2016 compared to Ps.3,527 million for 2015, an increase of Ps.971 million, or 27.5%, primarily due to an increase in POS activity (in terms of number of transactions and volumes transacted), which caused an increase on fees paid for interbanking transactions resulting in higher commissions paid for origination dynamics of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps.1,839 million in 2016 compared to Ps.2,606 million in 2015, a decrease of Ps.767 million, or 29.4%, due to lower securities trading volumes and revenues, partially offset by foreign exchange gains.

Our foreign exchange gains were Ps.1,566 million in 2016 compared to Ps.1,289 million in 2015, an increase of Ps.277 million, or 21.5%, due primarily to higher volumes on foreign exchange trades with our clients.

Our realized gains on securities intermediation decreased to Ps.13 million for 2016 compared to Ps.1,040 million for 2015, a decrease of Ps.1,027 million, or 99.0%, which was attributable mainly to lower securities trading volumes. We recorded unrealized gains on securities of Ps.260 million in 2016 compared to unrealized gains on securities of Ps.277 million in 2015, which was attributable principally to a decrease in trading revenues on securities and valuation gains, reflecting the market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.2,078 million for 2016 compared to Ps.1,851 million for 2015, an increase of Ps.227 million, or 12.3%, mainly due to the impairment of the residual value of trusts related to our securitization of government loans.

Non-interest expense

Our non-interest expense was Ps.29,155 million for 2016 compared to Ps.27,334 million for 2015, an increase of Ps.1,821 million, or 6.7%. This increase was the result of the following increases in expenses:

- a Ps.855 million increase in our salaries and employee benefits;

- a Ps.417 million increase in our administrative and marketing expenses, mainly related to our credit cards segment;

- a Ps.593 million increase in our leases, depreciation and amortization, mainly due to amortizations of IT expenses; and

- a Ps.225 million increase, or 10.7%, in our contributions to the IPAB on deposits growth.

These increases were partially offset by a Ps.71 million decrease in professional fees and a decrease of Ps.213 million in taxes and other than income taxes.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in 2016 was 47.5%, compared to 50.6% during 2015.

Operating Income

As a result of the factors discussed above, our operating income was Ps.19,121 million for 2016 compared to Ps.16,303 million for 2015, an increase of Ps.2,818 million, or 17.3%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.1,043 million in 2016 compared to Ps.1,280 million in 2015, a decrease of Ps.237 million, or 18.5%. This decrease was primarily due to the corporate restructuring undertaken by our parent company that became effective on October 17, 2016, as a result of which we transferred our equity interest in Afore XXI Banorte to Banorte Futuro, a subsidiary of Seguros Banorte. Following this transfer, the results of operations of Afore XXI Banorte are consolidated with and reported under the results of operations of Seguros Banorte since the fourth quarter of 2016.

Income Taxes

Our current income tax expense was Ps.5,479 million for 2016 compared to Ps.4,063 million for 2015, an increase of Ps.1,416 million, or 34.9%. This increase was mainly due to a higher operating profit.

We recorded a deferred income tax benefit of Ps.116 million in 2016, compared to a Ps.235 million deferred income tax expense in 2015, mainly as a result of temporary differences in provisions for possible credit losses on the Credit Card Sofom because of credit portfolio write-offs that were deducted that year.

The net increase in our income tax expense was Ps.1,065 million in 2016 compared to 2015.

Net Income from Discontinued Operations

Net income from discontinued operations represents INB's net income, which we present separate from our continuing operations following the CNBV's criteria. Our net income from discontinued operations was Ps.243 million for 2016 compared to Ps.233 million for 2015, an increase of Ps.10 million. This increase was due to represent INB's net income.

Net Income

Our net income was Ps.15,044 million for 2016 compared to Ps.13,518 million for 2015, an increase of Ps.1,526 million, or 11.3%, due to the results of our operations discussed above.

Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Net Interest Income

Our net interest income was Ps.39,601 million for 2015 compared to Ps.37,926 million for 2014, an increase of Ps.1,675 million, or 4.4%. This increase was mainly the result of a 9.9% increase in our total performing loans in 2015. During 2015, the TIIE rate averaged 3.3%, 20 basis points lower than 3.5% average rate for 2014, which had a negative impact on our NIM.

In terms of margins, our average interest rate earned on interest-earning assets was 6.9% in 2015, and our average interest rate paid on interest-bearing liabilities was 2.9%, resulting in a yield spread of 4.0%. Our average interest rate earned on interest-earning assets was 7.1% in 2014, and our average interest rate paid on interest-bearing liabilities was 3.1%, resulting in a yield spread of 4.0%.

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

	For the years ended December 31,	
	2015	**2014**
	(Ps. millions)	
Interest Income:		
Interest on loans	43,583	40,814
Fees on loans(1)	1,198	2,206
Interest on cash and cash equivalents and securities	10,751	11,595
Income on hedging operations	2,337	2,070
Interest on repurchase operations(2)	884	982
UDI valuation(5)	0	0
Foreign exchange valuation(4)	217	148
Total interest income	58,970	57,815
Interest Expense:		
Interest on deposits and funding	(7,832)	(7,738)
Interest on repurchase operations(3)	(8,050)	(8,878)
Expense on hedging operations	(3,069)	(2,842)
UDI valuation(5)	(42)	(66)
Foreign exchange valuation(4)	0	0
Fees paid(6)	(376)	(365)
Total interest expense	(19,369)	(19,889)
Monetary (loss) gain, net	0	-
Net interest income	**39,601**	**37,926**

(1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
(2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
(3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
(4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
(5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
(6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps.58,970 million for 2015 compared to Ps.57,815 million for 2014, an increase of Ps.1,155 million, or 2.0%. There was a 23 basis point decrease in the average interest rate earned on interest-earning assets from 7.1% during 2014 to 6.9% during 2015. There was a 5.4% increase in the average balance of interest-earning assets from Ps.810,221 million during 2014 to Ps.853,878 million during 2015. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our total loan portfolio of Ps.45,292 million, or 10.5%.

Our interest on loans was Ps.43,583 million (or 73.9% of our interest income) for 2015 compared to Ps.40,814 million (or 70.6% of interest income) for 2014, an increase of Ps.2,769 million, or 6.8%. This increase was primarily the result of 13.1% and 9.3% increases on payroll loans and government loans, respectively.

Our fees on loans were Ps.1,198 million (or 2.0% of our interest income) for 2015 compared to Ps.2,206 million (or 3.8% of interest income) for 2014, a decrease of Ps.1,008 million, or 45.6%. This decrease was primarily the result of a decrease restructuring activities in 2015 in respect of our loan portfolio.

Our interest income from cash and cash equivalents and securities was Ps.10,751 million (or 18.2% of our interest income) for 2015 compared to Ps.11,595 million (or 20.1% of our interest income) for 2014, a decrease of Ps.844 million, or 7.3%. This decrease was primarily due to lower market interest rates (primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in lower *Cetes* rates during 2015 as compared to 2014 and a lower growth in the average balance of our cash and cash equivalents and securities in 2015 as compared to 2014.

Our interest income from repurchase operations was Ps.884 million (or 1.5% of our interest income) for 2015 compared to Ps.982 million (or 1.7% of our interest income) for 2014, a decrease of Ps.98 million, or 10.0%. This decrease was primarily due to lower market interest rates (primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in lower *Cetes* rates during 2015 as compared to 2014) and a 4.4% decrease in average balance of repurchase operations in 2015 as compared to 2014.

Interest Expense

Our interest expense was Ps.19,369 million for 2015 compared to Ps.19,889 million for 2014, a decrease of Ps.520 million, or 2.6%. This decrease was the result of a Ps.828 million decrease in interest on repurchase operations, which was due to lower market interest rates and a 3.3% decrease in average balance of repurchase operations in 2015 as compared to 2014. Our average interest rate paid on interest-bearing liabilities decreased by 20 basis points from 3.1% for 2014 to 2.9% for 2015 and our average balance of these liabilities increased by 3.7% from Ps.646,690 million for 2014 to Ps.670,317 million for 2015. The decrease in our average rate paid on interest-bearing liabilities was a function of an increase of 9.0% in our average total deposits, mainly due to a 12.3% increase in our demand deposits. The rate on 28-day *Cetes* averaged 2.99% for 2015, compared to 3.02% for 2014.

Our interest on deposits and funding was Ps.7,832 million (or 40.4% of our interest expense) for 2015 compared to Ps.7,738 million (or 38.9% of our interest expense) for 2014, an increase of Ps.94 million, or 1.2%. This increase was primarily the result of a 9.0% increase in our average total deposits, mainly due to a 12.3% increase in our demand deposits, driven by our marketing efforts as well as higher account balances across all client segments and our retail network.

Our interest expense from repurchase operations was Ps.8,050 million (or 41.6% of interest expense) for 2015 compared to Ps.8,878 million (or 44.6% of interest expense) for 2014, a decrease of Ps.828 million, or 9.3%. This decrease was the result of the negative impact of lower market interest rates (primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which in turn resulted in low *Cetes* rates during 2015 as compared to 2014) and a 3.3% lower average balance of repurchase operations in 2015 as compared to 2014.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.10,370 million for 2015 compared to Ps.11,087 million for 2014, a decrease of Ps.717 million, or 6.5%. This decrease was primarily due to lower reserve requirements on corporate, retail and governmental loan balances, which were partially offset by higher ordinary reserves in payroll and credit-card loans.

Our allowance for loan losses as a percentage of non-performing loans increased to 114.6% as of December 31, 2015 from 105.8% as of December 31, 2014. The increase in the ratio of our allowance for loan losses to non-performing loans reflects a 16.4% decrease in non-performing loans.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.29,231 million for 2015 compared to Ps.26,839 million for 2014, an increase of Ps.2,392 million, or 8.9%.

Commission and Fee Income

Our total commission and fee income was Ps.13,476 million for 2015 compared to Ps.11,592 million for 2014, an increase of Ps.1,884 million, or 16.3%, primarily due to an increase in core banking services, such as account management, fund transfers and electronic banking services, as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for years ended December 31, 2015 and 2014:

	For the year ended December 31,	
	2015	2014
	(Ps. millions)	
Commissions and Fees:		
Fund transfers	857	614
Account management	1,982	1,438
Fiduciary	386	360
Credit card	3,077	2,792
Income from real estate loan portfolios acquired and other investment projects	98	49
Electronic banking services	5,070	4,455
Other commissions and fees	2,006	1,884
Total commissions and fees income	**13,476**	**11,592**

Commission and Fee Expense

Our total commission and fee expense was Ps.3,527 million for 2015 compared to Ps.3,091 million for 2014, an increase of Ps.436 million, or 14.1%, primarily due to an increase in POS activity (in terms of number of transactions and amount transacted), which caused an increase on fees paid on interbanking transactions.

Intermediation Revenues

Our intermediation revenues were Ps.2,606 million in 2015 compared to Ps.3,807 million in 2014, a decrease of Ps.1,201 million, or 31.5%, due to lower securities intermediation volumes and revenues partially offset by higher volumes on foreign exchange intermediation with our clients.

Our foreign exchange gains were Ps.1,289 million in 2015 compared to Ps.1,052 million in 2014, an increase of Ps.237 million, or 22.5%, due primarily to higher volumes on foreign exchange intermediation with our clients.

Our realized gains on securities decreased to Ps.1,040 million for 2015 compared to Ps.1,866 million for 2014, a decrease of Ps.826 million, or 44.3%, which was attributable mainly to lower intermediation volumes. We recorded unrealized gains on securities of Ps.277 million in 2015 compared to unrealized gains on securities of Ps.889 million in 2014, which was attributable principally to a decrease in intermediation revenues on securities and mark-to-market gains, reflecting the market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.1,851 million for 2015 compared to Ps.2,420 million for 2014, a decrease of Ps.569 million, or 23.5%, mainly due to impairment of the residual value on trusts related to our securitization of government loans.

Non-interest expense

Our non-interest expense was Ps.27,334 million for 2015 compared to Ps.26,448 million for 2014, an increase of Ps.886 million, or 3.3%. This increase was the result of the following increases in expenses:

- a Ps.686 million increase in our administrative and marketing expenses, mainly related to our credit cards segment;
- a Ps.467 million increase in our leases, depreciation and amortization, mainly due to amortizations of IT expenses; and
- a Ps.227 million increase, or 12.1%, in our contributions to the IPAB on deposits growth.

These increases were partially offset by a Ps.703 million decrease in salaries.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in 2015 was 50.6%, compared to 50.2% during 2014.

Operating Income

As a result of the factors discussed above, our operating income was Ps.16,303 million for 2015 compared to Ps.15,119 million for 2014, an increase of Ps1,184 million, or 7.8%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.1,280 million in 2015 compared to Ps.1,241 million in 2014, an increase of Ps.39 million, or 3.1%. This increase was primarily due to a 3.0% increase in the net income of Afore XXI Banorte in 2015 compared to 2014. Our proportionate share of Afore XXI Banorte's net income in 2015 realized was Ps.1,243 million.

Income Taxes

Our current income tax expense was Ps.4,063 million for 2015 compared to Ps.6,787 million for 2014, a decrease of Ps.2,724 million, or 40.1%. This decrease was mainly due to the changes introduced by the tax reform that became effective on January 1, 2014, which repealed the provision that allowed us to deduct the increase in our loan loss provisions from our taxable income, but which allowed us to write-down other taxable income in 2015.

We recorded a deferred income tax expense of Ps.235 million in 2015, compared to a Ps.2,154 million deferred income tax benefit in 2014, mainly as a result of the changes introduced by the tax reform that became effective on January 1, 2014, which repealed the provision that allowed us to deduct the increase in our loan loss provisions from our taxable income.

The net decrease in our income tax expense was Ps.335 million in 2015 compared to 2014.

Net Income from Discontinued Operations

Net income from discontinued operations represents INB's net income, which we present separate from our continuing operations following the CNBV's criteria. We recorded net income from discontinued operations of

Ps.233 million in 2015, compared to Ps.209 in 2014. This increase was principally due to represent INB's net income.

Net Income

Our net income was Ps.13,518 million for 2015 compared to Ps.11,936 million for 2014, an increase of Ps.1,582 million, or 13.3%, due to the results of our operations discussed above.

Financial Position

The following discussion compares our consolidated financial position at March 31, 2017, December 31, 2016 and December 31, 2015.

Assets

We had total assets of Ps.975,193 million as of March 31, 2017, compared to Ps.1,030,435 million as of December 31, 2016, a decrease of Ps.55,242 million, or 5.4%. This decrease was principally due to an increase of Ps.3,617 million in total performing loans.

We had total assets of Ps.1,030,435 million as of December 31, 2016, compared to Ps.917,610 million as of December 31, 2015, an increase of Ps.112,825 million, or 12.3%. This increase was principally the result of an increase of Ps.47,379 million in our total performing loans.

Performing Loan Portfolio

As of March 31, 2017, total performing loans were Ps.560,589 million compared to Ps.556,972 million as of December 31, 2016, an increase of Ps.3,617 million, or 0.6%. This variation was mainly due to an increase in our consumer loan portfolio. Total performing loans represented 57.5% of total assets as of March 31, 2017, compared to 54.1% of total assets as of December 31, 2016. As of March 31, 2017, performing business loans represented 35.5% of total performing loans, loans to financial institutions represented 3.8%, performing mortgage loans represented 21.3%, performing government loans represented 23.2% and performing consumer loans represented 16.2%.

We had total performing loans of Ps.556,972 million as of December 31, 2016, compared to Ps.509,593 million as of December 31, 2015, an increase of Ps.47,379 million, or 9.3%. This variation was mainly due to an increase in our corporate and mortgage loan portfolios. Total performing loans represented 54.1% of total assets as of December 31, 2016. As of December 31, 2016, performing mortgage loans represented 20.6% of total performing loans, performing business loans represented 36.2%, loans to financial institutions represented 3.6%, performing government loans represented 24.0% and performing consumer loans represented 15.6%.

Total performing loans represented 55.5% of total assets as of December 31, 2015. As of December 31, 2015, performing business loans represented 37.2% of total performing loans, performing mortgage loans represented 19.6%, performing government loans represented 25.2%, performing consumer loans represented 14.6% and loans to financial institutions represented 3.4%.

Non-Performing Loan Portfolio

We had total non-performing loans of Ps.10,033 million as of March 31, 2017 compared to Ps.10,060 million as of December 31, 2016, a decrease of Ps.27 million, or 0.3%. This decrease was primarily due to a decrease in our consumer loan portfolio. Total non-performing loans represented 1.0% of total assets as of March 31, 2017, compared to 1.0% of total assets as of December 31, 2016. As of March 31, 2017, non-performing business loans represented 56.6% of total non-performing loans, non-performing financial institution loans represented 3.4%, non-performing mortgage loans represented 10.2% and non-performing consumer loans represented 29.8%.

We had total non-performing loans of Ps.10,060 million as of December 31, 2016 compared to Ps.11,634 million as of December 31, 2015, a decrease of Ps.1,574 million, or 13.5%. As of December 31, 2016, non-performing business loans represented 54.3% of total non-performing loans, non-performing financial institution loans represented 3.4%, non-performing mortgage loans represented 10.4% and non-performing consumer loans represented 31.8%.

Deferred Taxes and Employee Profit Sharing Assets

Our deferred taxes are a net asset comprised of temporary differences to be used as income tax deductions in future years. These temporary differences mainly derive from the loan loss reserves that could be tax deducted at the time a loan is written-off, according with the rules issued by the CNBV.

We had net deferred tax and employee profit sharing assets of Ps.3,601 million as of March 31, 2017, compared to Ps.4,228 million as of December 31, 2016, a decrease of Ps.627 million, or 14.8% derived primarily from financial instruments valuation and registration of profitable projects.

We had net deferred tax and employee profit sharing assets of Ps.4,228 million as of December 31, 2016, compared to Ps.3,096 million as of December 31, 2015, an increase of Ps.1,132 million, or 36.6%. This increase was primarily due to the valuation effect on securities, surplus of loan loss reserves and non-deductible provisions.

Liabilities

We had total liabilities of Ps.880,289 million as of March 31, 2017 compared to Ps.937,648 million as of December 31, 2016, a decrease of Ps.57,359 million, or 6.1%. This decrease was mainly due to lower volume of creditor balances under repurchase and derivatives trading instruments.

We had total liabilities of Ps.937,648 million as of December 31, 2016 compared to Ps.815,027 million as of December 31, 2015, an increase of Ps.122,621 million, or 15.0%, mainly as a result of creditor balances under repurchase agreement and a growth in deposits.

Deposits

We had total deposits of Ps.578,191 million as of March 31, 2017 compared to Ps.575,756 million as of December 31, 2016, an increase of Ps.2,435 million, or 0.4%. This increase was primarily due to a growth in time deposits. As of March 31, 2017, demand deposits, which bear interest at lower rates, represented 63.4% of total deposits, while time deposits represented 36.6%.

We had total deposits of Ps.575,756 million as of December 31, 2016 compared to Ps.563,670 million as of December 31, 2015, an increase of Ps.12,086 million, or 2.1%. This increase was driven mainly by a growth in demand deposits. As of December 31, 2016, demand deposits represented 66.4% of total deposits and general public time deposits represented 33.1%. As of December 31, 2015, demand deposits represented 62.1% of total deposits and general public time deposits represented 36.9%.

Total deposits represented 65.7%, 61.4% and 69.2% of total liabilities as of March 31, 2017, December 31, 2016 and December 31, 2015, respectively.

Interbank and Other Loans

We had interbank and other loans of Ps.17,043 million as of March 31, 2017, compared to Ps.21,260 million as of December 31, 2016, a decrease of Ps.4,217 million, or 19.8%. This decrease was mainly due to lower demand loans. Interbank and other loans represented 1.9% of total liabilities as of March 31, 2017 compared to 2.3% as of December 31, 2016.

We had interbank and other loans of Ps.21,260 million as of December 31, 2016 compared to Ps.14,943 million as of December 31, 2015. This increase was mainly due to higher levels of demand loans. Interbank and other loans represented 2.3% of total liabilities as of December 31, 2016 compared to 1.8% as of December 31, 2015.

Subordinated Debentures

We had non-convertible subordinated debentures of Ps.17,551 million, Ps.21,917 million and Ps.17,385 million as of March 31, 2017, December 31, 2016 and December 31, 2015, respectively. These variations were mainly due to the prepayment of certain notes on December 2016 and January 2017 for aggregate amounts of Ps.3,000 and Ps.2,750, respectively, and the issuance of subordinated debentures for U.S.$500 million in October 2016. Subordinated debentures represented 2.0%, 2.3% and 2.1% of total liabilities as of March 31, 2017, December 31, 2016 and December 31, 2015, respectively.

Stockholders' Equity

Our stockholders' equity was Ps.94,904 million as of March 31, 2017 compared to Ps.92,787 million as of December 31, 2016, an increase of Ps.2,117 million, or 2.3%, mainly as a result of higher retained earnings.

Our stockholders' equity was Ps.92,787 million as of December 31, 2016 compared to Ps.102,583 million as of December 31, 2015, a decrease of Ps.9,796 million, or 9.5%, mainly as a result of higher retained earnings.

Our stockholders' equity was Ps.102,583 million as of December 31, 2015 compared to Ps.94,791 million as of December 31, 2014, an increase of Ps.7,792 million, or 8.2%, mainly as a result of higher retained earnings.

Liquidity

The purpose of our liquidity management function is to ensure that we have funds available to meet our financial obligations. These obligations arise from withdrawals of deposits, repayments at maturity of short-term notes, extensions of loans or other forms of credit and working capital needs. One significant element of the liquidity management function is maintaining our compliance with the Mexican Central Bank's liquidity regulations. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities."

We have various sources of liquidity. Short-term and marketable investments, such as government securities and deposits with the Mexican Central Bank and prime banks, are our most liquid income generating assets. Deposits, including demand deposits, savings deposits and time deposits, are our largest source of liquidity. Our liquid assets also include deposits in foreign banks. These deposits in foreign banks are denominated principally in U.S. dollars.

Mexican Central Bank regulations require Mexican banks to comply with certain reserve requirements with respect to non-Peso-denominated liabilities. Reserves on non-Peso-denominated deposits continue to be required. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." As of March 31, 2017, December 31, 2015 and December 31, 2014, we were in compliance with all reserve requirements and liquidity coefficients.

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months, including our expected 2017 capital expenditures.

Foreign Currency Position

Mexican Central Bank 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. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." As of March 31, 2017, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.$7,220 million (Ps.135,700 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were

U.S.$2,760 million (Ps.51,867 million). For a discussion of the components of Tier 1 Capital, see "Supervision and Regulation—Capitalization."

As of March 31, 2017 and for the years ended December 31, 2016 and 2015, we were in compliance with regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

As part of our asset liability management strategy, we closely monitor our exposure to foreign currency risk, with a view to minimizing the effect of exchange rate movements on our earnings. As of March 31, 2017, our foreign currency-denominated assets totaled U.S.$5,781 million (Ps.108,653 million), representing 11.1% of our total assets. At that date, our foreign currency-denominated liabilities amounted to U.S.$5,748 million (Ps.108,042 million), representing 12.3% of our total liabilities. See "Selected Statistical Information—Interest-Bearing Deposits with Other Banks."

Funding

Our principal sources of funding are customer deposits, which are concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Customer deposits are our least expensive source of funding. Our customer deposits increased to Ps.578,191 million (or 65.5% of total liabilities) as of March 31, 2017 from Ps.575,756 million (or 61.4% of total liabilities) as of December 31, 2016, an increase of Ps.2,435 million, or 0.4%. This decrease was primarily due to a decay in time deposits. Repurchase agreements have been another important instrument in Mexico's money markets by providing short-term investments to banking customers, mainly with Mexican government-issued paper and to a lesser extent securities issued by other Mexican banks and corporations. Management has used repurchase operations to achieve cost efficiencies and make our business more competitive. As of March 31, 2017, December 31, 2016 and December 31, 2015, securities of Ps.1,137 million, Ps.4,019 million and Ps.1 million, respectively, were pledged as collateral in connection with repurchase agreements.

Long-term debt is another source of funds for us. Long-term debt is issued to match long-term loans and investments and reduce liquidity risk. As of March 31, 2017, we had Ps.8,702 million principal amount of long-term debt outstanding with maturities over one year. We had Ps.9,178 million and Ps.7,385 million principal amount of long-term debt outstanding with maturities over one year as of December 31, 2016 and 2015, respectively.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network and customer base to attract banking deposits. Although we monitor developments in public demand for long-term loans and opportunities to borrow long-term funds on favorable terms, we anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and we intend to maintain our emphasis on the use of banking deposits.

UDI-denominated deposits from the Mexican government provide the funding for our off-balance sheet UDI Trusts. In return, we have purchased from the Mexican government *Cetes Especiales*, which have an interest rate based on the *Cetes* rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts (the "*Cetes Especiales*" or "Special *Cetes*"). These Special *Cetes* pay interest in cash only as the loans in the UDI Trusts mature. The Mexican government's UDI-denominated deposits have a fixed real interest rate which varies depending on the type of loan in the UDI Trusts.

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 mainly through deposits of customers, medium and large Mexican companies, primarily in the export sector, interbank deposits and fixed rate notes. In the case of foreign trade transactions, we use trade financing facilities including from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on LIBOR. Our position in foreign currency as of March 31, 2017 amounted to U.S.$5,781 million in assets (or 11.1% of total assets) and U.S.$5,748 million in liabilities (or 12.3% of total liabilities).

Capital Expenditures

We budget internally for capital expenditures in U.S. dollars. We invested (in nominal terms) U.S.$15 million, U.S.$203 million and U.S.$190 million in technology (including telecommunications, computer hardware and software, systems development, ATMs and POSs) for the three-month period ended March 31, 2017 and in fiscal years 2016 and 2015, respectively. Our current budget anticipates capital expenditures of approximately U.S.$29 million for the remaining quarters of 2017 and U.S.$183 million in fiscal year 2017, including investments relating to hardware, software, telecommunications, ATMs and POSs. In addition, we estimate that we will invest U.S.$20 million every year from 2017 to 2018 as part of our branch expansion program.

We expect that capital expenditures for the remaining quarters of 2017 will be funded with cash generated from future operations and other sources of liquidity. We can give no assurance, however, that the capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Risk-Based Capital

The Mexican Capitalization Requirements take into account credit risk, operational risk and market risk. See "Supervision and Regulation—Capitalization." The tables below present our risk-weighted assets and Capital Ratios as of March 31, 2017 and as of December 31, 2016 and 2015, determined, as required by regulations. As of March 31, 2017, we were in compliance with all applicable capital adequacy regulations. On a general basis, the minimum Capital Ratios required by the Mexican Capitalization Requirements in order for a bank not to be required to defer or cancel interest payments and defer principal payments of subordinated debt and not to be subject to certain other corrective measures are (a) 10.5% in the case of Total Net Capital, (b) 8.5% in the case of Tier 1 Capital, or (c) 7.0% in the case of Fundamental Capital, plus, in each case, any applicable Capital Supplement required under the Mexican Capitalization Requirements.

	As of March 31,		As of December 31,		
	2017	2017	2016	2016	2015
	(U.S. millions, except for percentages) [(1)]	*(Ps. millions, except for percentages)*	*(U.S. millions, except for percentages)* [(1)]	*(Ps. millions, except for percentages)*	
Capital:					
Fundamental Capital (CET1)	4,527	85,080	4,124	77,518	68,348
Additional Tier 1 Capital	120	2,255	204	3,830	4,469
Tier 2 Capital	841	15,808	885	16,643	7,692
Total Net Capital	**5,488**	**103,143**	**5,213**	**97,991**	**80,509**
Risk-Weighted Assets:					
Credit risk	25,489	479,075	25,425	477,880	398,908
Market risk	3,043	57,203	4,286	80,556	80,392
Operational risk	4,564	85,789	4,371	82,153	72,342
Total Risk-Weighted Assets	**33,096**	**622,067**	**34,082**	**640,589**	**551,642**
Capital Ratios (credit, market and operational risk):					
Tier 1 Capital to risk-weighted assets	14.04%	14.04%	12.70%	12.70%	13.20%
Tier 2 Capital to risk-weighted assets	2.54%	2.54%	2.60%	2.60%	1.39%
Total Net Capital to risk-weighted assets	**16.58%**	**16.58%**	**15.30%**	**15.30%**	**14.59%**

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2017 and December 31, 2016 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 31, 2017 of Ps.18.7955 per U.S.$1.00. See "Exchange Rates and Currency."

SELECTED STATISTICAL INFORMATION

The following selected statistical information is provided with respect to Banorte and its consolidated subsidiaries only. Selected statistical information for Banorte is as of and for the three-month period ended March 31, 2017 and as of and for the years ended December 31, 2016, 2015 and 2014.

Assets and liabilities have been classified by currency of denomination (Pesos or foreign currency), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in Pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions, although Euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then converted into Pesos at an exchange rate of Ps.18.7955 to U.S.$1.00, the Mexican Central Bank Exchange Rate on March 31, 2017.

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

Unless otherwise indicated, balance sheet and statement of income items in the following tables are presented in millions of Pesos as of March 31, 2017. Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt securities and no tax-equivalence adjustments are considered necessary.

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 arithmetic aggregation of the figures preceding them.

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

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

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

Average balances and interest income (expense) for 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 the total interest income (expense) was determined. In addition, the average balances and the total interest income (expense) were translated into Pesos using the applicable month-end exchange rate published in the Official Gazette. The average balance for each period presented below is the average of the monthly balances so determined. Interest income (expense) for each period is the total of the income (expense) for the months so determined.

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 indicated:

	For the three-month period ended March 31,			For the year ended December 31,								
	2017			2016			2015			2014		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(Ps. millions, except percentages)											
Deposits in banks:												
Pesos	31,155	519	6.7%	37,384	1,506	4.0%	39,429	1,192	3.0%	38,629	1,266	3.3%
Foreign currency	1,164	6	2.1%	7,389	237	3.2%	9,295	54	0.6%	11,756	13	0.1%
Sub-total	**32,319**	**525**	**6.5%**	**44,773**	**1,743**	**3.9%**	**48,724**	**1,246**	**2.6%**	**50,385**	**1,279**	**2.5%**
Investment securities(1):												
Pesos	226,751	3,976	7.0%	230,856	10,443	4.6%	256,708	8,718	3.4%	254,461	9,327	3.7%
UDIs	1,114	38	13.6%	1,634	134	8.2%	1,600	125	7.8%	3,768	281	7.5%
Foreign currency	35,836	291	3.2%	37,109	894	2.4%	18,494	669	3.6%	18,245	741	4.1%
Sub-total	**263,701**	**4,305**	**6.5%**	**269,599**	**11,471**	**4.3%**	**276,802**	**9,512**	**3.4%**	**276,474**	**10,349**	**3.7%**
Loans(2):												
Pesos	528,600	15,049	11.4%	488,766	50,769	10.4%	447,852	43,634	9.7%	410,232	42,160	10.3%
UDIs	202	1	2.0%	227	4	1.8%	322	5	1.6%	362	6	1.7%
Foreign currency	38,736	423	4.4%	38,243	1,517	4.0%	30,196	1,143	3.8%	22,484	856	3.8%
Sub-total	**567,538**	**15,473**	**10.9%**	**527,236**	**52,290**	**9.9%**	**478,370**	**44,782**	**9.4%**	**433,078**	**43,022**	**9.9%**
Repurchase Agreements:												
Pesos	46,066	689	6.0%	34,728	1,417	4.1%	28,213	884	3.1%	29,506	982	3.3%
Trading Derivatives:												
Pesos	2,554	0	0.0%	5,488	0	0.0%	1,566	0.0	0.0%	1,933	0.0	0.0%
Hedging Derivatives:												
Pesos	24,863	1,037	16.7%	19,668	2,118	10.8%	19,990	2,143	10.7%	18,638	1,927	10.3%
Foreign Currency	0	0	0.0%	194	206	106.2%	213	193	90.6%	207	142	68.6%
Sub-total	**24,863**	**1,037**	**16.7%**	**19,862**	**2,324**	**11.7%**	**20,203**	**2,336**	**11.6%**	**18,845**	**2,069**	**11.0%**
Foreign exchange valuation:	0	0	0.0%	0	155	0.0%	0.0	210	0.0%	0.0	114	0.0%
Dividend from equity instrum,:	0	0	0.0%	0	7	0.0%	0.0	0	0.0%	0.0	0	0.0%
Total interest-earning assets:												
Pesos	859,989	21,270	9.9%	816,890	66,415	8.1%	793,758	56,781	7.2%	753,399	55,776	7.4%
UDIs	1,316	39	11.9%	75,736	720	3.8%	1,922	130	6.8%	4,130	287	6.9%
Foreign currency	75,736	720	3.8%	82,935	2,854	3.4%	58,198	2,059	3.5%	52,692	1,752	3.3%
Sub-total	937,041	22,029	9.4%	901,686	69,407	7.7%	**853,878**	**58,970**	**6.9%**	**810,221**	**57,815**	**7.1%**
Permanent stock investments:												
Pesos	1,812			10,738			**12,952**			**13,177**		
Foreign Currency	13			13			187			160		
Sub-total	**1,825**			**10,751**			**13,139**			**13,337**		

	For the three-month period ended March 31,			For the year ended December 31,								
	2017			2016			2015			2014		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(Ps. millions, except percentages)											
Cash and due from banks:												
Pesos	17,265			16,726			14,675			12,295		
UDI	0			0			0			1		
Foreign currency	24,723			18,872			14,091			3,586		
Sub-total	**41,988**			**35,598**			**28,766**			**15,882**		
Securitizations (*Constancias*):												
Pesos	146			162			485			734		
Allowances for loan losses:												
Pesos	(13,351)			(13,534)			(13,892)			(13,738)		
UDIs	(3)			(4)			(11)			(20)		
Foreign currency	(301)			(299)			(268)			(366)		
Sub-total	**(13,655)**			**(13,837)**			**(14,171)**			**(14,124)**		
Property, furniture and equipment, net:												
Pesos	11,952			11,135			10,006			9,099		
Foreign Currency	83			122			59			42		
Sub-total	**12,035**			**11,257**			**10,065**			**9,141**		
Other non-interest-earning assets												
Pesos	42,269			39,907			35,062			32,445		
UDIs	0			0			0			0		
Foreign currency	16,538			21,369			15,829			12,115		
Sub-total	**58,807**			**61,276**			**50,891**			**44,560**		
Total assets:												
Pesos	920,082	21,270	9.2%	882,024	66,415	7.5%	853,046	56,781	6.7%	807,411	55,776	6.9%
UDIs	1,313	39	11.9%	1,857	138	7.4%	1,911	130	6.8%	4,111	287	7.0%
Foreign currency	116,792	720	2.5%	123,012	2,854	2.3%	88,096	2,059	2.3%	68,229	1,752	2.6%
Total	**1,038,187**	**22,029**	**8.5%**	**1,006,893**	**69,407**	**6.9%**	**943,053**	**59,970**	**6.3%**	**879,751**	**57,815**	**6.6%**

(1) Does not include equity investments in subsidiaries and affiliates. Includes securities purchased under agreements to resell and derivatives financial instruments.
(2) Interest income includes fees on loans of Ps.2,206 million in 2014, Ps.1,200 million in 2015, Ps.1,199 million in 2016 and Ps.282 million for the three-month period ended March 31, 2017.
(3) UDI Trusts' deposits are payable to the Mexican federal government and deducted from *Cetes Especiales* (investment securities) for balance sheet purposes.

Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the average balances of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods indicated:

	For the three-month period ended March 31,			For the year ended December 31,								
	2017			2016			2015			2014		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	(Ps. millions, except percentages)											
Demand deposits:												
Pesos	124,270	443	1.4%	137,701	1,461	1.1%	137,159	1,411	1.0%	123,094	1,305	1.1%
Foreign currency	20,051	3	0.1%	15,167	8	0.1%	11,898	8	0.1%	9,688	6	0.1%
Sub-total	**144,321**	**446**	**1.2%**	**152,868**	**1,469**	**1.0%**	**149,057**	**1,419**	**1.0%**	**132,782**	**1,311**	**1.0%**
Time deposits:												
Peso	200,818	2,461	4.9%	186,850	6,316	3.4%	180,769	4,838	2.7%	172,837	4,640	2.7%
Foreign currency	15,059	7	0.2%	20,077	52	0.3%	21,248	101	0.5%	16,461	270	1.6%
Sub-total	**215,877**	**2,468**	**4.6%**	**206,927**	**6,368**	**3.1%**	**202,015**	**4,939**	**2.4%**	**189,298**	**4,910**	**2.6%**
Bank loans:												
Pesos	693	10	5.8%	1,116	39	3.5%	1,719	56	3.3%	2,035	72	3.5%
Foreign currency	2,512	1	0.2%	2,274	41	1.8%	853	11	1.3%	244	5	2.0%
Sub-total	**3,205**	**11**	**1.4%**	**3,390**	**80**	**2.4%**	**2,572**	**67**	**2.6%**	**2,279**	**77**	**3.4%**
Loans from Mexican development banks:												
Pesos	9,734	278	11.4%	8,857	427	4.8%	8,836	374	4.2%	9,730	449	4.6%
Foreign currency	4,207	39	3.7%	3,933	99	2.5%	3,727	80	2.1%	2,274	41	1.8%
Sub-total	**13,941**	**317**	**9.1%**	**12,790**	**526**	**4.1%**	**12,563**	**454**	**3.6%**	**12,004**	**490**	**4.1%**
Outstanding subordinated debentures:												
Pesos	3,039	66	8.7%	8,902	489	5.5%	8,965	392	4.4%	9,641	456	4.7%
UDIs	2,574	32	5.0%	2,470	124	5.0%	2,404	119	5.0%	2,338	117	5.0%
Foreign currency	12,595	193	6.1%	8,086	608	7.5%	5,569	443	8.0%	4,663	376	8.1%
Sub-total	**18,208**	**291**	**6.4%**	**19,458**	**1,221**	**6.3%**	**16,938**	**954**	**5.6%**	**16,642**	**949**	**5.7%**
Securities sold under agreements to repurchase:												
Pesos	254,448	3,807	6.0%	248,307	10,435	4.2%	260,869	8,050	3.1%	269,657	8,878	3.3%
Foreign currency	1,725	9	2.1%	0	0	0.0%	0	0.0	0.0%	0.0	0.0	0.0%
Sub-total	**256,173**	**3,816**	**6.0%**	**248,307**	**10,435**	**4.2%**	**260,869**	**8,050**	**3.1%**	**269,657**	**8,877.7**	**3.3%**
Trading Derivatives:												
Foreign currency	1,459	0	0.0%	6,280	0	0.0%	2,234	0	0.0%	1,934	0	0.0%
Hedging Derivatives:												
Pesos	11,609	838	28.9%	6,802	2,358	34.7%	7,990	2,370	29.7%	7,273	2,146	29.5%

	For the three-month period ended March 31,			For the year ended December 31,								
	2017			2016			2015			2014		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	(Ps. millions, except percentages)											
Foreign currency	20,844	164	3.1%	20,135	230	1.1%	16,079	699	4.3%	14,821	696	4.7%
Sub-total	**32,453**	**1,002**	**12.4%**	**26,937**	**2,588**	**9.6%**	**24,069**	**3,069**	**12.8%**	**22,094**	**2,842**	**12.9%**
Foreign exchange valuation:												
Pesos	0	263	0.0%	0	74	0.0%	0.0	41	0.0%	0.0	67	0.0%
Cost for new credits:												
Pesos	0	143	0.0%	0	485	0.0%	0.0	376	0.0%	0.0	365	0.0%
Total interest-bearing liabilities:												
Pesos	604,611	8,309	5.5%	598,535	22,084	3.7%	606,305	17,908	3.0%	594,267	18,378	3.1%
UDIs	2,574	32	5.0%	2,470	124	5.0%	2,404	119	5.0%	2,338	117	5.0%
Foreign currency	78,452	416	2.1%	75,952	1,038	1.4%	61,608	1,342	2.2%	50,085	1,394	2.8%
Sub-total	**685,637**	**8,757**	**5.1%**	**676,957**	**23,246**	**3.4%**	**670,317**	**19,369**	**2.9%**	**646,690**	**19,889**	**3.1%**
Non-interest-bearing liabilities:												
Pesos	220,772			182,753			153,925			133,938		
UDIs	4			5			9			3		
Foreign currency	39,487			28,094			17,824			11,075		
Sub-total	**260,263**			**210,852**			**171,758**			**145,016**		
Stockholders' equity:												
Pesos	90,402			101,058			93,542			81,966		
UDIs	68			(93)			84			63		
Foreign currency	1,817			18,119			7,176			5,865		
Sub-total	**92,287**			**119,084**			**100,802**			**87,894**		
Total liabilities and stockholders' equity:												
Pesos	915,785	8,309	3.6%	882,346	22,084	2.5%	853,772	17,908	2.1%	810,171	18,378	2.3%
UDIs	2,646	32	4.8%	2,382	124	5.2%	2,497	119	4.8%	2,404	117	4.9%
Foreign currency	119,756	416	1.4%	122,165	1,038	0.8%	86,608	1,342	1.5%	67,025	1,394	2.1%
Total	**1,038,187**	**8,757**	**3.4%**	**1,006,893**	**23,246**	**2.3%**	**942,877**	**19,369**	**2.1%**	**879,600**	**19,889**	**2.3%**

Changes in Interest Income and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in interest income and interest expense between changes in volume and changes in rates for the three-month period ended March 31, 2017 compared to the corresponding period in 2016, for 2016 compared to 2015 and for 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 interest-earning assets and average interest bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	Three-month period ended March 31, 2017/2016			Years Ended December 31, 2016/2015			Years Ended December 31, 2015/2014		
	Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
					(Ps. millions)				
Deposits in banks:									
Pesos	(72)	252	180	(62)	376	314	26	(100)	(74)
Foreign currency	(38)	3	(35)	(11)	194	183	(3)	44	41
Sub-total	(110)	255	145	(73)	570	497	23	(56)	(33)
Investment securities:									
Pesos	238	1,606	1,844	(878)	2,603	1,725	82	(691)	(609)
UDIs	(5)	13	8	3	6	9	(162)	6	(156)
Foreign currency	184	(51)	133	673	(448)	225	10	(82)	(72)
Sub-total	417	1,568	1,985	(202)	2,161	1,959	(70)	(767)	(837)
Loans(1):									
Pesos	1,372	1,999	3,371	3,986	3,149	7,135	3,866	(2,392)	1,474
UDIs	0	0	0	(1)	0	(1)	(1)	0	(1)
Foreign currency	18	49	67	305	69	374	294	(7)	287
Sub-total	1,390	2,048	3,438	4,290	3,218	7,508	4,159	(2,399)	1,760
Repurchase operations:									
Pesos	(46)	292	246	204	329	533	(43)	(55)	(98)
Hedging Derivatives:									
Pesos	125	297	422	(35)	10	(25)	140	76	216
Foreign currency	(49)	0	(49)	(17)	30	13	4	47	51
Sub-total	76	297	373	(52)	40	(12)	144	123	267
Foreign exchange valuation:									
Pesos	0	0	0	0	(55)	(55)	-	96	96
UDI Trusts' fiduciary liabilities:									
UDIs	0	0	0	0	7	7	-	-	-
Total interest-earning assets:									
Pesos	1,617	4,446	6,063	3,215	6,419	9,634	4,071	(3,066)	1,005
UDIs	(5)	13	8	2	6	8	(163)	6	(157)
Foreign currency	115	1	116	950	(155)	795	305	2	307
Total	**1,727**	**4.460**	**6,187**	**4,167**	**6,270**	**10,437**	**4,213**	**(3,058)**	**1,155**

(1) Interest income includes fees on loans of Ps.2,206 million in 2014, Ps.1,200 million in 2015, Ps.1,199 million in 2016 and Ps.282 million for the three-month period ended March 31, 2017.

Interest-Bearing Liabilities

	March 31, 2017/2016			2016/2015			2015/2014		
	Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
					(Ps. millions)				
Demand deposits:									
Pesos	(46)	124	78	6	44	50	149	(43)	106
Foreign currency	0	0	1	2	(2)	0	1	(1)	2
Sub-total	**(46)**	**124**	**79**	**8**	**42**	**50**	**150**	**(42)**	**108**
Time deposits:									
Pesos	136	1,060	1,196	163	1,315	1,478	213	(15)	198
Foreign currency	(7)	(8)	(15)	(6)	(43)	(49)	79	(248)	(169)
Sub-total	**129**	**1,052**	**1,181**	**157**	**1,272**	**1,429**	**292**	**(263)**	**29**
Bank loans:									
Pesos	(10)	3	(7)	(20)	3	(17)	(11)	(5)	(16)
Foreign currency	2	(8)	(6)	18	12	30	12	(6)	6
Sub-total	**(8)**	**(5)**	**(13)**	**(2)**	**15**	**13**	**1**	**(11)**	**(10)**
Loans from Mexican development banks:									
Pesos	11	172	183	1	52	53	(41)	(34)	(75)
Foreign currency	2	14	16	4	15	19	26	13	39
Sub-total	**13**	**186**	**199**	**5**	**67**	**72**	**(15)**	**(21)**	**(36)**
Outstanding subordinated debentures:									
Pesos	(71)	30	(41)	(3)	100	97	(32)	(32)	(64)
UDIs	1	0	1	3	1	4	3	(1)	2
Foreign currency	113	(30)	83	200	(35)	165	73	(6)	67
Sub-total	**43**	**0**	**43**	**200**	**66**	**266**	**44**	**(39)**	**5**
Securities sold under agreements to repurchase:									
Pesos	119	1,592	1,711	(388)	2,773	2,385	(289)	(539)	(828)
Foreign currency	0	9	9	0	0	0	0	0	0
Sub-total	**119**	**1,601**	**1,720**	**(388)**	**2,773**	**2,385**	**(289)**	**(539)**	**(828)**
Hedging derivatives:									
Pesos	202	11	213	(352)	340	(12)	212	12	224
Foreign currency	26	(37)	(11)	176	(646)	(470)	59	(56)	3
Sub-total	**228**	**(26)**	**202**	**(176)**	**(306)**	**(482)**	**271**	**(44)**	**227**
Foreign exchange valuation:									
Pesos	0	230	230	0	33	33	0	(26)	(26)
Cost for Credits:									
Pesos	0	42	42	0	109	109	0	11	11

	March 31, 2017/2016			2016/2015			2015/2014		
	Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
					(Ps. millions)				
Total interest-bearing liabilities:									
Pesos	341	3,264	3,605	(593)	4,769	4,176	201	(671)	(470)
UDIs	1	0	1	3	1	4	3	(1)	2
Foreign currency	137	(60)	77	394	(699)	(305)	250	(302)	(52)
Total	**479**	**3,204**	**3,683**	**(196)**	**4,071**	**3,875**	**454**	**(974)**	**(520)**

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 (other than fees on credit card cash disbursements and merchant fees on credit card purchases) in net interest income has been included.

	For the three-month period ended March 31,	**For the year ended December 31,**		
	2017	**2016**	**2015**	**2014**
	(Ps. millions, except percentages)	***(Ps. millions, except percentages)***		
Total average earning assets:				
Pesos	859,989	816,890	793,758	753,399
UDIs	1,316	1,861	1,922	4,130
Foreign currency	75,736	82,935	58,198	52,692
Total	937,041	901,686	853,878	810,221
Historical not including loan fees:				
Net interest income:				
Pesos	12,961	44,331	38,872	37,398
UDIs	7	14	11	170
Foreign currency	304	1,816	717	358
Total	13,272	46,161	39,601	37,926
Gross yield(1):				
Pesos	9.9%	8.1%	7.2%	7.4%
UDIs	11.9%	7.4%	6.8%	6.9%
Foreign currency	3.8%	3.4%	3.5%	3.3%
Weighted-average rate	9.4%	7.7%	6.9%	7.1%
Net yield(2):				
Pesos	6.0%	5.4%	4.9%	5.0%
UDIs	2.1%	0.8%	0.6%	4.1%
Foreign currency	1.6%	2.2%	1.2%	0.7%
Weighted-average rate	5.7%	5.1%	4.6%	4.7%
Yield spread(3):				
Pesos	4.4%	4.4%	4.2%	4.3%
UDIs	6.9%	2.4%	1.8%	1.9%
Foreign currency	1.7%	2.1%	1.4%	0.5%
Weighted-average rate	4.3%	4.3%	4.0%	4.1%

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

(2) Net yield represents the total of net interest income divided by average earning assets, based on beginning and end-of-year balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities, based on beginning and end-of-year balances. For the three-month period ended March 31, 2017, determined on an annualized basis.

Return on Average Total Assets and Average Stockholders' Equity

The following table presents certain selected financial data and ratios for Banorte for the periods indicated:

	For the three-month period ended March 31,	For the year ended December 31,		
	2017	2016	2015	2014
	(Ps. millions, except percentages)	*(Ps. millions, except percentages)*		
Net income	4,305	15,044	13,518	11,936
Average total assets	1,002,804	974,013	896,249	831,402
Average stockholders' equity	93,835	97,675	98,678	86,349
Return on average assets(1)(2)	1.7%	1.5%	1.5%	1.4%
Return on average equity(1)(2)	18.4%	15.4%	13.7%	13.8%
Average stockholders' equity as a percentage of average total assets	9.4%	10.0%	11.0%	10.4%
Dividend Payout Ratio	14.6%	44.1%	46.5%	0.0%

(1) The average for each period was determined by calculating the sum of the line item at the end of the period and the line item at the end of the prior period and then dividing this sum by two.
(2) Figures for the three-month period ended March 31, 2017 have been annualized.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

Mexican Central Bank regulations mandate that Mexican banks base their floating interest rates on commercial and mortgage loans on a single reference rate published by official or market-driven sources and that the agreements for such loans specify the factor used to determine the interest rate and the minimum and maximum spread over the reference rate. Currently, we generally base the floating interest rate on all of our new Peso-denominated loans on the TIIE.

In accordance with the Mexican Central Bank regulations, our policy with respect to non-Peso lending activities, mainly in U.S. dollars, is to price such loans generally on the basis of LIBOR or a fixed rate. Spreads over LIBOR are determined in accordance with our marginal cost of funding in currencies other than Pesos. Under Mexican Central Bank regulations, a portion of our non-Peso liabilities must be invested in certain dollar-denominated, low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." Our cost associated with funding the reserve is also included in determining the cost to customers of non-Peso-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 negative repricing gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income.

The following table reflects our interest-earning assets and interest-bearing liabilities as of March 31, 2017. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

	As of March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	Non-Rate Sensitive or Over One Year	Total
	(Ps. millions, except percentages)					
Assets[(1)]:						
Variable-rate loans	147,580	110,319	43,678	4,244	2,890	308,711
Fixed-rate loans	9,766	15,205	13,360	25,589	187,958	251,878
Total performing loans	157,346	125,523	57,039	29,833	190,848	560,589
Securities and investments	160,723	231	4,217	16,890	82,093	264,154
Repurchase agreements and derivative financial instruments	11,824	875	1,133	974	8,321	23,127
Total interest-earning assets	329,893	126,629	62,389	47,697	281,262	847,870
Cash, property and other non-interest-earning assets	0	0	0	0	131,095	131,095
Non-performing loans					10,033	10,033
Less: Allowance for loan losses					(13,805)	(13,805)
Total assets	329,893	126,629	62,389	47,697	408,585	975,193
Liabilities And Stockholders' Equity[(1)]:						
Demand deposits	23,933	4,636	13,109	26,823	297,941	366,454
Time deposits	57018	34,924	28,349	29,766	61,693	211,737
Total deposits	80,951	39,560	41,458	56,589	61,693	578,191
Short-term debt	3,969	3,458	446	468	0	8,341
Long-term debt	835	4,968	346	493	2,060	8,702
Securities and derivative financial instruments	219,567	2,139	833	5,770	11,276	239,585
Subordinated debentures	0	0	0	17,551	0	17,551
Other liabilities					27,919	27,919
Stockholders' equity					94,904	94,904
Total liabilities and stockholders' equity	**305,322**	**50,125**	**43,083**	**80,870**	**495,792**	**975,193**
Interest rate sensitivity gap	24,571	76,504	19,306	(33,174)	(87,207)	0
Cumulative interest rate sensitivity gap	24,571	101,074	120,380	87,207	0	0
Cumulative gap as percentage of total interest-earning assets	0	0	0	0	0	0

(1) Based on the lesser of the number of days to reprice and the remaining days to maturity of the corresponding asset or liability.

As of March 31, 2017, interest-earning assets totaled Ps.847,870 million. Of these assets, 38.9% repriced periodically every 30 days or less. Such assets included 47.7% of performing loans and 48.7% of securities and investments. Of our total performing loan portfolio, 93.8% was comprised of variable-rate loans and 6.2% was comprised of fixed-rate loans.

Of our liabilities as of March 31, 2017, 65.7% consisted of deposits, totaling Ps.578,191 million, of which 14% reprice every 30 days or less. The remaining 34.3% of our liabilities amounting to Ps.302,098 million consisted of Ps.17,043 million of funds from bank borrowings, Ps.17,551 million of subordinated debentures, Ps.239,585 million of financial instruments repurchase operations, and Ps.27,919 million of other liabilities. Of such Ps.880,289 million of liabilities, 34.7% reprice every 30 days or less.

Interest-Bearing Deposits with Other Banks

Mexican Central Bank regulations require banks to maintain a minimum liquidity coefficient of foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." A substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Mexican Central Bank regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 Capital. At December 31, 2016, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.$7,829 million (Ps.161,424 million). As of December 31, 2016, our maturity-adjusted net foreign currency liabilities totaled U.S.$2,412 million (Ps.49,745 million). At March 31, 2017, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.$7,220 million (Ps.135,700 million). As of March 31, 2017, our maturity-adjusted net foreign currency liabilities totaled U.S.$2,760 million (Ps.51,867 million).

Securities

We held securities in the amount of Ps.264,044 million as of March 31, 2017, representing 27.1% of our total assets.

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

	As of March 31,	As of December 31,		
	2017	**2016**	**2015**	**2014**
		(Ps. millions)		
Peso-Denominated:				
Mexican government securities:				
Cetes	197	119	99	1,357
Cetes Especiales(1)	959	951	913	886
Bonds	182,257	208,594	145,868	171,339
Total Mexican government securities	**183,412**	**209,663**	**146,880**	**173,582**
Bank bonds and certificates	39,768	38,956	33,108	44,693
Other fixed income securities	3,912	3,807	3,775	7,848
Equity securities (GFNorte, Banorte Stock Plan)	138	145	174	374
Total Peso-denominated	**227,230**	**252,571**	**183,937**	**226,497**
Foreign Currency-Denominated:				
Government securities:				
Mexican government securities issued abroad	23,056	17,754	5,784	6,171
U.S. Treasury bills	0	0	0	650
Total government securities	**23,056**	**17,754**	**5,784**	**6,821**
Eurobonds PEMEX	10,672	11,526	9,363	10,898
U.S. commercial paper	0	0	0	0
US Agencies	0	0	173	0
Other fixed income securities	2,861	7,338	8,614	9,989
Equity securities (Visa & MC)	125	120	100	72
Total foreign currency-denominated	**36,714**	**36,739**	**24,034**	**27,780**
Sub-total securities	**263,944**	**289,309**	**207,971**	**254,277**
Assigned Securities Pending Settlement	100	(477)	3,027	6,198
Total Securities	**264,044**	**288,863**	**210,998**	**260,475**

(1) *Cetes Especiales* in the above table are shown net of UDI Trusts' deposits.

Securities—Maturities and Average Yields

The following table analyzes, as of March 31, 2017, remaining maturities and weighted-average yields of our securities that have a specific date of maturity:

	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
	Amnt	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Amnt**	**Yield**	**Balance**
	(Ps. millions, except percentages)																
PESO-DENOMINATED:																	
Cetes	98	6.4%	4	6.6%	95	6.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	196
Cetes Especiales	0	0.0%	452	3.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	507	3.7%	959
Bonds	1	6.6%	2,878	6.7%	15,049	6.7%	23,855	6.7%	44,037	6.7%	37,288	6.8%	29,159	6.8%	29,991	6.6%	182,257
Total Mexican government securities	**99**	**6.4%**	**3,333**	**6.3%**	**15,144**	**6.7%**	**23,855**	**6.7%**	**44,037**	**6.7%**	**37,288**	**6.8%**	**29,159**	**6.8%**	**30,497**	**6.6%**	**183,412**
Bank bonds and certificates	9,891	6.8%	3,888	7.0%	5,146	7.1%	3,914	7.3%	6,427	7.8%	2,635	7.7%	786	7.3%	7,080	8.5%	39,768
Other fixed-income securities	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Total Peso-denominated	**9,990**	**6.8%**	**7,221**	**6.7%**	**20,290**	**6.8%**	**27,770**	**6.8%**	**50,463**	**6.9%**	**39,923**	**6.8%**	**29,945**	**6.8%**	**37,578**	**6.9%**	**223,180**
FOREIGN CURRENCY-DENOMINATED:																	
Mexican government securities issued abroad	0	0.0%	0	0.0%	0	0.0%	3,249	1.8%	8,419	2.0%	1,660	2.5%	3,088	2.3%	6,640	3.1%	23,056
U.S. Treasury securities	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Eurobonds PEMEX	0	0.0%	23	1.9%	0	0.0%	515	2.4%	3	2.8%	403	3.8%	598	4.3%	9,130	4.1%	10,672
U.S. commercial paper	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Agencies	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Other fixed-income securities	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	117	2.6%	0	0.0%	2,744	4.7%	2,861
Total foreign currency denominated	**0**	0.0%	**23**	1.9%	**0**	0.0%	**3,764**	1.9%	**8,422**	2.0%	**2,180**	2.7%	**3,687**	2.60%	**18,514**	3.8%	**36,589**
Total securities (excluding equity securities)	**9,990**	**6.8%**	**7,245**	**6.6%**	**20,290**	**6.8%**	**31,534**	**6.2%**	**58,885**	**6.2%**	**42,103**	**6.6%**	**33,632**	**0.5%**	**56,091**	**5.9%**	**259,769**
UDI Trusts' deposits																	0
Equity Securities (GFNorte, Banorte Stock Plan)																	263
Managed Fund Stocks																	3,912
Assigned Securities Pending Settlement																	100
Consolidated securities balance																	264,044

Bank Loans and Securities Sold Under Repurchase Agreements

The following table sets forth our borrowings and securities sold under repurchase agreements for the periods indicated:

	As of and for the three-month period ended March 31,		As of and for the year ended December 31,					
	2017		2016		2015		2014	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Bank loans:								
At end of period	16,948	4.8%	21,151	4.0%	14,941	3.3%	14,773	3.4%
Daily average indebtedness during period	17,246	4.8%	15,917	3.7%	14,749	3.4%	14,230	3.9%
Maximum month-end balance	18,057	4.8%	21,151	4.0%	19,968	3.5%	18,664	4.4%
Securities sold under repurchase agreements:								
At end of period	210,936	5.7%	234,490	4.8%	171,133	3.2%	208,362	3.1%
Daily average indebtedness during period	206,824	5.0%	216,149	3.4%	231,992	2.5%	238,362	3.1%
Maximum month-end balance	210,936	5.7%	234,490	4.8%	299,123	3.2%	258,890	3.5%
Total at end of period	**227,884**	**5.6%**	**255,641**	**4.7%**	**186,074**	**3.2%**	**223,134**	**3.2%**
Daily average indebtedness during period	224,071	4.9%	232,066	3.4%	246,741	2.5%	252,593	3.1%
Maximum month-end balance	228,993	5.6%	255,641	4.7%	319,091	3.2%	277,554	3.6%

Deposits

The following table presents the components of our deposit base for the dates indicated:

	As of March 31,	As of December 31,		
	2017	2016	2015	2014
	(Ps. millions)		*(Ps. millions)*	
Interest-bearing demand deposits:				
Peso-denominated	137,949	135,932	154,859	136,327
Non-Peso-denominated	17,130	17,786	20,264	16,219
Sub-total	**155,080**	**153,719**	**175,123**	**152,546**
Non-interest-bearing demand deposits:				
Peso-denominated	178,747	196,553	149,079	130,695
Non-Peso-denominated	34,037	33,489	26,840	17,038
Sub-total	**212,784**	**230,042**	**175,919**	**147,733**
Savings deposits:				
Peso-denominated	0	0	3	3
Non-Peso-denominated	0	0	–	–
Sub-total	**0**	**0**	**3**	**3**
Time deposits:				
Peso-denominated	195,822	174,203	181,425	171,299
Non-Peso-denominated	14,505	17,792	31,200	27,116
Sub-total	210,327	191,995	212,625	198,415
Total	**578,191**	**575,756**	**563,670**	**498,697**

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of our performing and 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. See "Presentation of Financial and Other Information—Terms Relating to Our Loan Portfolio."

Total balance of our loan portfolio as of March 31, 2017 amounted to Ps.570,622 million, an increase of Ps.3,590 million, or 0.6%, from the balance at December 31, 2016. This increase was mainly due to the increase in our consumer loans by Ps.8,695 million, and to the segments focus strategy. This increase was offset by a decrease in our total commercial loans of Ps.5,077 million, due to client's conservative expectations of the commercial environment, especially regarding the economic and political recent development in the United States, and by the impact of the portfolio valuation in U.S. dollars at a lower exchange rate than that of fourth quarter of 2016.

As of December 31, 2016, our loan portfolio amounted to Ps.567,032 million, an increase of Ps.45,804 million, or 8.8% compared to December 31, 2015. This increase was mainly due to the increase in our consumer loans by Ps.27,251 million backed by the growth on credit cards by Ps.2,607 million and other consumer credit by Ps.9,789 million, which was based on a successful commercial strategy, also to the increase in our housing mortgage loans by Ps14,855 million due to higher origination in all products comprising this segment, and an increase in our total commercial loans of Ps.20,127 million, mainly due to the reactivation of the *Crediactivo* product for businesses, better business dynamics in the corporate sector and efforts by our corporate banking area to increase lending.

As of December 31, 2015, our loan portfolio amounted to Ps.521,227 million, an increase of Ps 43,531 million, or 9.1% compared to December 31, 2014. This increase was mainly due to the increase in our consumer loans by Ps.19,617 million through an active portfolio management and commercial campaigns on higher origination in all products comprising this segment, and an increase of Ps.26,191 million in our total commercial loans primarily due to better business dynamics in the corporate and government sectors and our efforts to increase lending.

Loans by Type and by Borrower

The following table analyzes our loan portfolio by loan type. Total loans reflect the sum of the performing loan portfolio and the non-performing loan portfolio. For a breakdown of non-performing loans by loan type, see "—Non-Performing Loan Portfolio" below.

	As of March 31,	**As of December 31,**		
	2017	**2016**	**2015**	**2014**
	(Ps. millions)		*(Ps. millions)*	
Performing and Non-Performing Loans				
Commercial loans:				
Government loans	130,182	133,540	128,567	117,655
Loans granted to financial institutions	21,122	20,240	17,317	17,703
Business loans:				
Collateralized or guaranteed	146,465	141,651	119,605	118,135
Unsecured	52,685	60,101	69,917	55,722
Sub-total	199,150	201,753	189,522	173,857
Total commercial loans	**350,455**	**355,533**	**335,406**	**309,215**
Consumer loans:				
Mortgage	119,310	114,807	99,952	89,918
Credit cards	29,516	28,445	25,838	23,209
Other consumer credit	61,308	58,187	48,398	41,442
Total consumer loans	**210,134**	**201,439**	**174,188**	**154,570**
Total performing loans	**560,589**	**556,972**	**509,593**	**463,785**
Total non-performing loans	**10,033**	**10,060**	**11,634**	**13,912**
Total loans(1)	**570,622**	**567,032**	**521,227**	**477,697**

(1) The loan amounts set out in the above table include accrued interest.

Commercial Loans

Total performing commercial loans as of March 31, 2017 amounted to Ps.350,455 million, which decreased by Ps.5,077 million, or 1.4%, from the amount recorded on December 31, 2016. This decrease was mainly due to the decreases in business loans by Ps.2,602 million and government loans by Ps3,357 million. The decrease was offset by an increase in financial institution loans of Ps.882 million.

Performing commercial loans totaled Ps.355,533 million as of December 31, 2016, reflecting an increase of Ps.20,127 million, or 6.0%, compared to December 31, 2015. The increase in commercial lending in 2015 was primarily due to an increase in business loans by Ps.12,231 million, in government loans by Ps4,973 million, and in financial institution loans by Ps2,923 million. Outstanding commercial loans as a percentage of the total loan portfolio accounted for 61.4% as of March 31, 2017, 62.7% as of December 31, 2016, 64.3% as of December 31, 2015 and 64.7% as of December 31, 2014.

As of March 31, 2017 and as of December 31, 2016, 2015, and 2014, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single corporate group or to the Mexican government) represented 30.7%, 31.4%, 33.2% and 32.5%, respectively, of total government, commercial and corporate loans. Of these 15 largest clients, as of March 31, 2017, all were classified as "A" under the CNBV's regulatory loan classification guidelines.

As of March 31, 2017, 15.0% of our commercial loan portfolio was unsecured. 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 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.

Consumer Loans

Performing consumer loans, including mortgage, credit card and other consumer loans, increased 12.7% in 2015, increased 15.6% in 2016 and increased 4.3% during the three-month period ended March 31, 2017.

Our performing credit card portfolio increased 11.3% in 2015, increased 10.1% in 2016 and increased 3.8% during the three-month period ended March 31, 2017. Like other Mexican banks, we reflect in our interest rates for credit cards the greater risk associated with such loans. Other types of loans, such as mortgage and automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral.

Performing automobile and other consumer loans increased 16.8% from December 31, 2014 to December 31, 2015, increased 20.2% from December 31, 2015 to December 31, 2016 and increased 5.4% from December 31, 2016 to March 31, 2017. The preferred lending products for this market segment have been automobile loans and payroll advances.

As of March 31, 2017, our mortgage portfolio consisted of 122,317 residential loans, with an aggregate principal amount outstanding of Ps.112,763 million. These loans were originally granted in Pesos or UDIs. The Peso-denominated loans were funded by us and carry market interest rates, but the monthly payment is fixed or variable. The UDI-denominated loans were funded by us and the Mexican government, and the monthly payment is fixed, but the outstanding balance in Pesos increases monthly in proportion to the variation of the NCPI.

Loans by Currency

Foreign currency-denominated loans amounted to Ps.35,226 million on March 31, 2017, reflecting a decrease of 16.9% from December 31, 2016. Foreign currency-denominated loans amounted to Ps.42,407 on December 31, 2016, reflecting a decrease of 18.2% from December 31, 2015, and Ps.51,849 million on December 31, 2015, reflecting an increase of 23.4% from December 31, 2014. Foreign currency-denominated loans decreased as a percentage of the total loan portfolio from 8.8% as of December 31, 2014 to 7.5% as of December 31, 2016. The decrease in foreign currency-denominated loans from December 31, 2016 to March 31, 2017 is principally the result of reflecting the exchange rate volatility linked to economic and political events which inhibited the origination of foreign currency loans.

The following table presents our 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, at the Mexican Central Bank Exchange Rate.

	As of March 31,		As of December 31,					
	2017		2016		2015		2014	
	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)	Loan Amount	% of Portfolio(2)
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Peso-denominated loans	535,199	93.8%	524,421	92.5%	469,128	90.0%	435,359	91.1%
UDI denominated loans	197	0.0%	204	0.0%	250	0.1%	325	0.1%
Foreign currency-denominated loans	35,226	6.2%	42,407	7.5%	51,849	9.9%	42,013	8.8%
Total loans(1)	**570,622**	**100.0%**	**567,032**	**100.0%**	**521,227**	**100%**	**477,697**	**100%**

(1) The loan amounts set out in the above table include accrued interest.
(2) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

Loans to the Public and Private Sectors

As of March 31, 2017, our loans to the public sector amounted to Ps.130,183 million, accounting for 22.8% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans increased from 24.6% as of December 31, 2014, to 24.7% as of December 31, 2015, to 23.6% as of December 31, 2016 and decreased to 22.8% as of March 31, 2017. These variations are a result of low market interest rates during the past three years, which have resulted in attractive financing opportunities for our clients in the government sector. See "Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments" and "Risk Factors—Risks Relating to Our Business—Some of our loans to Mexican states and municipalities may be restructured."

Loans to individuals consisted of loans for business activities, mortgage loans, credit card loans and automobile and other consumer loans. Our loans to individuals totaled Ps.222,852 million as of March 31, 2017, reflecting an increase of 3.8% from Ps.214,793 million as of December 31, 2016, which increased by 14.8% from December 31, 2015, which in turn increased by 10.4% from Ps.169,513 million as of December 31, 2014.

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 March 31,		As of December 31,					
	2017		2016		2015		2014	
	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)	Loan Amount	% of Portfolio(3)
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Public sector(1)	130,183	22.8%	133,540	23.6%	128,567	24.7%	117,655	24.6%
Private sector:								
Businesses	217,588	38.1%	218,698	38.6%	205,578	39.4%	190,529	39.9%
Individuals(2)	222,851	39.1%	214,794	37.9%	187,082	35.9%	169,513	35.5%
Total private sector loans	440,439	77.2%	433,492	76.4%	392,660	75.3%	360,042	75.4%
Total loans	**570,622**	**100.0%**	**567,032**	**100.0%**	**521,227**	**100%**	**477,697**	**100%**

(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.
(3) Percentage of portfolio equals the relevant loan amount divided by the sum of total loans.

Loans by Economic Activity

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

From December 31, 2014 to December 31, 2015, the total balance of our mortgage loan portfolio increased by Ps.9,820 million, an increase of 10.8%, due mainly to our implementation of a new business strategy focused on sales through different channels (branches, agencies and third party sellers). By December 31, 2016, the total balance of our mortgage loan portfolio increased by Ps.14,832 million, or 14.7% of our total portfolio, mainly as a result of the increase of mortgage loans for middle-market home acquisitions due to the new products launched and the improvement in loan conditions. As of March 31, 2017, our mortgage loan portfolio totaled Ps.120,329 million, representing an increase of Ps.4,473 million, or 3.9%, from the mortgage loan balance as of December 31, 2016. This increase was mainly the result of higher origination in all products comprising this segment. Mortgage loans represented 21.1%, 20.4% 19.4% and 19.1%, respectively, of our total loan portfolio as of March 31, 2017, December 31, 2016, 2015, and December 31, 2014, respectively.

During the three-month period ended March 31, 2017, our government loans decreased by Ps.3,357 million, or 2.5%, and our mortgage loans increased by Ps.4,473 million, or 3.9%. These variations along with decreases in loans granted to manufacturing entities of Ps.2,892 million, or 8.1%, and the decrease in transportation and communication loans of Ps.5 million, or 0.03%, contributed to the increase on our total loan portfolio of Ps.3,592 million, or 0.6%. 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 March 31,		As of December 31,					
	2017		2016		2015		2014	
	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)	Loan Amount	% of Portfolio(5)
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Economic Activity(1):								
Mortgages	120,329	21.1%	115,856	20.4%	101,024	19.4%	91,204	19.1%
Social and community services(2)	14,991	2.6%	15,997	2.8%	16,791	3.2%	26,416	5.5%
Manufacturing	32,952	5.8%	35,844	6.3%	31,819	6.1%	28,300	5.9%
Construction and real estate development	42,440	7.4%	42,914	7.6%	36,494	7.0%	35,978	7.5%
Commercial activities(3)	56,468	9.9%	54,363	9.6%	50,860	9.8%	45,976	9.6%
Credit card	31,176	5.5%	30,068	5.3%	27,349	5.3%	24,567	5.1%
Financial services(4)	53,259	9.3%	52,541	9.3%	42,751	8.2%	35,057	7.3%
Energy and utilities	2,275	0.4%	2,048	0.4%	2,064	0.4%	635	0.1%
Agriculture, forestry and livestock	7,574	1.3%	7,729	1.4%	6,728	1.3%	6,763	1.4%
Mining	122	0.0%	150	0.0%	219	0.0%	253	0.1%
Transportation and communication	16,213	2.8%	16,218	2.9%	12,136	2.3%	10,498	2.2%
Government	130,183	22.8%	133,540	23,6%	128,567	24.7%	117,626	24.6%
INB commercial portfolio	0	0.0%	0	0.0%	14,699	2.8%	11,954	2.5%
Other consumer loans	62,640	11.0%	59,764	10.5%	49,726	9.5%	42,438	8.9%
ADE	0	0.0%	0	0.0%	-	0.0%	29	0.0%
Total loan portfolio	**570,622**	**100.0%**	**567,032**	**100.0%**	**521,227**	**100%**	**477,697**	**100%**

(1) The loan amounts set out in the above table include accrued interest and non-performing loans.
(2) Includes certain loans to the public sector and to educational and cultural institutions.
(3) Includes loans for commercial activities not directly related to manufacturing.
(4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.
(5) Percentage of portfolio equals the relevant loan amount by economic activity divided by the sum of total loans.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loan balances. For example, heavy demand for agricultural financing drives increases in outstanding loan balances from May through July of each year. In addition, the Mexican economy has historically experienced 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 loan balances from November through January.

Maturity Composition of the Loan Portfolio

The following table sets forth an analysis with reference to time remaining to maturity of our loan portfolio, as of March 31, 2017 and as of December 31, 2016, 2015 and 2014:

	As of March 31,		As of December 31,					
	2017		2016		2015		2014	
	Loan Amount	% of Portfolio[3]	Loan Amount	% of Portfolio[3]	Loan Amount	% of Portfolio[3]	Loan Amount	% of Portfolio[3]
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Due within 1 year[1]	124,523	21.8%	138,230	24.4%	132,548	25.4%	130,146	27.2%
Between 1 and 5 years[1]	207,090	36.3%	210,428	37.1%	100,036	19.2%	92,812	19.4%
Over 5 years[1]	228,976	40.1%	208,314	36.7%	277,009	53.2%	240,826	50.4%
Sub-total loans	560,589	98.2%	556,972	98.2%	509,593	97.8%	463,784	97.1%
Non-performing loans	10,033	1.8%	10,060	1.8%	11,634	2.2%	13,912	2.9%
ADE	0	0.0%	0	0.0%	–	0.0%	29	0.0%
Total loan portfolio[2]	**570,622**	**100.0%**	**567,032**	**100.0%**	**521,227**	**100%**	**477,725**	**100%**

(1) These loans may be prepaid.
(2) Maturity composition is based on the period remaining to the maturity of the loans.
(3) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

From December 31, 2014 to December 31, 2015, the balance of loans due within one year increased by Ps.2,402 million, or 1.8%. From December 31, 2015 to December 31, 2016, the balance of the loans due within one year increased by Ps.5,682 million, or 4.3%. From December 31, 2016 to March 31, 2017, such loans decreased by Ps.13,707 million, or 9.9%.

For the three-month period ended March 31, 2017 and for the years ended December 31, 2016, 2015 and 2014, our loans with a maturity of over five years increased as a percentage of total loans. These trends are the result of increases in our mortgage loan portfolio with maturities of fifteen years.

Interest Rate Sensitivity of Outstanding Loans

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

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

	As of March 31,	As of December 31,		
	2017	2016	2015	2014
		(Ps. millions)		
Fixed-rate	251,878	25,640	236,706	214,060
Variable rate	308,711	301,332	272,887	249,724
Total loan portfolio	560,589	556,972	509,593	463,784
Non-performing loans	10,033	10,060	11,634	13,912
Allowances for loan losses	(13,805)	(13,941)	(13,334)	(14,718)
Net total loan portfolio[1]	**556,817**	**553,091**	**507,893**	**462,978**

(1) The loan amounts set out in the above table include accrued interest.

Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we have reviewed both the outstanding amount of our non-performing loan portfolio as well as the classification of loans using the loan grading system set forth under the General Rules Applicable to Mexican Banks. In accordance with the practice of most Mexican banks, we have traditionally monitored the performance of our loan portfolio by reference to our *cartera vencida*, or non-performing loan portfolio.

Pursuant to Mexican Banking GAAP, we recognize the entire principal amount and accrued but unpaid interest of a loan as "non-performing" in accordance with the following criteria:

- in the case of loans where the principal and interest is payable in a single installment, 30 days after a payment becomes due;
- in the case of loans where the principal is payable in a single installment with periodic interest payments, 90 days after an interest payment is missed or 30 days after a principal payment is missed;
- in the case of loans where the principal and interest are payable in periodic installments, 90 days after a payment is missed;
- in the case of revolving loans, 60 days after a missed payment;
- in the case of mortgage loans, 90 days after a missed payment;
- in the case of credit card loans, after two consecutive payments are missed; and
- in the case of checking accounts, when an overdraft occurs.

In addition, unpaid balances of loans are considered "non-performing" when a borrower has declared bankruptcy. Restructured loans are considered "non-performing" until we have received payment for three consecutive monthly periods, or one installment payment in cases where the installment period is greater than 60 days. Loans with an extended maturity date in which the borrower has not paid the accrued interest and at least 25% of the original principal amount when due will be considered "non-performing" so long as there is no evidence of sustained payment.

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, as described under "—Grading of Loan Portfolio." The amount of the loan loss allowance for possible credit risk 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 risk levels and that are accordingly graded for regulatory purposes in categories ranging from "A" to "E." See "—Grading of Loan Portfolio."

As of March 31, 2017, the total amount of non-performing loans was Ps.10,033 million, which represented 1.8% of total loans. Of this amount, Ps.184 million, or 1.3%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans decreased by Ps.27 million, or 0.2%, during the three-month period ended March 31, 2017.

As of December 31, 2016, the total amount of non-performing loans was Ps.10,060, or 1.8% of total loans. Of this amount, Ps.162 million, or 1.2%, of the total amount of non-performing loans represented non-performing interest. This decrease was mainly due a declining in the corporate banking book given Urbi's portfolio exchange. In the last quarter of 2016, the credit exposure related to homebuilders classified as non-performing was Ps.2.23 billion, declining by Ps.1.48 billion quarter over quarter, in connection with the settlements with Urbi. In October 2016 and as per the final ruling from the judges managing the bankruptcy processes, GFNorte exchanged unsecured past due loans for other assets, among them, shares and warrants to subscribe shares of this company for an amount equivalent to the past due unsecured exposure, net of reserves; therefore, the non-performing loan balance in this company declined by Ps.1.48 billion. The shares received were registered as securities available for sale, net of reserves, and the warrants were registered as derivatives, both to be valued at market prices according to the applicable accounting rules. As of December 31, 2016, the valuation loss on the shares was Ps.756 million, registered as securities available for sale. Additionally, the valuation loss on the warrants was Ps.17 million, registered in the year's income in trading results.

As of December 31, 2015, the total amount of non-performing loans was Ps.11,634 million, or 2.2% of total loans. Of this amount, Ps.162 million, or 1.2%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans decreased by Ps.2,278 million, or 16.4%, during 2015. This decrease was mainly the result of a decrease in our non-performing SMEs loans as a result of our strategy to increase the costs incurred by our SME customers in connection with a default under these loans.

As of December 31, 2014, the total amount of non-performing loans was Ps.13,912 million, or 3.0% of total loans. Of this amount, Ps.160 million, or 1.1%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.595 million, or 4.5%, during 2014. This increase was mainly the result of an increase in our non-performing SMEs loans which was partially offset by a decrease in our non-performing corporate and enterprise loans.

The following table sets forth an analysis of our non-performing loans (including non-performing interest) by type of loan at the dates indicated:

	As of March 31,	As of December 31,		
	2017	2016	2015	2014
	(Ps. millions)		*(Ps. millions)*	
Performing and Non-Performing Loans:				
Commercial and corporate loans				
Government loans	130,183	133,540	128,567	117,655
Loans granted to financial institutions	21,122	20,240	17,317	17,703
Commercial loans:				
Collateralized or guaranteed	146,465	141,651	119,605	118,135
Unsecured	52,685	60,101	69,917	55,722
Sub-total	199,150	201,753	189,522	173,857
Total commercial and corporate loans	350,455	355,533	335,406	309,215
Consumer loans:				
Mortgage	119,310	114,807	99,952	89,918
Credit card	29,516	28,445	25,837	23,209
Other consumer credit	61,308	58,187	48,398	41,442
Total consumer loans	210,134	201,439	174,187	154,570
Total performing loans	560,589	556,972	509,594	463,784
Total non-performing loans	10,033	10,060	11,634	13,912
Total loans	**570,622**	**567,032**	**521,227**	**477,697**

Grading of Loan Portfolio

We classify our loan portfolio according to the rules issued by the CNBV and by the methodology established by the CNBV. Such regulations establish the general methodology for grading our loan portfolio and estimating the loan loss allowance for each type of loan.

The commercial loan portfolio grading procedure requires that credit institutions apply the established methodology based on quarterly information for the periods ending in March, June, September and December of each year whereas also recording in their financial statements the allowances determined at the end of each month. Furthermore, during the months following each quarter, financial institutions may apply to the respective loan the grading methodology used at the close of the immediately preceding quarter, based on the outstanding balance of such loan in effect on the last day of the aforementioned months. The allowances for loan losses that have exceeded the amount required to grade the loan will be cancelled against the period's results on the date of the following quarterly grading, additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of rules established by the CNBV

The rules for grading consumer, mortgage and commercial loans (other than loans for investment projects having their own source of payment) provided that the loan losses allowance for such loans should be determined based on an estimate of the loan's expected loss over the next twelve-month period. The grading methodology requires that the estimation of such loss takes into consideration the probability of a default, the loss given default and the exposure at default. The result of multiplying these three factors is the estimated expected loan loss that is the same as the amount of the reserves needed in order to cover the loan loss.

The probability of default, the loss given default and the exposure at default are determined by type of loan considering the following:

- Probability of Default:
    - For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
    - For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
    - For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.
    - For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.
- Loss Given Default
    - For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
    - For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
    - For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.
- Exposure at Default
    - For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.

- For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.

- For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.

- For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

The regulatory loan classification and grading rules establish the following categories corresponding to levels of risk based on allowance percentage: Grade "A" loans, representing minimal risk of non-payment; grade "B" loans, representing low risk loans; grade "C" loans, representing loans with moderated risk; grade "D" loans, representing high risk loan; grade "E" loans, representing non-collectible loans.

	% of Allowance for Loan Loss Reserves			
	Consumer Loans			
Risk Levels	**Non Revolving**	**Revolving**	**Mortgage Loans**	**Commercial Loans**
A-1	0 a 2.0	0 a 3.0	0 a 0.50	0 a 0.9
A-2	2.01 a 3.0	3.01 a 5.0	0.501 a 0.75	0.901 a 1.5
B-1	3.01 a 4.0	5.01 a 6.5	0.751 a 1.0	1.501 a 2.0
B-2	4.01 a 5.0	6.51 a 8.0	1.001 a 1.50	2.001 a 2.50
B-3	5.01 a 6.0	8.01 a 10.0	1.501 a 2.0	2.501 a 5.0
C-1	6.01 a 8.0	10.01 a 15.0	2.001 a 5.0	5.001 a 10.0
C-2	8.01 a 15.0	15.01 a 35.0	5.001 a 10.0	10.001 a 15.5
D	15.01 a 35.0	35.01 a 75.0	10.001 a 40.0	15.501 a 45.0
E	35.01 a 100.0	> 75.01	40.001 a 100.0	> a 45.0

As of December 31, 2016 and March 31, 2017, the aggregate outstanding principal amount of our 15 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican government) represented 20.0% and 19.2%, respectively, of our total loans. The largest single loan exposure at December 31, 2016 and March 31, 2017 (excluding the Mexican government and our affiliates) accounted for 5.4% and 5.3% of our stockholders' equity, respectively.

The following table analyzes the grading of our commercial loan portfolio at the dates indicated. In accordance with the CNBV rules, loans are graded based on their outstanding balance at the end of the reported update. This table excludes loans to the Mexican federal government and the Mexican Central Bank or to any party that is guaranteed by these institutions, but includes accrued interest, non-performing interest and our off-balance sheet commitments (such as guarantees and letters of credit).

	As of March 31,		As of December 31,					
	2017		2016		2015		2014	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Total graded loans:								
A	499,064	85.5%	489,477	84.6%	466,143	84.9%	416,513	83.2%
B	58,152	10.0%	61,593	10.6%	56,089	10.2%	55,320	11.0%
C	11,519	2.0%	12,208	2.1%	11,048	2.0%	11,695	2.3%
D	10,438	1.8%	10,540	1.8%	12,252	2.2%	13,348	2.7%
E	4,569	0.8%	4,652	0.8%	3,549	0.7%	4,041	0.8%
Total graded loans[(1)]	583,742	100.0%	578,470	100.0%	549,081	100%	500,917	100%
Allowance grading of our loans:								
Additional allowances derived from grading:								

	As of March 31,		As of December 31,					
	2017		2016		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Commercial loans	5,327	38.6%	5,410	38.8%	6,413	48.1%	8,133	55.3%
Mortgage loans	660	4.8%	747	5.4%	701	5.3%	737	5.0%
Credit card	3,922	28.4%	3,929	28.2%	2,932	22.0%	2,987	20.3%
Other consumer loans	3,703	26.8%	3,662	26.3%	3,084	23.1%	2,574	17.5%
Non-performing interest	154	1.1%	160	1.1%	162	1.2%	160	1.1%
Excess over minimum regulatory requirements	39	0.3%	33	0.2%	42	0.3%	127	0.9%
Total allowance for loan losses	13,805	100.0%	13,941	100.0%	13,334	100%	14,718	100%
Total loans graded C, D or E	26,526		27,400		26,849		29,084	
Allowances as a percentage of:								
Graded loans		2.4%		2.4%		2.4%		2.9%
Total loans plus interest[(2)]		2.4%		2.5%		2.6%		3.1%
Total non-performing amounts		137.6%		138.6%		114.6%		105.8%
Total loans graded C, D or E		52.0%		50.9%		49.7%		50.6%
Total non-performing amounts as a percentage of total loans plus interest[(2)]		1.8%		1.8%		2.2%		2.9%
Total net non-performing loans (non-performing amounts less allowance) as percentage of net total loans plus interest		(0.7%)		(0.7%)		(0.3)%		(0.2)%
Total loans graded C, D or E as a percentage of total loans		4.6%		4.8%		5.2%		6.1%

(1) Total graded loans include our surety bonds and stand-by letters of credit, which are not included in the balance sheet.
(2) Interest includes non-performing and outstanding interest.

Allowance for Loan Losses

We provide for possible loan losses in accordance with the Loan Classification and Rating Rules as required by the CNBV and currently we are in compliance with the allowance for losses required to be set aside by such rules. The grading of loans determines the amount of the allowance for loan losses required to be set aside, which is determined based on the percent of the outstanding balance of such loans: between 0.0% and 0.99% for Grade "A" loans, between 1% and 19.99% for Grade "B" loans, between 20% and 59.99% for Grade "C" loans, between 60% and 89.99% for Grade "D" loans and between 90% and 100% for Grade "E" loans. Mexican government and the Mexican Central Bank loans or loans to a third party guaranteed by these institutions are not subject to the grading system and are effectively deemed to be Grade "A" loans for loan loss allowance purposes. See "Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments." 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 in order to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

During the three-month period ended March 31, 2017, we recorded net provisions from liberation of reserves charged against earnings totaling Ps.3,039 million. For the year ended December 31, 2016, we recorded net provisions from liberation of reserves charged against earnings totaling Ps.12,727 million. Consequently, our allowance for loan losses amounted to 137.6% of non-performing loans as of March 31, 2017, compared to 138.6% as of December 31, 2016.

Analysis of Allowance for Loan Losses

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

	For the three-month period March 31,	For the year ended December 31,		
	2017	2016	2015	2014
	(Ps. millions)		*(Ps. millions)*	
Balance at beginning of year	13,941	13,334	14,718	13,765
Increase:				
Allowances charged to income	3,039	12,727	10,064	10,728
Appreciation of foreign currency items and UDIs	0	82	62	48
Recognized against retained earnings from prior years	0	672	-	-
Sub-total	3,039	13,481	10,126	10,776
Decrease:				
Benefits and reductions granted to UDI loan programs	0	8	7	8
Losses and write-offs	3,175	12,669	11,503	9,649
Valuation of foreign currencies and UDIs	0	0	-	-
Other	0	197	-	166
Sub-total	3,175	12,874	11,510	9,823
Balance at period end	**13,805**	**13,941**	**13,334**	**14,718**

Allocation of Allowance for Loan Losses by Category

	As of March 31,		As of December 31,					
	2017		2016		2015		2014	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	(Ps. millions, except percentages)		*(Ps. millions, except percentages)*					
Commercial, financial and agricultural	5,327	38.6%	5,410	38.8%	6,413	48.1%	8,133	55.3%
Residential mortgages	660	4.8%	747	5.4%	701	5.3%	737	5.0%
Credit card	3,922	28.4%	3,929	28.2%	2,932	22.0%	2,987	20.3%
Other consumer loans	3,703	26.8%	3,662	26.3%	3,084	23.1%	2,574	17.5%
Non-performing interest	154	1.1%	160	1.1%	162	1.2%	160	1.1%
Excess over minimum regulatory requirements	39	0.3%	33	0.2%	42	0.3%	127	0.9%
Total	**13,805**	**100.0%**	**13,941**	**100.0%**	**13,334**	**100%**	**14,718**	**100%**

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the Loan Classification and Rating Rules in the case of commercial loans, and in the case of mortgage loans the greater of the minimum required by the Loan Classification and Rating Rules or the percentage required under methodologies approved by the CNBV. This loan loss allowance forms part of the loan loss allowance shown in our Financial Statements included elsewhere in this offering memorandum.

Foreclosed Real Estate and Other Assets

As of March 31, 2017, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.2,707 million and Ps.5 million, respectively, a 0.2% and 0% increase, respectively, from December 31, 2016.

As of December 31, 2016, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.2,701 million and Ps.5 million, respectively, a 12.7% decrease and a 25.0% increase, respectively, from December 31, 2015.

Under the CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the lesser of the amount set in the auction and the appraised value. Real estate assets we received in a negotiated settlement with the borrower are required to be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. Pursuant to CNBV rules, the loss in the value of foreclosed assets is recognized on the basis of the amount of time that has elapsed following the foreclosure proceedings or settlement.

The following table analyzes as of March 31, 2017 the ranges of elapsed times and the applicable provision for losses in connection with foreclosed real estate and other assets:

Other Foreclosed Assets

Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 6	0%
6 to 12	10%
12 to 18	20%
18 to 24	45%
24 to 30	60%
More than 30	100%

Foreclosed Real Estate Assets

Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 12	0%
12 to 24	10%
24 to 30	15%
30 to 36	25%
36 to 42	30%
42 to 48	35%
48 to 54	40%
54 to 60	50%
More than 60	100%

We have a special division that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at the periods indicated. The book value does not include the assets foreclosed from credits sold to the Banking Fund for Savings Protection (*Fondo Bancario de Protección al Ahorro*) ("FOBAPROA") and the IPAB.

	As of March 31,	As of December 31,		
	2017	2016	2015	2014
	(Ps. millions)		*(Ps. millions)*	
Real estate:				
Rural land	643	637	627	713
Urban land	710	683	907	932
Single-family houses	987	1,009	1,282	1,441
Condominiums	50	51	97	49
Industrial plants	136	131	87	110
Commercial buildings	100	109	59	84
Other	81	82	35	57
Sub-total	2,707	2,701	3,094	3,386
Non-real estate	5	5	4	3
Provisions for losses	(1,530)	(1,484)	(1,298)	(1,130)
Total	**1,182**	**1,222**	**1,800**	**2,260**

Restructuring of Loans

The deteriorating economic situation in Mexico subsequent to the December 1994 devaluation of the Peso and the increase in the portfolio of non-performing loans led Mexican banks, including us, to implement restructuring programs in most of their business divisions. In addition, the Mexican government adopted a number of debtor relief programs to facilitate this process. Restructured loans remain classified as "non-performing" until at least three payments on such loans have been made or until one payment on such loans has been made where the installment period is greater than 60 days. Restructured loans under Mexican government support programs are classified as performing loans as long as the debtor remains current on such loans.

When we restructure a loan, 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 loan, we may also maintain a smaller allowance for loan loss with respect to such loan and use the excess allowance to reduce the amount of additional provisions on other loans.

Debtor Support Programs

The devaluation of the Peso in 1994 and the subsequent economic crisis in Mexico led the Mexican government to introduce debtor support programs, which have had significant effects on us. Substantially all of the outstanding debtor support programs were combined at the beginning of 1999 into a single program known as *Punto Final*, which was adopted by the Mexican government and the ABM in December 1998 and became effective on January 1, 1999. The following is a description of the principal debtor support programs.

The benefits of the *Punto Final* program were offered to mortgage borrowers whose loans in Pesos and UDIs were granted prior to April 30, 1996. This program offered borrowers a 50% discount on all payments on such loans, including principal, for the first 165,000 UDIs of a loan's outstanding balance, and a 45% discount for the remaining balance up to 500,000 UDIs. The discounts offered by this program may be accumulated with discounts offered by previously established debtor relief programs. A borrower failing to meet its payment obligations under this program would lose its rights to any discounts, including discounts offered by previously established debtor support programs. Discounts offered by the *Punto Final* program were not initially offered to borrowers under the low-income housing programs financed by the Mexican government. For a further discussion of the low-income housing programs, see "—Loan Portfolio—Consumer Loans." Almost all of our mortgage loans are residential mortgage loans.

The cost of the discounts offered by the *Punto Final* program for mortgage loans is shared between the Mexican government, which bears approximately two-thirds of the cost, and the Mexican banks, which bear the remaining approximately one-third. We recognize this cost only to the extent payments on the mortgage loans are received. Therefore, the full cost of the *Punto Final* program to us will be recognized over the remaining life of the mortgage loans.

The following table sets forth the aggregate principal and accrued interest outstanding of our residential mortgage loans participating in the *Punto Final* program at the periods indicated:

	As of March 31,	As of December 31,		
	2017	**2016**	**2015**	**2014**
	(Ps. millions, except percentages)	*(Ps. millions, except percentages)*		
Total residential mortgage performing loans	0	0	–	77
Total residential mortgage non-performing loans	0	0	–	2
Total residential mortgage loans in *Punto Final*	0	0	–	79
Total mortgage loan portfolio	120,329	115,856	101,024	91,204
Residential mortgage loans in *Punto Final* as a percentage of the total mortgage loans portfolio	0.0%	0.0%	0.0%	0.1%

Workout and Credit Recovery

Our workout unit handles debt recovery from borrowers with non-performing loans. The workout unit focuses on consumer loan recovery, mortgage collections and commercial loan recovery.

Consumer Loan Recovery

For the year ended December 31, 2016, the consumer loan recovery unit settled 2,844,277 non-performing loan accounts amounting to more than Ps.6,097 million. As of March 31, 2017, this unit managed 676,644 accounts involving Ps.1,467 million. Commencing in 2004, we adopted a policy to write-off non-performing consumer loans that are six months or more past due and non-performing mortgage loans that are nine months or more past due.

Mortgage Collections

During 2016, 169,311 mortgage loans were settled in the aggregate amount of Ps.3,647 million. For the three-month period ended March 31, 2017, the unit settled 41,477 cases. The total number of cases settled for the three-month period ended March 31, 2017 represented an aggregate amount of Ps.850 million.

Commercial Loan Recovery

The commercial loan recovery unit focuses on recovering non-performing loans in excess of Ps.1 million which have missed three payments. For the year ended December 31, 2016 this unit has settled 9,920 cases representing a total value of Ps.5,048 million. As of March 31, 2017, this unit is negotiating 2,012 loans totaling Ps.651 million.

In the event that the 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 restructuring agreement satisfactory to us, the unit submits the loan to our litigation department for the initiation of legal action to recover the amount outstanding on the loan. Foreclosure proceedings on collateral in Mexico can take a long time. The procedure requires the filing of a written petition with the competent court requesting the court's authorization to complete the foreclosure. This petition and the approval process is generally subject to significant delays and accordingly, the value of the collateral may be negatively affected. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation are charged off.

BUSINESS

Overview

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders' equity, that is not controlled by or affiliated with a non-Mexican financial institution. As of March 31, 2017, we ranked fourth among all Mexican banks in terms of total assets, performing loans and core deposits (a combination of demand deposits and time deposits), according to information published by the CNBV. With more than 115 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 12 million customers in Mexico as of March 31, 2017.

We are the banking subsidiary of GFNorte, the third-largest financial services holding company in Mexico in terms of total assets as of December 31, 2016, according to information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte's most significant subsidiary, representing approximately 78% of GFNorte's total assets and 66% of its total equity, as of March 31, 2017.

As of March 31, 2017, we had total assets of Ps.975,193 million, total liabilities of Ps.880,289 million (including total deposits of Ps.578,191 million) and stockholders' equity of Ps.94,904 million. In the three-month period ended March 31, 2017, we generated net income of Ps.4,305 million, and had a ROAE of 18.4% (annualized average based on beginning and end-of-period balances) and a ROAA of 1.7% (annualized average based on beginning and end-of-period balances). In 2016, we generated net income of Ps.15,044 million, and had a ROAE of 15.4% (average based on beginning and end-of-period balances) and a ROAA of 1.5% (average based on beginning and end-of-period balances).

Our Capital Ratios were 16.58% for Total Net Capital, 14.04% for Tier 1 Capital and 13.68% for Fundamental Capital as of March 31, 2017, exceeding those required for the end of 2017 under Mexican banking regulations of 10.95%, 8.95% and 7.45%, respectively. Given our status as a bank of systemic importance in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% over a four-year period starting on December 31, 2016.

Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,139 branches, 7,242 ATMs (66% of which are located outside of our branches) and 153,322 POSs, in each case, as of March 31, 2017. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We process approximately 204 million banking transactions per month, as of March 31, 2017. As of March 31, 2017, we had 20,598 employees.

History and Ownership

We were founded in 1899 and historically have had a strong regional presence in northeastern Mexico, particularly in the metropolitan area of Monterrey, which is the third most populous city and one of the most important industrial centers in Mexico. Together with other Mexican commercial banks, we were nationalized by the Mexican government on September 1, 1982. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the government enacted the Mexican Banking Law which provided for private ownership of Mexican commercial banks. The reprivatization of Mexican commercial banks began in 1991.

As part of the privatization process, Grupo Financiero Banorte, S.A. de C.V., our parent company, was incorporated as Grupo Financiero AFIN, S.A. de C.V. on July 21, 1992, as a Mexican limited liability company with variable capital (*a sociedad anónima de capital variable*). In September 1992, the SHCP authorized the operation of our parent company as a financial services holding company under the Financial Groups Law.

A group of Mexican investors led by Don Roberto González Barrera acquired 66.0% of our outstanding shares from the Mexican government in 1992. In September 1993, this same group of investors entered into an exchange offer whereby they purchased 186 million newly issued shares of AFIN, 89.3% of AFIN's then outstanding shares, in exchange for AFIN's purchase of our shareholders 66.0% interest in us. Following the exchange offer, we became a subsidiary of AFIN and our parent company was renamed Grupo Financiero Banorte, S.A. de C.V. In May 1993, GFNorte carried out a tender offer for the remaining 34.0% of our outstanding shares. As a result, GFNorte increased its ownership interest in us to 97.5%. GFNorte currently owns 98.22% of our capital stock.

The 1995 Mexican Peso crisis and the penetration of foreign institutions into Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of our relative strength in the Mexican banking system, GFNorte purchased Bancentro in 1996 and Banpaís in 1997. GFNorte's primary goals in acquiring Bancentro were to gain additional market share and add 195 additional branches, 80% of which were located in the central and western regions of Mexico. GFNorte completed the acquisition of Bancentro on June 30, 1997, at which time it became formally integrated into GFNorte. On August 29, 1997, GFNorte also acquired 81% of Banpaís' shares, enabling further expansion of GFNorte's client base, geographical position and national coverage through the addition of 161 branches. In an effort to consolidate the banking activities of GFNorte and to strengthen our capitalization, we were merged with Banpaís in January 2000 and the banking operations of Bancentro, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were transferred to us in December 2000.

In 2001 GFNorte acquired Bancrecer and, on June 30, 2002, we merged with and into Bancrecer. Our assets, liabilities and stockholders' equity were transferred to Bancrecer, thereby eliminating intercompany operations between the two entities. The surviving entity changed its name to "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte." We implemented a single organizational structure in the first quarter of 2002 and transferred Bancrecer employees that were re-hired to our payroll and benefits plans. We established a new institutional pay scale and restructured the organization of personnel in our branches to standardize their positions and functions. We also provided intensive training to former Bancrecer employees regarding our sales policy and products.

On August 28, 2006, we merged Bancentro into us pursuant to an authorization received from the SHCP. Bancentro's remaining assets, liabilities and stockholders' equity were transferred to Banorte, eliminating intercompany loans to Bancentro, with Banorte as the surviving entity.

In 2006, we expanded our operations into the United States, through the acquisition of INB, based in Texas, which is a regional bank with primary presence in the Rio Grande Valley and its headquarters in McAllen, Texas where it had 14 branches at the time of the acquisition.

Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, another money transfer company based in California.

In 2009, we acquired three Afores, namely, Ixe Afore, S.A. de C.V., Afore Ahorra Ahora, S.A. de C.V. and Afore Argos, S.A. de C.V. in order to further increase our scale in the pension fund management sector in Mexico. In January 2012, the Bank and the IMSS merged Afore Banorte Generali with Afore XXI, thereby creating Afore XXI Banorte, with each of the Bank and the IMSS owning 50% of the entity. In January 2013, Afore XXI Banorte finalized the acquisition of 100% of the equity interest in Afore Bancomer.

On April 15, 2011, GFNorte merged with IXE in a stock-for-stock transaction valued at approximately Ps.17.2 billion. IXE's operations were integrated into ours and as a result GFNorte became the third-largest financial group in Mexico in terms of total assets, performing loans, deposits and distribution network. IXE conducted its business through its own subsidiaries, the largest being Ixe Banco, a commercial bank in Mexico focusing on middle- and upper-income customers. On April 15, 2013 and May 7, 2013, IXE Banco and Fincasa received the authorization by the CNBV and the Mexican Central Bank to be merged into the Bank.

During 2016, we obtained the authorization from the SHCP, the CNBV, the Mexican Commission for the Retirement Savings and Pensions System (*Comisión Nacional del Sistema de Ahorro para el Retiro)* ("CONSAR") and the Mexican Insurance and Bonds Commission (*Comisión Nacional de Seguros y Fianzas*) ("CNSF"), to spin-off our investment in Afore XXI Banorte and transfer our 50% stake in that entity to Banorte Futuro, a subsidiary of Seguros Banorte. Our spin-off of the Afore XXI Banorte was effective on October 17, 2016. We no longer own the 50% equity interest in Afore XXI Banorte.

On October 31, 2016, the Board of Directors of our subsidiaries INB Financial Corporation and Banorte USA Corporation approved the sale of INB. The sale of INB was effective as of March 31, 2017. This transaction followed a decision to implement our corporate restructuring program followed by the limitations for the development of INB's business strategy caused mainly by the change in the regulatory environment in the United States.

Competitive Strengths

We believe the following competitive strengths differentiate us from our competitors:

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, the fourth largest financial group in Mexico in terms of assets, deposits and loan portfolio, and the largest controlled by Mexican investors. GFNorte has operated in the Mexican financial industry for 23 years under the "Banorte" brand name. We believe GFNorte's long standing history in the Mexican market is recognized by our customers and the general public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

GFNorte has an in-depth knowledge of the Mexican market and local efficient decision-making processes that allow us to provide timely, specialized and integral responses to our clients' requests and rapidly adapt to changes in the Mexican banking sector. For instance, during the global financial crisis of 2008, while international groups retrenched to shore up capital, GFNorte seized the opportunity and filled the void by expanding its presence in Mexico. GFNorte focuses on providing comprehensive services to our clients through a multi-product, multi-entity strategy that seeks to meet all of its clients' banking, insurance, retirement saving and brokerage needs.

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of March 31, 2017, GFNorte had the largest Afore in Mexico in terms of assets under management, with a market share of 23.2% of the pension system managed by Afores.

Leading Market Presence across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 19,987 corporate clients and over 12 million individual customers as of March 31, 2017. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 3.0% market share in terms of performing loans in 1992 to becoming the fourth largest bank in Mexico in terms of total assets (Ps.975,193 million), performing loans (Ps.560,589 million) and total deposits (Ps.578,191 million), with nationwide presence and a 13.2% market share of performing loans as of March 31, 2017.

We are the third largest operator of POSs in Mexico, the third in ATMs and the fourth in branches, according to the CNBV, as of February 28, 2017. As of March 31, 2017, we had a 23.8% market share of the government banking sector, the second largest in the Mexican banking system. As of the same date, we had a market share of 17.4% and 10.1% of mortgage loans and commercial loans, the third and fourth largest in each case, in the Mexican banking system, respectively.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We were able to maintain a solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 11 of the last 12 operating quarters (considering the period from March 2014 through March 2017). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and contact center with products and differentiated services. With a clear segmentation of customers, in retail banking we can offer services according to their specific profiles, through appropriate channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

The positive trend of our financial performance continued in 2016 as we increased our net income by 11.3% as compared to 2015, while our ROAE and ROAA reached 15.4% and 1.5%, respectively, in 2016 compared to 13.7% and 1.5%, respectively, in 2015. Our efficiency ratio remained relatively stable at 47.5% in 2016 and 50.6% in 2015. As of March 31, 2017, we had a non-performing loans to total loans ratio of 1.8% and a coverage ratio, defined as allowance for loan losses divided by total non-performing loans, of 137.6%. We believe these ratios reflect our prudent risk management practices. We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and operating efficiency.

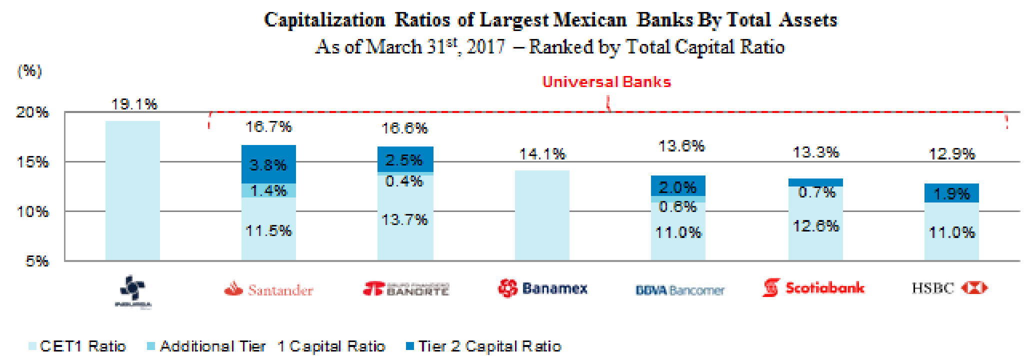
Strong Capital Base and Capitalization Ratios

We believe we have a strong capital base, as evidenced by each of our Capital Ratios, which have been above the average for the G-7 Mexican banks during the past five quarters (January 2016 to March 2017). Mexican banks already comply with Basel III capitalization requirements and are well capitalized compared to other banks in more developed economies, and within this group of Mexican banks, we compare very favorably in terms of capitalization levels and composition of capital. As of March 31, 2017, our Fundamental Capital ratio was 13.68%, the third highest among the G-7 Mexican banks; our Tier 1 Capital was 14.04%, the third highest among the G-7 Mexican banks; and our Total Net Capital ratio was 16.58%, also the third highest among the G-7 Mexican banks; in each case, according to data published by CNBV.

With the offering of the Notes, we expect to strengthen further our Total Net Capital ratio, by increasing the Tier 1 Capital component of our capital opportunistically. Tier 1 Capital is an important component of our capitalization and with a Tier 1 Capital ratio of 14.04% as of March 31, 2017, we are 5.31% above the current minimum of 8.73% required to us by the Mexican banking regulations by being classified as a Grade II D-SIB. Our strong capital base permits us to continue our prudent growth, while maintaining an acceptable risk profile for our clients and shareholders.

In May 2016, given our status as a bank of systemic importance in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. We were also required to implement an additional initial Countercyclical Capital Supplement which we have estimated would correspond to 0.001%. We are required to implement and comply with these Capital Supplements over a four-year period, to be constituted in four equal parts in December of each year, commencing in December 2016. Given our strong capital base, our Capital Ratios as of March 31, 2017 already comply with such Capital Supplement requirements as if they were to be fully implemented as of the date hereof.

The chart below presents the Capital Ratios for the G-7 Mexican Banks by total assets as of March 31, 2017.



Source: CNBV

Expanding Business Platform with a Focus on Customer-Oriented Multi-Channel Banking

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013 and February 28, 2017, we increased the number of ATMs and POSs by 11% and 60% respectively, reaching a total, 7,242 ATMs and 153,322 POSs, ranking third and third in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking fifth in terms of market share. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of March 31, 2017, we had over 2.2 million active internet banking customers and around 1.1 million of our customers utilized *Banorte Móvil*. We also consider ourselves pioneers in banking services through third parties in Mexico, reaching a total of 24,628 contact points as of March 31, 2017.

Over the years, we have moved from a product-oriented to a customer-oriented business approach. We believe our new focus provides us with more value by generating opportunities and giving our clients a better customized service. In 2013, we entered into a strategic agreement with IBM, which allowed us to further align our information systems with our customer-oriented business philosophy and benefit from increased cross-selling opportunities and a better overall experience for our customers.

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 14 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. This demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

- assets and businesses that are aligned with our business model and growth strategy;
- transactions that are accretive to earnings;
- operations that offer potential for significant synergies; and
- transactions with limited integration risk and disruption to our business.

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 13 years of experience with us and has more than 21 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the fourth largest bank in Mexico, generating significant profitability while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, employees of acquired companies have remained with our team and have broadened the experience of our team. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed by a majority of independent directors (currently 73%), which ensures collegial decision-making for the benefit of our stakeholders, as well as having several supporting committees, including an audit committee and a risk policies committee, each chaired by independent directors with recognized experience. Our corporate governance model not only complies with applicable standards, but also seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Track Record of Product Innovation

We have a history of innovation and new product development that has been fundamental to our growth story and competitive position. We have been leaders in the development of the banking sector in Mexico through new product launches; for example, we launched a new and easy way for customers to access online mortages; and mortgages with rate reduction mechanisms for timely payment of interest. Over the years, we have demonstrated the ability to introduce new product offerings focused on our individual, corporate and SME customers. Among the innovative products and services that we have successfully launched are our *Adelanto Nómina* payroll loan product for individuals which can be drawn through ATMs and online banking, and *Banorte Móvil*, our state-of-the-art mobile banking platform.

Strategy

As part of our short- to medium-term strategy, we intend to:

Selectively Increase our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in performing loans and deposits has increased from 8.0% and 6.6%, respectively, as of December 31, 2000, to 13.2% and 13.6% respectively, as of March 31, 2017. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and the internet banking to increase the origination of payroll loans in Mexico. As of March 31, 2017, we had a 20.2% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan, and vice-versa. We intend to leverage our CCR, database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand our Credit Card Business

We have enhanced our fees and risk-based pricing strategy, improved our underwriting standards, implemented cross-selling initiatives in response to market demand, and have developed new sales channels to increase credit card issuance. We believe we have an opportunity to increase our market share in this segment through further product penetration of our existing banking customers.

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products to our customers depending on their needs: *Banorte Básica; Banorte Fácil; Banorte Clásica; Banorte Oro; Tarjeta de Crédito Mujer Banorte; Banorte Pachuca; Banorte Platinum; Banorte Infinite; Banorte Empresarial; Tarjeta 40; Ixe Clásica; Ixe Oro*; *Ixe Platino*, *Ixe Infinite* and the recently launched *Banorte Por Ti*. We also have two credit cards which are co-branded with United Airlines, the Platinum and Universe – Infinite. In addition, we offer various rewards programs for our credit card holders.

Our market share in the Mexican credit card segment was 8.8% as of March 31, 2017, according to the CNBV. As of that date, we had approximately 1.8 million credit cards outstanding, with past due balances of 5.3%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio, through more active marketing and promotions to our current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as performing loans and deposits.

Expand our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of March 31, 2017, our market share was 15.1% according to the CNBV, excluding financings by automobile manufacturers, against whom we compete in this business. We also believe that, given the expected growth in GDP in Mexico, the automobile sector, and consequently the automobile loan business will experience growth in the coming years.

Increase Mortgage Lending to the Middle- and High-Income Segment

We plan to focus on increasing our sales of mortgage products to middle- and high-income customers, which we see as an increasingly attractive segment due to higher margins, less competition and a relatively low level of credit risk. As of March 31, 2017, this segment accounted for 96.6% of our mortgage performing loan portfolio. In particular, we intend to attract customers in this segment by providing high-quality service through rapid approval response times and more frequent and customized interactions at the time of sale and afterwards. We intend to offer a "mortgage improvement" product to attract customers from other commercial banks and we also intend to cross-sell mortgages to customers who seek to purchase a new home or remodel their existing home.

In addition, we have implemented new sales channels and deployed specialized sales forces that will enhance our presence with home developers and generate strategic alliances with real estate brokers, which will strengthen our mortgage broker channel. We also expect to increase the origination of co-financing products with the Infonavit, and the Fovissste. Finally, we expect to grow our special program mortgage loans developed exclusively for large corporations, state and municipal governments, productive state enterprises or public agencies, such as PEMEX, the CFE and the IMSS with centralized payments through payrolls that also generate a high volume of payroll loan origination.

Strengthen our Relationships with Government Entities and their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which as of March 31, 2017 together comprised 23.8% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling opportunities and attractive return on equity.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today. Currently, the use of mobile devices for these purposes is limited; however, we believe consumers in Mexico are becoming increasingly comfortable with conducting mobile banking transactions.

We intend to continue to develop new specialized sales forces, telemarketing efforts and use "*Banorte Visita*" in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of ATMs, providing us with a 15.2% of market share as of March 31, 2017, according to the CNBV.

Enhance our Customer-Oriented Business Model

We seek to strengthen our customer-oriented organizational model, focusing on customer segments instead of product segments, optimizing and consolidating processes per business instead of per product and investing in IT infrastructure. We intend to stay connected with our customers and devote resources to learning more about our customers' needs and expectations from their banking relationships. Our strategic agreement with IBM is aimed at helping us increase our knowledge of our customers by creating a CCR database that consolidates all available customer information, enabling us to gain deeper insight into ways to build more loyal and profitable customer relationships. Our project with IBM has redesigned business processes and applications around customer segments instead of around products and develops a new IT infrastructure to support these new processes.

We believe this new IT platform, which will allow us to manage large transaction volumes, will further improve the quality of service and segmentation as well as cross-selling, which will drive revenue increases, higher loyalty, cost efficiencies and increased profitability.

Increase Wallet-Share Penetration with Corporate and SME Customers

We have developed a role as a "relationship banker" for our corporate and SME customers by offering a variety of transactional banking and investment banking products through our network of regional service centers dedicated to these customers. Our Transactional Banking team intends to offer liability management solutions in the foreign exchange markets as well as cash management services to support our customers' international operations. Our investment banking team intends to offer a full range of services in advisory and capital markets transactions.

Continue to Increase our Profitability

We intend to continue increasing profitability based on the following initiatives:

Improve the Profitability of our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;

- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;

- increasing non-interest income through the offering of services and using cross-selling efforts;

- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and

- channeling less value-added transactions to online and mobile services.

We will continue to review the profitability of our branch network by determining its optimal size and seeking to identify non-profitable units.

A central strategy to improve our cost efficiencies is to lower our IT and operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts which are continuously implemented. For the three-month period ended March 31, 2017, our efficiency ratio was 46.4%, as compared to 47.5% for the same period in 2016.

Promote Synergies within the GFNorte Group

We intend to increase our market share and profitability by increasing our cross-selling of services and products to our customers and customers of GFNorte's other subsidiaries. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte's other subsidiaries, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We plan to continue our cross-selling efforts within GFNorte and improving synergies and efficiencies within GFNorte's other subsidiaries.

Increase Our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities, income from advisory activities, income from trust activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. We seek to increase our fee income by:

- continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices;

- increasing our cross-selling efforts within the GFNorte group;

- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;

- establishing new relationships with businesses generating high volume point-of-sale transactions;

- promoting our checking, ATM and debit card services; and

- optimizing customer profitability by increasing fees, reducing transactional costs to low-value customers and increasing cross-selling within affluent customer base.

Principal Business Activities

One of our principal goals is to efficiently deliver services and products to our clients. In an effort to meet this goal, we have organized our business operations into the following businesses:

- retail banking, which includes, among others:
    - consumer banking;
    - SME banking; and
    - state and municipal government banking; and
- wholesale banking, which includes, among others:
    - corporate and enterprise banking;
    - transactional banking;
    - federal government banking; and
    - international banking.

These segments report to the main office in one of our eight territories in Mexico: Northern, Central, Mexico City North, Mexico City South, West, Northeast, North Border and South. In addition, our treasury and the money market divisions are responsible for, among other activities, managing our assets and liabilities while maximizing our income in accordance with certain risk policies and limits established by our Risk Policy Committee. See "—Treasury and Money Market Divisions."

Retail Banking

The retail banking area is responsible for creating value propositions for each segment, in order for us to offer suitable products to each of our customers using diverse channels. Our retail banking area develops strategies to approach every customer in a unique manner, encourages cross-selling, shifts operations to digital platforms and constantly develops innovative products. There are four lines of business within our retail banking:

- <u>Affluent banking</u>: Since the last quarter of 2015, our aim is to provide a differentiated service model and proposition to our high value customers. In the first quarter of 2017, we achieved a nationwide coverage and trifold the affluent service model in 273 of our branches. By July 2017 these 273 branches will have the new Queue Manager System installed, with the presence of at least one relationship manager; in overall we have 498 relationship managers. Our affluent contact centre (*Línea Preferente*) is now a service referral in the market with a more than 70% solution response at the first call. With 3% of the total customer base, for the three months ended March 31, 2017, affluent banking represented 19.1% of the wholesale and retail banking of GFNorte.

- <u>Personal banking</u>: As of March 31, 2017, this area provided services to more than 12 million customers with their own profit and loss, focusing on total relationship balance and profitability by seeking to maintain high-value customers and by creating an exit strategy for low-value customers. We continuously work to migrate the operations of our customers in this area to self-service channels. For the three months ended March 31, 2017, personal banking represented 22.6% of the wholesale and retail banking of GFNorte.

- SME banking: As of March 31, 2017, this area offered innovative and competitive financial products and services to approximately 440,000 SMEs. In March 2016, we also re-launched Banorte SME Integral Solution, a package by which we offer to serve our SME customers all of our financial services under a single contract. For the three months ended March 31, 2017, SME banking represented 13.1% of the wholesale and retail banking of GFNorte.

- State and municipal government banking: We believe we are the nationwide leader in the state and municipal government banking segment in terms of deposits, loans and payroll, as of March 31, 2017, according to information published by the CNBV. For the three months ended March 31, 2017, this area represented 14.6% of the wholesale and retail banking of GFNorte. We have full coverage in 32 states and over 1,556 municipalities. We believe this area offers unique products and services such as government funds, payroll services, public finance analysis, advisory services and credit risk analysis. We estimate that state and municipal local government banking sales will see significant growth in the following years.

Our retail banking segment targets individual customers and SMEs by providing them with non-specialized banking products and services through our distribution channels. See "—Distribution Channels." Nearly all of the transactions taking place in this segment occur through our branches, telephone banking, on-line banking and ATMs.

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See "—Products and Services." One of our main products in this segment, *CrediActivo Comercial*, is a loan issued in amounts of up to 165,244 million UDIs (equivalent to approximately Ps.28,873 million, as of March 31, 2017) and is targeted towards SMEs.

We are increasingly becoming a more significant retail bank in the Mexican marketplace, and we believe the contribution of this business, particularly credit cards, payroll loans, SME financing and mortgage loans will grow significantly over the next three years.

Wholesale Banking

The wholesale banking division incorporates: Economic, Research & Fundamental Analysis; Private Banking and Wealth Management; Transactional Banking; Corporate and Enterprise Banking; Federal Government Banking; Trading & Institutional Sales; Warehouse, Leasing and Factoring; International Banking; and Treasury Management. Our wholesale banking area's contribution to our total net income may increase as we assume a more prominent position in Mexico's wholesale banking industry, and also as a result of its increasing share in our total loan portfolio.

Corporate and Enterprise Banking

Corporate and enterprise banking is committed to providing integrated financial solutions for our corporate customers through various types of specialized financing, including structured credits, syndicated loans, acquisition financing and financing of investment plans. Other products and services offered to our corporate customers include cash management services, collection services and fiduciary and payroll services. The customers in corporate banking generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of 19,947 large corporations. As of March 31, 2017, the average outstanding individual balances of our loans to corporations, of which there were 952 was Ps.95.9 million.

In 2016, we created a team with a high degree of specialization and market recognition in the energy and infrastructure sectors to better position ourselves in light of the opportunities created by the recent reforms adopted in Mexico in these sectors. We expect that this will allow us to increase our market penetration and further enhance our market share of these sectors with current and future clients.

Our enterprise banking segment specializes in high-margin credit products for medium-sized business customers. Our medium-sized business customers consist primarily of 14,678 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors. As of March 31, 2017, the average outstanding individual balance of loans to our enterprise customers was Ps.11.4 million.

Our main products in this segment are:

- loans and lines of credit;
- *CrediActivo Empresarial*, a loan product partially guaranteed by NAFIN;
- cash management services;
- fiduciary services;
- checking account services; and
- payroll services.

In 2016, we implemented a new business model aimed at allowing our relationship managers to dedicate more time to attracting clients and increasing sales.

Transactional Banking

Our Transactional Banking area is focused on deploying our cross-selling strategy through sales, implementation and post-sale support of transactional services, to strengthen and deepen our business relationship with existing clients. Through our Transactional Banking area we offer self-service cash solutions to our clients, including: remote deposits, cash counters, addressed payments and online foreign exchange transactions. We have also developed a new cross-selling strategy with Banorte Seguros (GFNorte's insurance subsidiary) to offer specialized insurance products.

In 2016, as part of our focus on cross-selling opportunities, we expect to deploy a client feedback system to assess our client's perception of our services and products (including net promoter score ("NPS"), market valuation, etc.) and to increase our new product allocation such as check counters, SWIFT, T2M checks and BTF Modules.

Federal Government Banking

We have increased our presence as a provider of financial services to Mexican federal governmental entities and their agencies, including social security institutions, unions, public trusts, public works and quasi-governmental entities. Through specialized attention, we expect to maintain our commitment to providing services to this important sector of the economy.

The products and services offered by our Federal Government Banking segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allow us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees.

As of March 31, 2017, the aggregate outstanding balance of our federal government loan portfolio was Ps.42,051 million. We are among the leading providers of loans to federal government entities in Mexico and as of March 31, 2017, we had a 18.03% market share in performing loans, according to the CNBV.

International Banking

Our International Banking area seeks to develop new products and services relating mainly to foreign trade. We have strategic agreements with financial institutions abroad, which allow us to offer highly competitive solutions and financial services locally and globally. Some of the products and services that our International Banking area offers include:

- credit support for the export of goods and services, including letters of credit, payment orders and checking accounts denominated in U.S. dollars;

- advisory and credit support in connection with imports of goods and services, including financing for the import of livestock and machinery, financing of working capital and investment projects, letters of credit and payment orders;

- hedging instruments protecting against currency fluctuations, including Peso futures; and

- exchange products, including currency exchange, travelers' checks and remittances.

These services are also offered to our corporate and enterprise and retail banking segments.

Treasury and Money Market Divisions

Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs and engaging in hedging transactions. Its goal is to maximize our income in accordance with certain risk policies and limits established by our Risk Policy Committee, as explained in "Risk Management—Risk Management Organizational Structure." The treasury division is also responsible for managing our liquidity requirements and cash flows, monitoring market risks and funding costs, obtaining funding for certain loans and obtaining funding in the international market. The treasury division monitors our positions in fixed income securities, foreign currencies and derivatives positions for hedging and liquidity purposes.

Our money market division is responsible for our repurchase transactions, investments in domestic fixed and floating rate securities and the promotion of instruments and investment alternatives to our high net worth clients. This division also purchases futures to hedge its open risk positions or for trading purposes.

The treasury and money market divisions are monitored on a daily basis by our risk management unit. See "Risk Management—Market Risk." Strategies relating to these divisions are assessed on bi-weekly basis by our Assets and Liabilities Committee. Our treasury division does not trade equity securities.

Products and Services

Checking and Deposit Accounts

We continually strive to develop innovative, high-quality products and services that meet our clients' financial needs.

Through our branch network, we offer deposit products which fall into four categories: time and savings deposits, demand deposits, installment deposits and certificates of deposit. Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may not be made without penalty. Savings deposits allow customers to deposit and withdraw funds at any time and accrue interest at a fixed rate that, in certain cases, increases over time. Demand deposits, which either do not accrue interest or accrue interest at a fixed rate, which is lower than the applicable time and savings deposits rates, allow customers to deposit and withdraw funds at any time and, in the case of "current" deposit accounts, to issue checks against the deposited amount. Installment deposits allow customers to make deposits either on a periodic basis or at any time during a fixed term, during which interest accrues at a fixed rate and there is a penalty for withdrawals. Certificates of deposit, which are sold in a variety of denominations and maturities and are negotiable, require an initial deposit of a fixed amount for a fixed term, during which interest accrues at a fixed rate and withdrawals may not be made without penalty. We believe our products address all of our customers' financial needs, regardless of their segment. Furthermore, we permanently develop special offers by which we aim to make our products more attractive to our customers than those of our competitors.

We have made significant efforts to increase traditional deposits through the retail banking segment in order to continue to reduce the cost of funds and to increase our net interest income.

During the first three months of 2017, we experienced significant growth in the opening of checking accounts and demand deposits. Our focus on the sale of deposit products and related strategic initiatives put into place during 2014 and 2015 led to an aggregate amount of Ps.575,756 million in total deposits as of December 31, 2016. As of March 31, 2017, our total deposits amounted to Ps.578,191 million. We have placed particular emphasis on increasing deposits for our low-cost products.

Credit Card Operations

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products under the Banorte and Ixe brands: Banorte Básica; Banorte Fácil; Banorte Clásica; Banorte Oro; Tarjeta de Crédito Mujer Banorte; Banorte Pachuca; Banorte Platinum; Banorte Infinite; Banorte Empresarial; Tarjeta 40; Ixe Clásica; Ixe Oro; Ixe Platino Ixe Infinite; Platinum Infinite and Universe Infinite, the latter two of which are co-branded with United Airlines. Recently, we launched Banorte POR TI, which is a pure cashback credit card, which we consider to be one of the most attractive in the market. In addition, we offer various rewards programs for our credit card holders.

As of March 31, 2017, we had approximately two million credit cards outstanding, of which 5.33% carried a past-due balance. Credit card approvals are based on an internal credit scoring system, which we believe increases the quality of the portfolio and reduces approval response time. Our credit cards can be used in 7,242 ATMs across Mexico. Revenues from the credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders.

We currently rank fourth, both in number of transactions and in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of seven Mexican banking institutions. Our market share in the Mexican credit card sector was 8.8% as of March 31, 2017 in terms of performing loans according to the CNBV. Currently, the most important channel for promoting credit cards is our branch network; nevertheless, we are expanding our origination channels for all through a more robust sales force, co-branded offers and a one-step underwriting process (origination and first purchase). We also promote our credit cards by cross-selling them to customers across GFNorte's entities.

We charge an average annual fee of Ps.612 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, and have an initial maturity of one to two years, accrue interest at effective weighted average annual fixed rates of 27.3%. The average credit limit of credit cards is Ps.26,000; whereas limits range from Ps.5,000 to Ps.300,000. Moreover, the minimum required monthly salary for all new cardholders is Ps.7,000. As of March 31, 2017, the past-due loan ratio on our credit card portfolio was 5.33% and charge-offs as a percentage of average receivables were 12%. The annual attrition rate with respect to our credit card customers was 20.1% for the 12-month period ended March 31, 2016.

We monitor our credit card accounts with an electronic system called "VISION," which allows us to establish credit limit increases, pricing, credit card loan portfolio collection and overdraft protections on an individual cardholder basis.

Mortgages

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from 1 to 20 years for financing of up to 90% of Loan-to-Value. We offer financings exclusively for residential mortgages. Other products we offer include home improvement, construction and land acquisition. For the three-month period ended March 31, 2017, we provided 5,408 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio was Ps.120,329 million.

Currently, we focus on providing mortgages for mid-level, residential housing to mid- to high-income customers, which we believe allows us to grow and provide a stable source of revenue. In addition, we plan to keep strengthening our portfolio coupled with a low past-due loan ratio, and to increase our market share by offering competitive products and using all marketing channels available to us.

Consumer Loans

We offer two main personal consumer loans: automotive financing and payroll loans. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to 6 years. As of March 31, 2017, the aggregate outstanding balance due from our automotive financings was Ps.16,056 million. *Crédito de Nómina* is a fixed rate loan with automatic payments through payroll deposits. Loan amounts are up to Ps.1.5 million with maximum maturity of five years. As of March 31, 2017, the aggregate outstanding balance due from the *Crédito de Nómina* product was Ps.44,430 million.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from SMEs to large companies that have revenues in excess of Ps.4 million. Of our commercial loans guaranteed by NAFIN, *Banco Nacional de Comercio Exterior, S.N.C.* and the *Fideicomisos Instituidos en Relación con la Agricultura*, 3.43% are secured by collateral.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, school tuition and cellular phone bills, among others, through our branch network and alternative distribution channels. In 2016, we handled approximately 24 million transactions, representing a 5% increase compared to the corresponding period in 2015. Collection services are complemented by invoice distribution through the Internet or mobile phone banking.

Payroll Services

Since 1993, we have offered our corporate, enterprise, SME and government customers *Nómina Banorte*, a service through which they can pay their personnel payrolls via direct deposits. As of March 31, 2017, over 44,430 thousand corporate, enterprise, SME and government customers process payrolls of over 6 million employees with us. We believe that *Nómina Banorte* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Nómina Banorte* may obtain a personal loan of up to nine months of salary and preferential conditions on other types of loans.

Cash Management Services

Cash management services include collecting and disbursing funds on behalf of companies and their suppliers, distributors, clients and employees in order to facilitate cash flow, reduce operating costs and improve information management.

Money Transfer and Remittances Services

Through UniTeller, we offer cross-border money transfers and remittances, among others. We continue to be one of the largest payers of remittances from the United States. Recently, UniTeller announced a long-term agreement that will allow UniTeller to offer *Walmart de México* a payment service through its stores in Mexico. On April 24, 2013, we and Western Union, a leader in global payment services, entered into a renewable five-year agreement that allows us to offer Western Union global money transfer services. Western Union has an extensive presence in Mexico, with a strategically combined network of agent locations that include banks, national retail chains and independent locations.

Uniteller has become one of the largest wire transfers processors in the industry handling currently almost 20% of the total transactions paid in the US-Mexico corridor as of April 2017. Recently Uniteller deployed his digital platform to offer individuals a more convenient service through the internet and mobile phones, as well as by a prepaid card, which has improved accessibility and reduced shipping costs, which undoubtedly responds to our goal to extend the benefits of our services to the greatest number of Mexicans through different channels.

Distribution Channels

Branch Networks

We seek to create an outstanding multi-channel experience for our customers. Towards that end, we have established a new operating model which we believe will improve all direct channels, customer experience and operational efficiency and, eventually, increase our market share. According to the CNBV, as of March 31, 2017, our branch network accounted for 9.1% of the Mexican market in terms of number of branches as of such date.

As of March 31, 2017, we had 1,139 branches, where 24 corresponded to affluent customer service centers. As of such date, each branch operates with 8 employees. From March 2017 to December 2020, we plan to open 154 new branches, with a greater focus on regions where our market share is relatively low. We are also planning to strengthen alternative channels such as ATMs, contact centers, online and mobile banking. We believe that many of our customers have taken advantage of the developments in our ATMs and digital channels, given that as of March 31, 2017, the 165 million transactions in ATMs and digital banking representing an increase of 23% compared to the same period of 2016.

ATMs

Our ATM network has grown from 3,384 ATMs as of June 30, 2007 to 7,242 as of March 31, 2017. According to the CNBV, as of March 31, 2017, we had the third-largest ATM network in the Mexican market. As of March 31, 2017, our ATMs serve approximately 9.6 million customers monthly, representing a 5% increase compared to the same period in 2016 and equivalent to approximately 825.6 million transactions annually. In order to further increase the number of transactions conducted through this channel, we are developing a platform providing personalized offers, functionalities and upgrades for each customer, and we believe that most of our products and services will be available through this channel, which will initially be tested with our corporate and SME customers. In addition, we aim to continue strengthening our debit card initiative, which can be used at all of our ATMs as well as other ATMs worldwide through our participation in the Visa and Plus ATM networks.

Contact Center

Our contact center allows our customers to check balances, transfer funds between their accounts in Banorte and other banks, pay credit card bills and receive account statements. We differentiate affluent and personal customers, to provide the correct assistance and a customized selling strategy for each group.

Currently the system receives nearly 6.5 million calls per month. Approximately 77% of calls are handled through interactive voice recording systems and 23% by telephone banking customer service representatives. In March 2017, our contact center responded to 1.3 million incoming calls and .16 million outgoing calls, maintaining favorable levels of efficiency and customer care.

SME Centers

Our specialized SME centers are strategically located in close proximity to our key, as well as potential, customers. We have 16 service centers and 1,139 offices in Mexico, covering all geographic regions in the country. Each SME service center offers our "SME Integral Solutions," a bundle of products and services aimed at addressing all of our SME customers' needs under a single contract.

Our SME Integral Solution include:

- Checking Solutions: investment and debit checking accounts.

- Financial Solutions: SME loans and business credit cards.

- Technology Solutions: electronic banking, POS and payroll services.
- Business Insurance Solutions: car, home and employees insurances.

Additionally, we have a developed a 21-day credit approval process for new customers, and an expedite 12-day credit approval process for our best customers.

POS Terminals

As of March 31, 2017, our network decreased to 153,322 POS terminals mainly due to a purge of inactive terminals. During this same period, the amount transacted increased to Ps.56,711 million, which represented a 20.5% increase compared to Ps.47,054 million as of March 31, 2016. Banorte-Ixe's POS network is the third largest in Mexico. Total transactions decreased to 20.9 billion during the first quarter of 2017, representing a decrease compared to 27 billion in 2016. We believe this was possible due to the dynamic performance of both POS terminals and e-commerce.

Online Banking

Our online banking services allow customers to utilize the Internet to access their credit card and other account balances by means of a 24-hour customer service website with a constant update. Customers are enabled to carry out various operations and transactions, such as checking their accounts, transferring funds domestically and internationally, paying taxes, credit cards and other bills and investing in funds and certificates of deposit. This service is offered to our customers at no additional cost. As of March 31, 2017, more than 1.7 million customers were registered for this service.

As of March 31, 2017, 27.8 million transactions were carried out through "Banorte by Internet" (*Banorte por Internet*). As of March 31, 2017, over 1.7 of our customers were signed up for paperless banking services and their monthly bank statements were sent to them through e-mail.

"Banorte in your Business" (*Banorte en su Empresa*) is our corporate online banking service focusing on medium-sized and large companies. Through this service, our corporate customers can access many of the banking services offered at one of our branches, such as transfers of funds, payroll services and payments to suppliers. As of March 31, 2017, more than 128,398 customers used this service.

"Banorte Connection" (*Conexión Banorte*) is host to host direct connection with the enterprise resource planning ("ERP") of our customers. We launched this service in June 2015, with 127 clients, and as of March 31, 2017, 175 clients were using this service.

Mobile Banking

Banking service via mobile phone offers a global, efficient, secure and sustainable solution to a wide segment of our customers. Our platform is compatible with almost any mobile phone, which increases customers reliance on our services and makes branch visits unnecessary for many transactions. During the first three months of 2017, more than 1 million customers used our mobile banking service, a 60% increase compared to the same period in 2016, with a total of 17.2 million transactions, a 55% increase compared to the same period in 2016.

During the last few years we have also developed new features, such as the cellphone token, which enables users to generate security codes directly from their cellphone, with no further need of using a physical token. Customers are able to request the Banorte Móvil service by calling the contact center, without having to visit a branch. Also, in 2012, we launched "Banorte Mobile Payment" (*Pagomóvil Banorte*), the first mobile-payment platform in Mexico that enables customers to make direct payments at retail and online establishments without using a physical card.

Third-party Correspondent Banking

Through third-party correspondents we support the penetration of banking services by offering a service to thousands of Mexicans that cannot access financial services, and we believe we have positioned ourselves as an important player in this segment. As of March 31, 2017, we have more than 24,600 correspondent banking points. We continue to develop strategic points to maintain closeness with every customer and to provide easy access to financial services.

As of March 31, 2017, we had established 24,628 points of contact (15,836 located at OXXO stores, 1,889 located at 7-Eleven stores, 1,728 located at TELECOMM-Telégrafos facilities, 1,149 at Extra convenience stores chain, 48 at Netpay, 1,719 at Farmacias Guadalajara, 1,509 at Farmacias del Ahorro, 660 at Soriana stores, and 90 at Grupo DSW), representing a 1.2% increase compared to the 24,312 points of contact as of December 31, 2016, which also represented a 350.2% growth compared to the 5,400 points of contact as of December 31, 2015. During 2016, 16.5 million operations were carried out through these points of contact, representing a 40% increase compared to the 11.8 million operations carried out during 2015.

Anti-Fraud Measures

Our branches have sophisticated tools to minimize fraud in connection with credit and debit cards, checks, branch transactions and internet banking. Anti-fraud programs for credit and debit cards examine transactions occurring at the respective POS or ATM, while anti-fraud programs for checks, branch transactions and internet banking are based on an examination of certain parameters and customer profiles. In each case, alerts as to possible fraud are immediately transmitted and evaluated by a team of our specialists. Any confirmed fraud in connection with credit and debit cards is reported to Visa or MasterCard, as applicable, and is subject to our internal procedures to block cards or accounts and reissue cards. Our anti-fraud department operates 24 hours a day, seven days a week, and is linked with other internal departments, such as investigations, audit, legal, security information and human resources, which are available to provide support for anti-fraud activities.

Strategic Alliances

IBM

On March 11, 2013, we entered into a 10-year strategic agreement with IBM to create a new customer-centric banking model, improve our operating efficiency and increase our profitability levels. To reach these objectives, we have developed our business intelligence through multichannel architecture and campaigns based on the analytics of each of our client segments and the use of new generation action tools. Additionally, we designed a new comprehensive risk model to assess our clients' risks through an automated process for account opening. This automated process allows us to enroll clients either at our branches or through seamless digital interactions. This digital platform enhances our ability to cross-sell multiproduct contracts to our clients. To protect our clients' personal data and transactions, we released a new secure online banking website and a new mobile application in 2016. We are currently working to improve our customers' experience by concentrating on multichannel sales, credit simulators, market and operations transformations and automating core processes to increase efficiencies. This agreement seeks to create a sustainable platform to achieve world-class efficiencies as well as high levels of customer service and segmentation, retention and contact with clients, through the existing channels and others to be developed. As a result of these efforts, we seek to become the bank with the best customer service and experience in Mexico and Latin America, leading the sector and setting an example of innovation through smarter use of advanced technologies.

Phoenix Software

In August 2015, we selected Phoenix, a Diebold company, as the new software provider for our entire ATM network. As a long-standing customer of Diebold's hardware and services, we added Phoenix's VISTA™ and COMMANDER™ software platforms as part of our strategy to expand our omni-channel capabilities and integrate key back-end systems with our growing ATM network. As banking consumers continue to utilize the increasing number of touch points available to conduct their banking transactions, we believe that a comprehensive omni-channel solution is crucial to provide optimal service. We consider that the software suite provides support for both the multi-vendor ATM fleet and in-branch solutions, while allowing us to be more self-sufficient at developing the tools that improve our efficiency and functionality.

Competition

We face strong competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and brokerage firms, as well as from non-Mexican banks and international financial institutions. Given our focus on commercial and retail banking, we compete for both commercial and retail customers with large Mexican banks, including subsidiaries of foreign banks, which, like Banorte, are part of financial groups. We compete with the subsidiaries of foreign banks (principally those based in the United States and Spain). Our main competitors in Mexico are Scotiabank, BBVA Bancomer, Banamex, Santander, HSBC and Inbursa. In some areas of Mexico, we also compete with regional banks, such as Banregio and Banco del Bajío.

Competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Mexican banking authorities have recently granted a number of banking licenses for the establishment and operation of several new banking institutions, including:

- ABC Capital, S.A., Institución de Banca Múltiple;
- Banco Base, S.A., Institución de Banca Múltiple;
- Banco Finterra, S.A., Institución de Banca Múltiple;
- Banco Forjadores, S.A., Institución de Banca Múltiple;
- Banco Progreso Chihuahua, S.A., Institución de Banca Múltiple;
- Banco Sabadell, S.A., Institución de Banca Múltiple;
- Banco Shinhan de México, S.A., Institución de Banca Múltiple;
- Bancrea, S.A., Institución de Banca Múltiple;
- Bankaool, S.A., Institución de Banca Múltiple;
- Consubanco, S.A., Institución de Banca Múltiple; and
- Fundación Donde Banco, S.A., Institución de Banca Múltiple.

The CNBV continues granting banking licenses to new participants.

The table below sets forth our rank in, and market share of, the Mexican banking industry in the following categories as of March 31, 2017 and as of December 31, 2016:

	March 31, 2017		December 31, 2016	
	Rank	Market Share	Rank	Market Share
Total Assets	4°	13.2%	4°	13.1%
Commercial loans[1]	3°	12.9%	3°	13.1%
Consumer loans[1][2]	4°	10.5%	4°	10.1%
Mortgage loans[1]	3°	17.4%	3°	17.2%
Total Deposits[3]	3°	14.4%	3°	14.5%
Demand deposits	4°	12.5%	4°	13.1%
Time deposits	1°	19.7%	1°	18.5%
Number of branches	5°	9.1%	5°	9.4%

Source: CNBV.
(1) Commercial, consumer and mortgage loans include only performing loans.
(2) Include credit cards.
(3) Deposits do not include funding through money market, interbank loans or any other sources of wholesale funding.

Mexican law allows for 100% foreign ownership of the equity of Mexican financial groups and commercial banks and any individual or corporation is permitted to acquire control, through one or more transactions, of Mexican financial groups and commercial banks; *provided, however*, that the authorization of the SHCP or the CNBV, for financial services holding companies or banks, respectively, is obtained if the acquired interest exceeds 5% of the total capital stock of such institution.

Commercial banks in Mexico also compete in the retail market Sofoles and Sofomes, both of which focus primarily on offering consumer and mortgage loans to middle- and low-income individuals and limited purpose banks (known as *bancos de nicho*). Until recently, the commercial credit market for middle- and low-income individual customers has been serviced almost exclusively by Sofoles and Sofomes. Currently, Sofoles and Sofomes are licensed to operate in Mexico. Sofoles and Sofomes may engage in certain specific lending activities and may, in certain circumstances, be supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in many banking operations, including foreign trade financing, receiving deposits, offering checking accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously dominated by Sofoles and Sofomes.

Commercial banks also face increasing competition from other financial institutions that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans. To the extent permitted by the Mexican Banking Law, we maintain a competitive position through our investment banking activities.

We acquired three U.S. based banking entities (INB in 2006, UniTeller in 2006 and Motran in 2007). We sold INB in March 2017, however we face strong competition in the United States from U.S.-based financial groups, commercial banks and other financial institutions as a result of these acquisitions. In particular, we expect to face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by UniTeller.

Employees and Labor Relations

As of March 31, 2017, we had 20,598 employees. Approximately 27.0% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees. During each of the years ended December 31, 2016, 2015 and 2014 we had 20,960, 20,455 and 21,252 employees, respectively. In general, we consider labor relations with our employees to be good. Since our privatization in 1992, we have never experienced a work stoppage or strike.

Under Mexican labor law, we are liable for severance payments to employees terminated without cause and are obliged to pay seniority premiums to employees who have been employed for at least 15 years upon their voluntary departure from employment or upon their dismissal. In addition, we voluntarily provide pension benefits to qualified retired employees and disability and life insurance coverage on behalf of qualified employees. Under Mexican labor law, employees have the right to share in business profits. The percentage of profits to be distributed annually is currently 10% of our taxable income as calculated for profit-sharing purposes. These profit-sharing distributions are paid to all our employees, except our chief executive officer. In addition to the employee benefits required by Mexican labor law, we have instituted certain other employee benefits and incentive programs to upgrade our workforce.

Properties

As of March 31, 2017, the book value of our real property was Ps.4,649 million. Our principal executive offices are located in Mexico City and Monterrey, Mexico. We also have offices located throughout Mexico on 125 properties, comprising an aggregate of 312,831 square meters, of which we own 55 properties and lease 70 properties.

Our aggregate branch space is 461,079 square meters. As of March 31, 2017, we owned 196 of the properties on which our branches were located and leased 943 of the properties.

Litigation and Regulatory Proceedings

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial position or results of operations. See Note 35 to our Audited Consolidated Financial Statements and Note 23 to our Unaudited Condensed Consolidated Interim Financial Statements.

OUR CAYMAN ISLANDS BRANCH

General

The Cayman Islands branch of the Bank ("Banorte Cayman") became a part of our branch network as a result of our merger with Bancrecer. Banorte Cayman was initially registered under Part IX of the Companies Law (2016 Revision) of the Cayman Islands on February 22, 1991 as Banco de Crédito y Servicio, S.N.C. By Special Resolution dated February 9, 1993, the name of that entity was changed to Bancrecer. On March 31, 2002, Banco Mercantil del Norte, S.A., which was registered under Part IX of the Companies Law (2016 Revision) on November 23, 1989, was merged into Bancrecer, the surviving entity, subsequent to which the surviving entity was renamed "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte." The registered office of Banorte Cayman is at CIBC Bank and Trust Company (Cayman) Limited, CIBC Financial Centre, 11 Dr. Roy's Drive, P.O. Box 694, Grand Cayman KY1-1107, Cayman Islands. Banorte Cayman is the holder of a category "B" Banking License issued by the Cayman Islands Monetary Authority ("CIMA"), under the Banks and Trust Companies Law (2013 Revision) (the "CI Banking Law") of the Cayman Islands. Holders of a category "B" banking license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do business locally with the public or residents in the Cayman Islands. This license does not allow Banorte Cayman to take deposits from residents of the Cayman Islands, or invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions such as exempted or ordinary non-resident companies and other licensees.

Activities

The main activities of Banorte Cayman are:

- to obtain funding, principally for the purposes of lending to Mexican clients;
- to act as a deposit-taker, offering a range of demand and time deposits facilities to corporate clients;
- to offer a full range of trade financing services such as import and export financing, foreign currency and interest rate swaps and other forms of trade credit;
- to provide treasury, international banking and corporate finance services to clients; and
- to a lesser extent, to buy and sell securities in the international market and securities issued for funding purposes (such as certificates of deposit and U.S. dollar-denominated commercial paper).

Regulation of Banorte Cayman

Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole. Indeed, Banorte Cayman is subject to the regulations issued by the CNBV and the Mexican Central Bank, including liquidity requirements. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities."

CIMA reviews all applications and is solely responsible for the licensing of banks and trust companies under the CI Banking Law.

Under the CI Banking Law, there are two basic categories of bank licenses:

- a category "A" license, which permits unrestricted domestic and offshore business; and
- a category "B" license, which permits only off-shore business. A category "B" license may be restricted to dealings with certain clients.

Banorte Cayman has been granted an unrestricted category "B" License.

Branches of foreign banks, such as Banorte Cayman, are not subject to separate capital adequacy requirements, but must maintain the minimum capital adequacy requirements required by their home jurisdictions.

CIMA's enforcement powers under the CI Banking Law include the imposition of conditions (or further conditions) on a bank's license; revocation of a license; appointing an adviser to advise a bank on the proper conduct of its affairs; appointing a controller to assume control of a bank's affairs; and petitioning for a bank to be wound up by the court. These powers are exercisable if: (i) a bank is or appears likely to become unable to pay its obligations as they fall due; (ii) a bank is carrying on business that is, or is likely to be detrimental to the public interest or the interests of depositors or other creditors; (iii) a bank contravenes the regulatory laws or regulations of the Cayman Islands; (iv) a bank fails to comply with a condition of its license, or any rule imposed by CIMA; (v) the direction and management of a bank's business has not been conducted in a fit and proper manner; (vi) a director, manager or officer of the bank's business is not a fit and proper person to hold his/her respective position; or (vii) a person acquiring control or ownership of the bank in accordance with the law is not a fit and proper person to have such control or ownership.

RISK MANAGEMENT

General

Our risk exposure consists of credit, liquidity, operational (including legal and technological), market and reputational risks.

- Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform an obligation to us. Credit risk can affect the performance of both our loan portfolio and investment portfolio.
- Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal 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 and 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 or equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations.
- Reputational risk is an unquantifiable risk included in our risk management's manual, defined as the potential loss in the development of the institutional brand caused by a deterioration in stakeholders' perception, internal and external, on our solvency and viability.

We consider risk management an essential activity that requires continuous improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV issued a set of requirements regarding risk management practices for all banking institutions in Mexico. Pursuant to the CNBV regulations, the management process must include sound measurement and monitoring methods. We have implemented policies and procedures, approved by our Board of Directors, that our management believes comply with the CNBV requirements.

Risk Management Organizational Structure

To help ensure adequate risk management, in 1997 our Board of Directors created the Risk Policy Committee in order to manage the risks we are exposed to and to ensure that the performance of our operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the Risk Policy Committee provides oversight on the global risk exposure limits approved by the Board of Directors and also approves the specific risk limits for exposure to different types of risk.

Our Risk Policy Committee designs the strategies to be followed in order to accomplish risk-return objectives and to this end it:

- decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits;
- evaluates Banorte's overall risk-return ratio;
- analyzes sensitivities and stress testing scenarios;
- defines and monitors the general strategy for asset and liability management;

- defines our general pricing processes and monitors their effectiveness; and
- analyzes the impact of operational risk events.

Our Board of Directors reviews and approves the risk management strategies and limits set by our Risk Policy Committee. Our Risk Policy Committee includes three members of our Board of Directors (one of whom serves as Chairman), our chief executive officer, corporate general director, general director of risk management, business area directors (who do not have voting power) and our general director of auditing (who does not have voting power). Our Risk Policy Committee meets on a monthly basis or more frequently, as needed.

Our Risk Policy Committee receives information on a monthly basis with respect to credit risk, market risk, operational risk, reputational risk and liquidity risk. The policies and procedures of our internal operating committees are subject to approval by our Risk Policy Committee. These internal operating committees also report to our chief executive officer and are comprised of:

- credit committees and workout committees, which review credit risk;
- the Treasury Committee, which reviews market risk;
- the Assets and Liabilities Committee, or the ALCO Committee, which reviews liquidity risk; and
- each of the Technology and Operations Committee, the Communications and Control Committee, the Fiduciary Business Committee, the Security Committee and the Integrity Committee, to review operational risks.

Credit Risk

Credit Policies

Credit risk management is an essential activity for banks. Banorte's credit policies and procedures are designed to centralize credit decisions to increase uniform application of credit criteria and minimize the risks associated with individual decision-making. Banorte's credit policies include quantitative criteria to ensure minimum credit quality standards.

Individual Loan Credit Risk Evaluation

Individual Loan Risk for Consumer Lending

We perform credit analyses of our individual consumer loans through a computerized consumer credit scoring system. This scoring system considers factors such as the borrower's income, expenses, repayment capacity, demographic data, personal assets and credit history. The implemented scoring systems were developed using internal statistical data for each product.

This scoring system is available in each of our branches and is used to evaluate a wide array of consumer credit applications, including applications for residential mortgages, automobile loans, personal loans, credit cards and SME loans. Within each type of credit application, there can be several specially designed risk evaluation models. In addition, the scoring system has online access to credit bureau information and Banorte's internal records.

Loan applications are rejected if, based on the risk level assigned by the scoring system, the applicant is deemed to pose an unacceptable credit risk.

In addition to the scoring system used in origination, we use certain risk evaluation models and behavioral risk models in order to evaluate increases in credit limits and assess the probability of non-payment with respect to credit cards.

Individual Loan Risk for Commercial Lending

The evaluation process of a potential commercial borrower focuses primarily on the credit history of the owners and management, quality of production processes and facilities, historical and projected financial statements and collateral provided in connection with the loan. With respect to loans intended to finance a particular project, our evaluation relies primarily on the existence of technological alliances, the analysis of market conditions and the projected financial position of the borrower.

Account officers are responsible for reviewing commercial loan applications. Each commercial loan application is classified according to its industry sector and is then reviewed by a credit officer. In the case of loans exceeding 6,000,000 UDIs for Government, Retail, Corporate & Wholesale, the account officer must present a proposal to either:

- one of our Territorial Credit Committees;
- our National Credit Committee ("NCC"); or
- our Central Credit Committee, depending on the loan amount approval limits as indicated below:

	Authority (Million UDIs)	
Credit Committee	**Government & Retail**	**Corporate & Wholesale**
Board of Directors	Related Loans Art. 73 L.I.C.	Related Loans Art. 73 L.I.C.
Central Credit Committee	Greater than the NCC Authority	Greater than the NCC Authority
National Credit Committee (NCC)	85	120
Regional Committee of Credit	From 6 to 22	From 6 to 32

Loans for less than 6,000,000 UDIs do not need committee approval, but must be approved by two of Banorte's officers, one of whom must be a senior credit officer. Loans above 10% of our net capital and loans to a related party must be approved by our Chief Executive Officer and must be presented to our Risk Policy Committee and our Board of Directors. In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see "Supervision and Regulation—Lending Limits."

Individual Loan Credit Risk Measurement

Individual risk for wholesale loans is identified, measured and controlled through the use of target markets, criteria for risk acceptance, early alerts and Banorte's internal risk rating system ("CIR").

The target markets, criteria for risk acceptance and early alerts are tools that, together with the internal risk rating, are part of our loan strategy and support the estimated level of credit risk.

The target markets are categories of economic activity, separated by region, in which we are interested in granting loans based on economic research and loan behavior analysis as well as by expert opinions.

The risk acceptance criteria refer to parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risks observed in the risk acceptance criteria are: financial, operational, market, enterprise's life cycle, legal and regulatory Risks, in addition to credit experience and management quality.

Early alerts are a set of criteria based on borrower information and indicators, as well as their environment, established as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling us to take prompt preventive actions to mitigate credit risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIs) in Mexican pesos equivalent on the qualification date.

Monitoring

We operate a central compliance operations center in Monterrey, Mexico, that monitors compliance with the terms and conditions of loans. This central compliance operations center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures.

The monitoring process also includes verification of the use of proceeds and 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 others.

Collections

The collection and recovery of non-performing loans is performed through a specialized collection unit (referred to as the Recovery Bank) with the established aim of maximizing the recovery of non-performing and problem loans, as well as foreclosures and execution on collateral.

We have been improving our established program to transfer non-performing and problem loans to our collection unit at earlier stages of loan deterioration in order to optimize their recovery and maximize our collection resources, while also allowing business areas to concentrate their efforts on more preventive measures and enhanced monitoring of performing customers in order to avoid credit problems.

Credit Risk of Financial Instruments

Credit risk management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing credit risk of the different types of originators/issuers and counterparts. Credit risk is allocated through a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator/issuer or counterpart, rating and type of operation.

The Credit Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, the UAIR is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the Risk Policy Committee (or CPR by its acronym in Spanish).

In the case of derivative contracts, and in line with best practices, we use a methodology for calculating potential exposure of credit lines, which are analyzed and approved within the Credit Committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transactions is performed both for clients and financial counterparties.

The National Credit Committee has the authority to approve credit lines for derivatives with clients (except with respect to certain facilities for which the UAIR has the authority). For these transactions, the use of derivatives with margin calls is privileged in order to mitigate the risk of potential exposure to these transactions.

A potential exposure adjustment is considered to determine which lines of credit are adversely correlated (Wrong Way Risk, "WWR").

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two parameters:

(i) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential compared to the instrument of an equivalent government bond, the lower the probability of default and vice versa.

(ii) The loss given default that could be experienced with respect to the total of the operation in the event of default, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate credit risk and to reduce the loss given default in the event of default, the counterparties have signed ISDA contracts and netting agreements, in which credit lines and the use of collateral to mitigate loss in the event of default are implemented.

Portfolio Risk

We developed a portfolio credit risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring risk, has been adapted to function within the context of the Mexican Financial System.

This credit risk methodology provides current value of the entire loan portfolio at Banorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and take action to improve diversification, which will maximize profitability with the lowest risk.

The methodology considers the balance of each of the loans as the exposure of the loan portfolio, while for the financial instruments portfolio the exposure is calculated taking into account the present value of instruments and their future cash flows. This exposure is sensitive to changes in the market, thereby facilitating calculations under different economic scenarios.

The methodology also takes into consideration the probability of default, recovery rate associated to each client and the modeling of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his or her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The modeling of the debtor, based on the Merton model, associates the debtor's future behavior to credit and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the average of the credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for our institution is 99.95% and the expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to our strategy. The individual risk identification tools and the portfolio credit risk methodology are periodically reviewed and updated in order to include new techniques that may support or strengthen them.

Liquidity Risk

Our liquidity risk management objectives are to:

- Comply with the risk appetite, as defined by the Board of Directors.

- Properly monitor our liquidity and interest rate risk, supported both by stress tests and a funding contingency plan including corrective measures, as well as diversification monitoring of funding sources.

- Inform the senior management in a timely manner of the liquidity and interest rate risk exposures and any deviation to the approved limits and risk appetite.

- Assessing our liquidity and interest rate risk exposures through the use of different methodologies.

- Monitor our hedging policy and review it at least once a year.

- Ensure a minimum level of high quality liquid assets to ensure our liquidity needs even in the event of extreme market conditions.

- Measure our vulnerability to extreme market conditions and consider such results in our decision making.

Our liquidity risk policies include:

- Establishment of global and specific limits of our liquidity and interest rate risk management.

- Measurement and monitoring of liquidity risk.

- Information and disclosure of liquidity risk to risk-taking areas, CPR, the Board of Directors, Financial Authorities and to public investors.

Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the LCR, concentration, funding and stability ratios as well as liquidity stress testing. The latter is based on a framework of policies and manuals, including a contingency liquidity plan and a contingency plan for solvency and liquidity, and is enhanced with monitoring limits and risk appetite metrics of liquidity risk. The disclosure of metrics and indicators and their compliance with the established limits and the risk appetite are reviewed through monthly reports to the CPR, weekly reports to the capital and liquidity management group and quarterly reports to the Board of Directors.

The LCR measures liquidity risk based on the relationship between liquid assets and net cash outflows in the next 30 days, under a regulatory stress scenario. The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding. During the three-month periods ended as of March 31, 2017 and March 31, 2016, the average LCR was 93.2% and 114.6%, respectively. The aforementioned levels are above the risk appetite and the regulatory minimum standards. These results show that we can meet all of our short-term obligations in a crisis scenario.

Interest Rate Risk

The risk management framework of the structural risk in the banking book is managed by the institutions with a set of policies, such as interest rate risk and hedging policies, and methodologies, including repricing gaps and a deposit stability model.

The interest rate risk in the banking book is measured by means of the Annual Income and Economic Value, with the former measuring the impact in the NIM of a 100 basis points change in interest rates, while the latter provides insight of the changes on the value of the equity of the institution generated by a 100 basis point change in the interest rates.

Our internal compliance with policies and limits is reported to the CPR on a monthly basis.

Operational Risk

Operational risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes technological and legal risk).

The objectives of operational risk management are to: a) enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) to ensure that the existing operational risks and the required controls are properly identified, assessed and in line with the risk strategy established by the organization; and c) to ensure that operational risks are properly quantified in order to adequately allocate capital taking into account the operational risk.

As part of our institutional regulations, we have documented policies, objectives, guidelines, methodologies and areas that have been designated responsible for managing operating risk.

The operational risk management directors maintain close communication and coordination with the regulatory comptrollership in order to facilitate effective internal control in which proper procedures and controls are established for mitigating operating risk among the processes, and provide monitoring through the internal audit department.

The regulatory comptrollership, as part of the internal control system, carries out the following activities to mitigate risk:

- internal control validations;
- institutional regulations management and control;
- monitoring of operating processes' internal control by means of control indicator reports, which are reported by the process comptrollers in the various areas;
- money laundering prevention process management;
- control and monitoring of the regulatory provisions; and
- analysis and assessment of the operating processes and projects with the participation of the responsible directors of each process in order to ensure adequate internal control.

Market Risk

Our objectives regarding market risk are to:

- Adequately monitor market risk.
- Maintain the senior management adequately informed.
- Quantify our exposure to market risk through the use of various methodologies.
- Define the maximum risk levels we are willing to maintain.

- Measure our vulnerability to extreme market conditions and consider such results when making decisions.

Our market risk policies include the:

- Operation of financial instruments exclusively through authorized markets and approved products.
- Establishment of global and specific limits of market risk.
- Measurement and monitoring of market risk through the VaR methodology, sensitivities, stress testing analysis under extreme conditions and back testing among others.
- Information and disclosure of market risk to risk-taking areas, CPR, the Board of Directors, Financial Authorities and to the investment population.

Market Risk Methodology

Market risk management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as VaR, Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets.

Risk management is supported by a framework of policies and manuals through which we monitor, set and implement market risk limits.

Key risk ratios are disclosed in monthly reports to the risk policy committee and through a daily report to our top executives, related to the market risk risk-taking.

Market Risk Exposure

Exposure of our financial portfolios to market risk is quantified using the standard methodology in the industry known as VaR.

The VaR model considers a one day horizon base, and considers a non-parametric historical simulation with a 99% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives for trading purposes) classified for accounting purposes as trading assets.

The average VaR of the portfolio for the three-months ended March 31, 2017 was Ps.$56.9 million, which means that our potential loss will be above Ps.$56.9 million in one out of a hundred days.

The following table sets forth the average, maximum and minimum values of the weekly VaR for the three-month period ended March 31, 2017:

	Three Months Ended March 31, 2017		
	Average	**Maximum**	**Minimum**
		(Ps. millions)	
Interest rate	57.3	73.5	47.7
FX	13.0	15.1	10.5
Equity	7.5	7.7	7.1
Diversification effect	-21.0	-	-
Total	56.9	73.2	47.1

Since VaR indicates the potential losses under normal market conditions, we complement the risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the CPR on a monthly basis with the main objective of assessing the impact of extreme movements in risk factors on our positions.

In order to validate the effectiveness and accuracy of the VaR, a monthly Back Testing analysis is presented to the CPR. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated VaR and if necessary make the required adjustments to the parameter.

Structural Interest Rate Risk

The risk management framework of the structural risk in the balance sheet is managed by the institutions with a set of policies, such as a structural risk and hedging policies, and methodologies, including repricing gaps and a deposit stability model.

The structural risk in the balance sheet is measured by means of the Annual Income and Economic Value metrics, with the former measuring the impact in the NIM of a 100 basis points change in interest rates, while the latter provides insight of the changes on the value of the equity of the institution generated by a 100 basis point change in the interest rates. Both metrics have limits that are monitored on a monthly and weekly basis.

Our internal compliance with policies and limits is reported to the CPR on a monthly basis.

MANAGEMENT

Board of Directors

Management of our business is vested in our Board of Directors, which is currently composed of 15 regular members, each elected for a one-year term at our annual ordinary general meeting of shareholders, and is responsible for the management of our business.

The following table sets forth our current directors and their alternates:

Directors	Alternate Directors
Carlos Hank González (Chairman)	Graciela González Moreno
Juan Antonio González Moreno	Juan Antonio González Marcos
David Juan Villarreal Montemayor	Carlos de la Isla Corry
José Marcos Ramírez Miguel	Clemente Ismael Reyes Retana Valdés (Independent)
Everardo Elizondo Almaguer (Independent)	Alberto Halabe Hamui (Independent)
Carmen Patricia Armendáriz Guerra (Independent)	Manuel Aznar Nicolín (Independent)
Héctor Federico Reyes Retana y Dahl (Independent)	Roberto Kelleher Vales (Independent)
Eduardo Livas Cantú (Independent)	Robert William Chandler Edwards (Independent)
Alfredo Elías Ayub (Independent)	Isaac Becker Kabacnik (Independent)
Adrián Sada Cueva (Independent)	José María Garza Treviño (Independent)
Alejandro Burillo Azcárraga (Independent)	Javier Braun Burillo (Independent)
José Antonio Chedraui Eguía (Independent)	Rafael Contreras Grosskelwing (Independent)
Alfonso de Angoitia Noriega (Independent)	Guadalupe Phillips Margain (Independent)
Olga María del Carmen Sánchez Cordero Dávila (Independent)	Eduardo Alejandro Francisco García Villegas (Independent)
Thomas Stanley Heather Rodríguez (Independent)	Ricardo Maldonado Yáñez (Independent)

Members of our Board of Directors receive cash fees per meeting equal to the market value of two Ps.50 gold coins commonly referred to as *centenarios*.

Our by-laws provide that the Board of Directors may designate committees. Our principal committees are the following:

Audit Committee

The purpose, composition, authority and responsibilities of our Audit Committee have been established in a charter approved by the Board of Directors in accordance with Mexican law. The Audit Committee's primary purpose is to assist the Board of Directors in defining, verifying and assessing the effectiveness of our internal control system, overseeing the management and conduct of our business, and fulfilling shareholder resolutions. The Audit Committee is responsible for following up on external and internal audit activities and keeping the Board of Directors informed about their performance. Moreover, the Audit Committee oversees the preparation of financial reports in accordance with regulations and accounting principles applicable to financial institutions. The current members of the Audit Committee, all of whom are independent, are Héctor Federico Reyes Retana y Dahl (Chairman), Carmen Patricia Armendáriz Guerra, Thomas S. Heather Rodríguez, Robert William Chandler Edwards, Manuel Aznar Nicolín and Clement Ismael Reyes Retana Valdés.

Risk Policy Committee

Our Risk Policy Committee is comprised of voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Eduardo Livas Cantú (Chairman), Everardo Elizondo Almaguer, Héctor Federico Reyes Retana y Dahl, Thomas S. Heather Rodríguez, Manuel Aznar Nicolín, Robert William Chandler Edwards, José Marcos Ramírez Miguel and Guillermo Chávez Eckstein. The Risk Policy Committee can invite guests that shall not have voting privileges, and will include our internal auditor.

Human Resources Committee

Our Human Resources Committee aims to appropriately compensate our staff, protect our integrity, stability, competitiveness and financial soundness and to support our Board of Directors in its functions relating to our compensation system, through the approval of determinations in connection with its human resources and the establishment of a regulatory framework. Our Human Resources Committee is responsible for the implementation, maintenance and evaluation of activities regarding our compensation system. The current members of our Human Resources Committee are: Everardo Elizondo Almaguer (Chairman), Eduardo Livas Cantú, Guillermo Chávez Eckstein, Javier Beltrán Cantú, Rafael Arana de la Garza and Isaías Velázquez González (non voting member).

Alternate Directors

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in cases of permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Statutory Auditors

In addition to the Board of Directors, our by-laws provide for a statutory auditor to be designated at a Board of Directors meeting with previous recommendation from the Audit Committee and, if determined at such meeting, an alternate statutory auditor. Under Mexican law, the duties of statutory auditors include, among other things, the examination of the operations, books, records and any other documents of a company, the determination of whether accounting standards and policies have been followed, and the presentation of a report of such examination at the annual ordinary general meeting of shareholders. Our statutory auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu.

Principal Officers of Banorte

The following persons are our principal officers:

Name	Position	Years with Banorte	Age
Carlos Hank González	President and Chairman of the Board	2	45
José Marcos Ramírez Miguel	Chief Executive Officer	6	54
Rafael Arana de la Garza	Managing Director, Chief Operation Officer and Chief Financial Officer	8	65
Carlos Eduardo Martinez Gonzalez	Managing Director, Retail Banking	18	53
Jose Armando Rodal Espinoza	Managing Director, Wholesale Banking	24	47
Héctor Avila Flores	Managing Director, Legal	2	50
Guillermo Chávez Eckstein	Managing Director, Risk Management	2	62
Jose Francisco Martha González	Managing Director, Technology	3	47
Manuel Antonio Romo Villafuerte	Managing Director, Payment Products	8	51
Isaías Velazquez González	Managing Director, Audit	18	55
Carlos de la Isla Corry	Managing Director, Chairman Advisor	2	54
Sergio Garcia Robles Gil	Managing Director, Corporate Officer	22	56
Fernando Solis Soberón	Managing Director, Long Term Savings	10	55

Each of our principal officers has extensive experience in the banking industry. Set forth below is biographical information for each of our principal officers.

Carlos Hank González, 45, Mr. Hank González holds a Bachelor's Degree in Business Management with specialization in Finance from Universidad Iberoamericana. Currently he is Chairman of GFNorte's Board of Directors, a position he has held since January 1st, 2015. In Gruma, a global leader in corn flour and tortilla production with operations in more than 100 countries, Mr. Hank González has played a key role since December

2012, when he became Vice President of the Board of Directors and joined the Executive Committee to design a healthy and responsible financial strategy that generated value for the company.

José Marcos Ramírez Miguel, 54, Mr. Ramírez Miguel he holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Postgraduate Degree in Finance from Instituto Tecnologico Autonomo de Mexico ("ITAM") and an MBA from E.S.A.D.E. in Barcelona. Mr. Ramírez Miguel is the Chief Executive Officer of GFNorte and the Bank since November 2014.

Rafael Arana de la Garza, 65, Managing Director, Chief Operation Officer and Chief Financial Officer. Mr. Arana joined us in September 2011 and has a bachelor's degree in Electrical Mechanical Engineering. He has previously worked as Grupo Financiero HSBC S.A. de C.V.'s Managing director, Personal Banking, for Latin America and the Caribbean, as well as Associate Managing Director for HSBC México.

Manuel Antonio Romo Villafuerte, 51, Managing Director, Payment Products. Mr. Romo joined us in July 2008 and has a bachelor's degree in Business Administration and a master's in Economics. He previously worked at IXE and Banamex.

Sergio García Robles Gil, 56, Chief Managing Director, Corporate Officer. Mr. García joined us in October 1994 and has a master's degree in Business Administration. He has previously worked at Fina Consultores.

Carlos Eduardo Martínez González, 53, Managing Director, Government Banking. Mr. Martínez joined us in 1996 and has a master's degree in Banking. He previously worked at Grupo Financiero Santander Serfín, S.A. de C.V.

José Armando Rodal Espinosa, 47, Managing Director, Wholesale Banking. Mr. Rodal joined us in April 1993 and has a master's degree in Business Administration. He has previously worked as Managing Director of Executive Corporate and Enterprise Banking in Banorte.

Héctor Ávila Flores, 50, Deputy Managing Director, Legal. Mr. Ávila holds a Bachelor's Degree in Law from Universidad La Salle, with a specialization in Finance Law from ITAM. He has been Secretary of GFNorte's Board of Directors since April 2011. Currently, is GFNorte's Deputy Managing Director, Legal and has more than 13 years of experience in the Mexican financial system.

Guillermo Chavez Eckstein, 62, Chief Risk Officer. Mr. Chávez joined us in August 2015 and has a master's degree in Business Administration and over 30 years of experience in banking. He previously worked as Chief Risk Officer, Chief Credit Officer, General Director of Wholesale Markets, General Director of Corporate Banking and Managing Director of Investment Bank among the most important banks in Mexico.

Fernando Solis Soberón, 55, Managing Director, Long Term Savings. Mr. Solis joined us in July 2007 and has a bachelor's degree and master's degree and a Ph.D. in Economics. Other companies for which he has worked include Grupo Nacional Provincial, the CONSAR, and CNSF.

Compensation

For the three-month period ended March 31, 2017, the aggregate compensation paid by us to the members of our Board of Directors was Ps.2.2 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the three-month period ended March 31, 2017, was Ps.55.6 million.

For the year ended December 31, 2016, the aggregate compensation paid by us to the members of our Board of Directors was Ps.7.7 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the year ended December 31, 2016, was Ps.204 million.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to Mexican rules and regulations, no loans may be made to:

- any bank officer or employee, except in connection with certain employee benefits;
- statutory auditors, including alternate statutory auditors;
- external auditors; and
- certain close relatives of any of the persons mentioned in the bullets above.

In addition, the Mexican Banking Law regulates transactions by a bank with affiliates and other "related party transactions" and limits the aggregate amount of these transactions to 35.0% of our Tier 1 Capital. Related party transactions may only be undertaken by Mexican banks if agreed upon on market terms. The CNBV may, upon request, grant exemptions from these provisions. As permitted by Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulate and limit our loans to related parties, including loans to:

- holders of 2% or more of our shares or the shares of GFNorte or of an affiliate of GFNorte;
- principal and alternate members of our Board of Directors, or of the Board of Directors of GFNorte or of an affiliate of GFNorte;
- relatives of a Board of Directors member or of a 2% or more shareholder mentioned in the above categories;
- any person not an officer or employee who, nevertheless, is empowered to bind us contractually; and
- an entity in which we or any of our directors or officers, or any of the above persons holds, directly or indirectly, 10% or more of the outstanding capital stock, and board members, officers and employees of entities mentioned in any such entity.

A three-fourths majority of non-conflicted members of our Board of Directors present at the relevant Board meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the Credit Committee. Loans for amounts of less than 2 million UDIs, or 1% of our Tier 1 Capital, whichever is greater, do not require Board approval. In addition, certain filings must be made with the CNBV with respect to such loans.

As of March 31, 2017, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 totaled Ps.10,040 million, which comprised 1.8% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on March 31, 2017, 96% were graded "A," and 4% were graded "B or lower" under the Loan Classification and Rating Rules.

See Note 24 to our Audited Consolidated Financial Statements for further information regarding our related party transactions with our parent, subsidiaries and other affiliated companies.

PRINCIPAL SHAREHOLDERS

As of March 31, 2017, 98.22% of our capital stock was owned by Grupo Financiero Banorte, S.A.B. de C.V. Accordingly, Grupo Financiero Banorte, S.A.B. de C.V. is in a position to elect all of the members of our Board of Directors and otherwise control the management and affairs of Banorte. The table below sets forth the ownership of our capital stock as of March 31, 2017:

Shareholder	Series O Shares Owned	Percentage
Grupo Financiero Banorte, S.A.B. de C.V.(1)	134,857,805,707	98.22%
Other(2)	2445303852	1.78%
Total	137,303,109,559	**100.00%**

(1) As of March 31, 2017, 10.41% of the shares of Grupo Financiero Banorte S.A.B. de C.V. were held by investment vehicles of the González Family, 1.69% were held by Don David Villarreal Montemayor (on behalf of Doña Alicia Rebeca Montemayor García) and the remaining 87.91% was held by non-affiliated third parties.

(2) These shares are held by various third parties.

THE MEXICAN FINANCIAL SYSTEM

General

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, limited purpose banks 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, the Mexican government adopted the Financial Groups Law 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 main financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the 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. 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 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.

On November 26, 2013, the Senate approved the Report of the Chamber of Deputies (*Cámara de Diputados*) on the bill presented by President Enrique Peña Nieto amending, supplementing and repealing various provisions with respect to financial matters and issuing the Financial Groups Law (the "Financial Reform").

Thirty-four legal statutes were amended in order to foster greater competition in the financial and banking system by creating incentives to increase lending, as well as a new mandate for development banks. Also, the Financial Reform strengthens the scheme for the stability of the financial institutions and the powers of financial authorities in regulatory, monitoring and enforcement matters.

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 services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, ancillary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofomes, foreign exchange service providers, retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras populares*). 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 group.

The 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 part of the same group.

In addition, the 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 incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain 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 banking 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.

Under the Financial Reform, the Mexican Congress approved changes to the Financial Groups Law. Relevant changes include the following:

- *Shareholding Structure* - It provides for the possibility of the holding company to maintain the shareholding of the members of the group through sub-holding companies.
- *Capitalization and Corrective Measures* - A holding company shall maintain net capital that shall not be less than its permanent investments in the subsidiaries of the group. It also authorizes the SHCP to determine corrective measures, such as the potential sale of assets, non-distribution of dividends and suspending payments of bonuses, among others.
- *Corporate Governance* - The new law provides for a new corporate governance structure, setting forth specific duties of care and fiduciary duties applicable to Board members, even if the financial services holding company is not publicly traded, similar to that provided in the Mexican Securities Market Law (*Ley del Mercado de Valores*) for stock-traded corporations.
- Other material changes from the previous law include shareholders' agreements, tied sales, liability agreements, the investment structure of the holding company, accounting and consolidated supervision, among others.

- *Investment Structure of the Holding Company* - In addition to its interest in the financial institutions of the group, a holding company may invest in other instruments, such as securities representing the capital stock of other financial institutions that are not group members, service providers and real estate companies, among others.

- *Investments by Foreign* Governments. Foreign governmental entities to acquire controlling interests and indirect interests in financial services holding companies and banks, in circumstances such as financial distress.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are the Mexican Central Bank, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the 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 banking institution, are subject to the supervision and regulation of the CNBV. In addition, our parent company (GFNorte) and its other financial subsidiaries are subject to the supervision and regulation of the mentioned CNBV and other corresponding financial authorities, and are in constant interaction with such authorities during their normal course of business.

Mexican Central Bank

The Mexican Central Bank is an autonomous entity that is not subordinated to any other body in the Mexican federal government. Its primary purpose is to issue the Mexican currency, as well as to maintain the acquisition power of such currency, to establish reference interest rates and to ensure that the banking and payments systems perform under safe and sound principles.

Monetary policy decisions are taken by the members of the Governing Board of the Mexican Central Bank. The Governing Board is composed of a Governor and four Deputy Governors, who are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the Mexican government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and the Mexican Central Bank, 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 1994 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, entities that manage independent retirement accounts, and *Siefores*, specialized pension funds. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental 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 Mexican 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 History of 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 Mexican 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 the Mexican Central Bank to help banks with dollar liquidity problems;

- increasing the level of required 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 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 updated 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. We currently comply with applicable capitalization requirements.

Enhancing the CNBV supervisory practices. The reforms granted ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Increasing requirements for the granting of loans to customers. For the granting of loans, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their creditworthiness and ability of timely payment of the loan. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing supervisory powers for external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to:

- request any information and documentation related to the services rendered;
- practice inspection visits;
- require the attendance of partners, legal representatives and other employees; and
- issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited-purpose banks. The reform introduced limited-purpose banks (*bancos de nicho*), which can only engage in a limited amount of banking activities which are specifically set forth in their bylaws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs. UDIs are *Unidades de Inversión*, a Peso-equivalent unit of account indexed for Mexican inflation.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Participation of Foreign Governments. It clarifies the rules that require prior approval from the CNBV for the investment of foreign governments in commercial banks, as a temporary prudential measure, in cases where foreign entities receive financial support or are rescued. Such intervention should be through official entities not exercising authority, and participation should be indirect and without control. The shareholding structure in broker-dealers, retirement fund administrators, insurance companies and mutual insurance companies, bonding companies, financial groups and credit information companies was also amended.

Capitalization Requirements. The concepts of "Minimum Basic Capital" and "Capital Supplement" have been incorporated into the law. The law also provides for capital requirements, additions and restrictions, as well as asset disposal in cases where the entities with significant influence on banks are facing liquidity or solvency problems. It also entitles development banks to support banks should they require capitalization.

Limit on Transactions with Related Parties. The limit on the aggregate number of transactions with related parties has changed, which shall not exceed 35 percent of the net capital.

Liquidity Requirements. 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 the Mexican Central Bank, 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.

Risk Control, Banking Resolutions and New Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform entitles the CNBV to determine the maximum number of active transactions and provides for new rules in the event that the Mexican Central Bank acts as lender of last resort so that it requires collateral on the bank's shares. It also introduces the obligation to have a plan of stress scenarios, contingency and resolution plans as well as participation in mock resolutions. It also has amended certain articles regarding the structure of bank resolutions, including new deadlines for exercising the right of audience prior to the revocation of the authorization to operate as a bank and includes a new scheme of judicial liquidation/bank bankruptcy, replacing the provisions of the Bankruptcy Act.

Self-Correcting Programs. The Mexican Banking Law and other financial laws state that the financial institutions may submit to the CNBV self-correcting programs when they detect defaults to the provisions regulating them, taking into consideration that irregularities detected by the CNBV or serious defaults or offenses may not be part of the self-correcting programs.

Transactions with Members of the Same Group or Consortium. New rules and limitations have been established. Transactions with members of the same group shall be agreed to on market terms.

Measures to Encourage Credit and Performance Evaluations. The SHCP is authorized to assess the performance of commercial banks regarding compliance with the support of the country's productive forces and the growth of the economy; the SHCP shall issue the relevant guidelines for such assessment. It also authorizes the CNBV to encourage the channeling of more resources to the productive sector by setting parameters on the execution of transactions with securities. The financial authorities shall take into account the results of the assessments to decide on the authorizations it will grant in general.

Administrative Offenses and Penalties. It significantly increases the number and severity of the sanctions, which are to be disclosed to the general public, although none are definitive or final. It also provides for sanctions for officials involved in transactions with related parties in excess of the statutory limits. Amendments to the administrative sanction system were made consistently in all financial laws amended by the Reform.

SHCP Blacklist. With respect to the prevention of transactions with funds from illegal sources and terrorist financing, it provides for the obligation to immediately suspend transactions with the persons included in the blacklist issued by the SHCP. This obligation is also set for the other financial institutions in their respective laws.

Asymmetric Regulation. It authorizes the SHCP, the CNBV and the Mexican Central Bank to issue asymmetric regulation, *i.e.*, one that considers the regulatory burden in accordance with the size of each institution.

Exchange of Information with Foreign Financial Authorities. It regulates in more detail the procedure for the exchange of information with foreign authorities and verification visits.

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 new bankruptcy law.

Collateral Mechanisms

The Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the Bonding Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

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.

Foreclosure of Securities Loans

The Mexican Congress also approved changes to the Commerce Code intended to expedite proceedings relating to the foreclosure of secured loans by financial institutions. These changes grant authority to Mexican courts to issue interim measures, such as ordering persons not to leave Mexico or ordering assets to be frozen.

Bankruptcy Law

The Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*) provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

Only the IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including Banorte. In the case of banking institutions, such as Banorte, with the declaration of bankruptcy (*concurso* *mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as corrective measures taken by the CNBV, facilities made available by the IPAB and an intervention led by the CNBV. Upon filing of the application for the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Mexican Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of any of the following two conditions: (*i*) 35.0% or more of a debtor's outstanding liabilities are 30 days past due; or (*ii*) the debtor fails to have certain specifically defined liquid assets and receivables to cover at least 80.0% of its obligations which are due and payable.

Applicable law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all Peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into Pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Mexican Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Mexican Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency (recently modified as set forth below). This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Mexican Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in other jurisdictions that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

The Mexican Congress also approved changes to Mexico's Bankruptcy Law, intended to improve the application of such law. Relevant changes include:

- the consolidation of bankruptcy proceedings affecting parent and subsidiary companies;
- the application of liquid assets provided as collateral, in connection with the netting and close out of derivative and similar contracts;
- setting forth an outside limit to bankruptcy restructuring (three years);
- permitting trustees and other creditor representatives, to submit claims on behalf of groups of creditors;
- expressly recognizing subordinated creditors, and deeming related party creditors as subordinated creditors; and
- making members of the Board of Directors liable to the bankrupt debtor if such member acted when affected by a conflict of interest, self-dealing and otherwise against the interests of the bankrupt debtor.

On January 2014, the Mexican Bankruptcy Law was further amended. Relevant changes include the following:

- First, the law introduces the concept of a statutory “subordinated creditor.” “Subordinated creditor” is defined in Article 222 to include an unsecured creditor who has the same board members as the bankrupt debtor, or which is controlled by the debtor or is under common control with the debtor.

- The amendment authorizes the debtor to enter into credit facilities (similar to debtor-in-possession financings), if it is indispensable to continue the operation of the debtor.

- The amendments, provide that the automatic stay is not applicable with respect to collateral consisting of real property collateral, unless such real property is strictly indispensable for the operation of the debtor's business.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the recent global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the Peso, triggering a new regulation issued by the CNBV that seeks to improve disclosure standards as they relate to derivative transactions.

The Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) that protects personal data collected by private individuals or entities was published on July 5, 2010 and is now fully effective along with its Regulations. Under such law, we are required to ensure the confidentiality of information received from clients. We have modified our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder and as a means to obtain the consent of our customers prior to using any personal information provided by them. We may be subject to fines and penalties in the event of violations to the provisions of such law.

On January 9, 2015, the General Rules Applicable to Financial Entities and Other Entities that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y Demás Personas que Proporcionen Servicios de Inversión*) (the “Investment Services Rules”) were published in the Official Gazette. The purpose of the Investment Services Rules, among others, was to have a single body of rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the Investment Services Rules, banks and brokerage firms rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client’s investment profile.

The Investment Services Rules establish an obligation for banks and brokerage firms to create a committee which shall be responsible for the analysis of financial products offered by such entities, and whose members shall be independent from the structuring area of the relevant entity, or an equivalent institution or responsible person.

The Investment Services Rules also require the creation of an Analysis Committee. The Analysis Committee shall maintain minutes for each committee meeting held together with the relevant presentations, which documentation shall be kept by the entity and made available to the CNBV for at least five years.

The Analysis Committee shall approve each financial product offered, compensation of investment portfolios, guidelines in respect of the provision of services, and prior to its delivery, all information given to any client regarding any investment recommendation, which information shall include at least the prospectus or memorandum describing the relevant securities or offering.

The Investment Services Rules also provide that the board of directors of the relevant bank or brokerage firm shall approve the policies and guidelines required for each entity to:

- approve the terms and policies for such financial institutions to make the assessment of the client profile;
- carry out the analysis of the financial products to be offered to the clients;
- comply with the evaluation of the "reasonableness" of recommendations, required to render advisory investment services; and

Such policies and guidelines must be submitted to the CNBV within 10 days from its approval date, and the CNBV may order the relevant entity to incorporate corrections in order to make them consistent with the Investment Services Rules.

The Investment Services Rules provide that each bank and brokerage firm must appoint an officer to verify compliance of each firm with the Investment Services Rules.

Reforms to the Mexican Securities Market Law.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Securities Market Law. Relevant changes include the following:

Offerings of Securities Abroad. The CNBV must be notified of any type of securities' offerings made outside of Mexico, in the case of securities issued by Mexican entities, even if the offerings are private.

Various Modifications to the Obligations Related to the Information of an Issuer. The CEO of the issuer shall be responsible for the content of the disclosed information, the material events and other information that must be disclosed to the public.

It also provides for tighter controls on persons having access to material non-public information, the publication of which is deferred. Persons related to the underwriter, persons providing independent or subordinated personal services to the issuer and third parties that have had contact with those who have access to material non-public information must be included in the list of persons who are considered to have access to privileged information, unless proven otherwise.

Finally, with respect to misleading information, disclosure of information that is prohibited by applicable law has been excluded as an omission of disclosure.

Capitalization Rules for Broker-Dealers. The capitalization of broker-dealers has been harmonized to that of the banking institutions.

Liability of Underwriters. The liability structure of broker-dealers, who may be liable for damages and losses caused by breach of their obligations, has been extended.

Stock Pledge. It provides for modified rules for the application of payments of securities pledged, without any judicial proceeding, and permitting the transfer of title to pledged securities.

SUPERVISION AND REGULATION

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico, and of certain matters related to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act's regulation of derivatives. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico or of U.S. regulations applicable to such financial institutions.

Introduction

Our operations are primarily regulated by the Mexican Banking Law and the rules and regulations issued by the SHCP, the CNBV, the Mexican Central Bank and the IPAB. The authorities that supervise us and our operations are the SHCP, the Mexican Central Bank, CONDUSEF and the CNBV.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings, between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, each bank must publish on its website, among other information:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and including their respective resumes;
- a description and the total 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 the notes thereto;
- any information requested by the CNBV to approve the special accounting criteria and special registries;
- a detailed explanation of the main differences in the accounting standards used by the bank to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

The CNBV has the authority to impose fines for failure to comply with the provisions of the Mexican Banking Law, or the regulations issued thereunder. In addition, the Mexican Central Bank has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of the Mexican Central Bank (*Ley del Banco de México*) and its regulations and the Law for the Transparency and Ordering of Financial Services, particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Baking Law permits foreign governments to acquire equity securities of Mexican banks, on a temporary basis in connection with rescue or similar packages, which was not possible in the past, and to acquire control of Mexican banks, with the prior approval of the CNBV.

Mexican banks are now required to expense carefully, through their boards of directors, compensation payable to officers and, for that purpose, will be required to observe general rules to be issued by the CNBV and to establish and maintain a compensation committee.

Changes approved by the Mexican Congress clarify capitalization requirements, causes for revocation of a license and terms pursuant to which the Mexican government may provide assistance to troubled Mexican banks.

The amended Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the board of directors of the applicable Mexican bank and must be supervised by the bank's audit committee. General rules implementing the provisions are expected to be issued by the CNBV.

New provisions have been added to the Mexican Banking Law, in connection with the dissolutions and liquidation of Mexican banks facing liquidity or solvency problems. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which the IPAB will act as liquidator, will conduct the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and will take all measures conducive to the bank's liquidations. The Mexican Banking Law now reflects provisions that were regulated by the Mexican Bankruptcy Law, as they relate to the dissolutions and liquidation of Mexican banks. Liquidation proceedings may be conducted in-court or out of court, depending upon the circumstances affecting the relevant Mexican bank. In addition to liquidation proceedings, Mexican banks may be declared in bankruptcy pursuant to a specialized proceeding set forth in the Mexican Bankruptcy Law.

Licensing of Banks

An authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of the Mexican Central Bank, 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, with the approval of its Governing Board, may declare the managerial intervention (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (a "CNBV Intervention"). In addition, the Governing Board of the IPAB may also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law, to a banking institution.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when:

- 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;

- 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

- the banking institution defaults with respect to any of the following payment obligations:

  - 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 Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and

  - 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 does not pay three or more checks for a total amount of two million UDIs, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers, 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 will be appointed by the IPAB, if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager appointed by the IPAB will assume the authority of the Board of Directors and the shareholders. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law, will prepare and submit to the IPAB the bank's budget (for approval), will be authorized the contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, is authorized to hire and fire personnel and may suspend operations. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Revocation of a License; Payment of Guaranteed Obligations

Revocation of Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, the IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be liquidated in accordance with Articles 165 through 220 of the Mexican Banking Law. In such a case, the IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions:

- transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust set up for such purposes;

- constitute, organize and manage a new banking institution owned and operated directly by the IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or

- any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that the IPAB considers as the best and least expensive option to protect the interests of bank depositors.

As described above, amendments to the Mexican Banking Law approved by the Mexican Congress will substitute these provisions.

Causes to Revoke a Banking License. The abovementioned amendments significantly expanded the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- if the bank does not starts operations within the term of thirty days as from the notification of such authorization;

- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;

- if the banking institution:

    - does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law;

    - does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or

    - 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 Capitalization Requirements;

- if the banking institution defaults with respect to any of the following payment obligations:

    - 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 Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and

    - 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; or

- 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 Official Gazette and in 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, the 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 Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*) ("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 the Mexican Central Bank;

- 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 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:

- liquid and enforceable labor liabilities;

- secured liabilities;

- tax liabilities;

- liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by the IPAB in accordance with the Mexican Banking Law;

- 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 the IPAB different from those referred to above;

- any other liabilities (other than those referred to below);

- preferred subordinated debentures;

- non-preferred subordinated debentures (such as the Notes); and

- the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Banking Stability Committee. The BSC includes representatives of the SHCP, the Mexican Central Bank, the CNBV and the 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 in risk the operation of the payments' systems required for the development of the economic activity, then the BSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered "guaranteed obligations" under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may 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 senior officers, and certain illegal transactions) or the liabilities resulting from the issuance of subordinated debentures, be covered or paid by the IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the BSC makes the determination referred to in the prior paragraph, then the IPAB's Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, which may be through either of the options described below:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (a) capital contributions granted by the IPAB in accordance with Articles 151 through 155 of the Mexican Banking Law, or (b) credit support granted by the IPAB also 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 bank 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 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 Mexican Banking 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 on the date of this offering memorandum, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs (approximately Ps.487.3 million as of March 31, 2017).

The Mexican Capitalization Requirements set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements. The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee which includes the supervisory authorities of twelve major industrial countries.

Adoption of Basel III Standards in Mexico

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

On November 28, 2012, the CNBV published an amendment to the Mexican Banking Regulations anticipating the adoption of Basel III guidelines. Most aspects of the new set of rules became effective on January 1, 2013, while others will be phased until the year 2022. The new regulation aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to have the ability to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions.

Among other changes, the amendments to the General Rules Applicable to Mexican Banks implementing the Basel III rules include the following:

Quality and level of capital. Greater focus on common equity and Fundamental Capital. The minimum Fundamental Capital was raised to 4.5% of risk-weighted assets, after deductions.

Capital loss absorption at the point of non-viability. Contractual terms of capital instruments include a clause that allows – at the discretion of the relevant authority – write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises.

Capital conservation buffer. Banks shall constitute a Capital Supplement of 2.5% of the risk-weighted assets, bringing the total minimum Fundamental Capital standard to 7%. Constraint on a bank's discretionary distributions will be imposed when banks fall into the buffer range.

Countercyclical buffer. This buffer is imposed within a range of 0-2% comprising Fundamental Capital, when the CNBV judges that a credit growth is resulting from an unacceptable build-up of systemic risk, and is based on the credit activities carried by the financial institution in foreign markets.

Pursuant to the General Rules Applicable to Mexican Banks, this capital supplement is calculated taking into consideration the financing activities performed by banks in different jurisdictions.

Systemically Important Domestic Banks. D-SIBs must have higher loss absorbency capacity to reflect the greater risks that they pose to the domestic financial system. The additional loss absorbency requirements are to be met with a progressive Fundamental Capital requirement ranging from 0.60% to 2.25%, depending on a bank's systemic importance.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Net Capital Ratio, Tier 1 Capital and Fundamental Capital. The relevant corrective measures applicable to us are determined based on the following classifications.

		Net Capital Ratio (*ICAP*)				
Fundamental Capital or CET1 (*CCF*)	**Tier 1 Capital (*CCB*)**	**≥ 10.5% + CBF**	**≥ 8.0%**	**≥ 7.0% + CBF**	**≥ 4.5%**	**< 4.5%**
≥ 7% +CBF	≥ 8.5% + CBF	**I**	**II**			
	≥ 7% + CBF	**II**	**II**	**III**		
≥ 4.5%	≥ 8.5% + CBF	**II**	**II**			
	≥ 6%	**II**	**II**	**III**	**IV**	
	≥ 4.5%	**III**	**III**	**IV**	**IV**	
< 4.5%						**V**

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coeficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coeficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

This table is based upon the tables set forth in Article 220 of the General Rules Applicable to Mexican Banks, which should be consulted for a complete understanding of the applicable requirements, including in relation to the applicable Capital Supplements to be constituted by the Bank.

Furthermore, the General Rules Applicable to Mexican Banks provide that:

- The Net Capital will include a Tier 1 Capital (*capital básico*) and a Tier 2 Capital (*capital complementario*). The minimum Net Capital ratio required for each bank shall be equal to 8%;
- The Tier 1 Capital shall include:
  - a Tier 1 Capital coefficient of at least 6%;
  - a Fundamental Capital coefficient of at least 4.5%; and

- (a) a capital conservation buffer equivalent to 2.5% of the Weighted Assets Subject to Risk, (b) in case of D-SIBs, the Systemically Important Bank Capital Supplement, and (c) the Countercyclical Capital Supplement.

- The Tier 1 Capital of the Net Capital will be divided into a Fundamental Capital (*capital básico fundamental*) and a Non-Core Tier 1 Capital (*capital básico no fundamental*).

For clarification purposes, Tier 1 Capital refers to the basic portion (*parte básica*) of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks. Tier 1 Capital is comprised of the two components of basic capital (*capital básico fundamental* and *capital básico no fundamental*) as such terms are defined in the General Rules Applicable to Mexican Banks. Fundamental Capital (*capital básico fundamental*) means only the amount of the fundamental capital as such term is defined in the General Rules Applicable to Mexican Banks. Non-Fundamental Capital (*capital básico no fundamental*) means the non-fundamental basic capital as such term is defined in the General Rules Applicable to Mexican Banks. Tier 2 Capital refers to the additional portion (*parte complementaria*) of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks.

The General Rules Applicable to Mexican Banks require banks to maintain a Net Capital Ratio of at least 10.5% to avoid the imposition of corrective measures notwithstanding that the minimum required Net Capital Ratio is 8%.

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Fundamental Capital and Non-Fundamental Capital) and Tier 2 Capital. The Mexican 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 Fundamental Capital, 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). Non-Fundamental Capital 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).

Tier 2 Capital 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 may be convertible into shares at their maturity date or are subject of write-down procedures. 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 income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve.

On May 1st, 2016, as a bank of systemic importance, the Bank was required by CNBV to constitute a Systemic Important Bank Capital Supplement of 0.90%. This requirement was ratified by the CNBV on April 10, 2017, confirming Banorte as a Grade II D-SIB. Also, an initial Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements are required to be implemented by the Bank in a four-year period, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank during the four-year period commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	**2017**	**2018**	**2019**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (*capital básico*)	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (*capital básico fundamental*)	7.23%	7.45%	7.68%	7.90%

As of March 31, 2017, the Bank's Capital Ratios were (i) 16.58% in the case of Total Net Capital, (ii) 14.04% in the case of Tier 1 Capital and (iii) 13.68% in the case of Fundamental Capital. As of December 31, 2016, the Bank's Capital Ratios were (i) 15.30% in the case of Total Net Capital, (ii) 12.70% in the case of Tier 1 Capital, and (iii) 12.10% in the case of Fundamental Capital, which in both cases exceed the current regulatory requirements.

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Corrective Measures

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after Mexican Central Bank has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed. Class I is exempted from any corrective measure, but for the remainder of the categories such corrective measures include:

For Class II:

- requiring the bank to:
  - inform the Board of Directors about the bank's classification, as well as the causes for the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure;
  - include in such report the causes of the weakening of their Capitalization Ratio and the Tier 1 Capital and Tier 2 Capital;
  - include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank;
  - report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group;
  - abstain from entering transactions that will cause its Capitalization Ratio to be lower than required under the Capitalization Requirements;
  - abstain from increasing the current amounts of the financings granted to relevant related parties; and
  - submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capitalization Ratio in order for the institution to be placed in Class I.

Such plan shall be presented to the CNBV no later than 20 business days after the date the bank receives the CNBV notification of the corrective measure.

In addition to the corrective measures applicable to Class II, for Class III and above:

- requiring the bank's Board of Directors to:
  - within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capitalization Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their bylaws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and
  - comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;
- requiring the bank to:
  - suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to the holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;
  - requiring the bank to suspend any capital stock repurchase programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
  - requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;
  - requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV;
  - requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party; and

In addition to the corrective measures applicable to Class II and Class III, for Class IV and above:

- refraining from making new investments on non-financial assets, opening branches or performing activities other than those made in the ordinary course of business.

In addition to the minimum corrective measures, the CNBV may order the implementation of additional and special corrective measures for banks with a classification from II to V. The additional and special corrective measures that, if applicable, the banks must comply with are:

- define the concrete actions that it will carry out in order not to deteriorate its Capitalization Ratio;

- inform the chief executive officer of the foreign holding company about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure, only in case of banks owned by foreign financial groups;

- hire the services of external auditors or any other specialized third party for special audits on specific issues;

- refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights;

- substitute officers, members of the board or external auditors with appointed persons occupying the respective positions;

- undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices; or

- refrain from entering into new agreements that may cause an increase on the Weighted Assets Subject to Risk or may cause a higher deterioration on the Capitalization Ratio.

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 the Mexican Central Bank's monetary policy is to maintain the stability of the purchasing power of the Mexican Peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of the Mexican Central Bank have been directed towards a restrictive monetary policy.

Under this policy, the Mexican Central Bank has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, market commenced operations with a liquidity deficit which is then compensated by the Mexican Central Bank through daily operations in the money market to provide adequate liquidity and stability to those markets. The Mexican Central Bank's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, the Mexican Central Bank 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, the Mexican Central Bank 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.

The Mexican Central Bank imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.280.0 billion, which had to be deposited in eight installments by eight deposits of Ps.35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008. Likewise, in addition to the compulsory reserve abovementioned, the Mexican Central Bank imposed an addition l reserve and compulsory deposit requirement on Mexican commercial banks. Bulletin 11/2014 published on June 27, 2014, stated an additional compulsory reserve deposit of Ps.41.5 billion, which had to be deposited in four installments by four deposits of Ps.10.4 billion each on August 14; September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2014.

The compulsory deposit reserves required under the terms of the Bulletins 36/2008 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with the Mexican Central Bank, each banking institution receives interest on such deposits every 28 days. The Mexican Central Bank will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

Non-performing loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.

- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.

- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio. The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item. The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

We regularly evaluate whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.

- Consumer loans – 180 days or more overdue.

- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the CNBV. Our internal methodology authorized by such CNBV may also be used. In the case of consumer mortgage and commercial loans, we apply the General Rules Applicable to Mexican Banks for rating the loan portfolio as issued by the CNBV and published in the Official Gazette on June 24, 2013.

On June 24, 2013, the CNBV issued changes to commercial loan rating provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

Such provisions also establish general methodologies for rating and calculating the allowance for each type of loan, where also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the CNBV.

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, whereas also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

__General Description of Rules Established by the CNBV__

The rules for grading consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve-month period.

Such methodologies stipulate that estimate of such loss evaluates the probability of breach of contract, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the hedges that need to be created in order to face the loan risk.

Depending on the type of loan, the probability of default, loss given default and exposure to default are determined by considering the following:

Probability of Default

- For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.

- For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.

- For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.

- For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Loss Given Default

- For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.

- For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.

- For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.

Exposure at Default

- For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.

- For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.

- For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.

- For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

The CNBV's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of the Mexican Central Bank, the total amount of maturity-adjusted (by applying a factor, depending upon the maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), is limited to 1.83 times the amount of their Tier 1 Capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (i.e., to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;

- deposits with the Mexican Central Bank;

- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the U.S. government, which have the unconditional guarantee of the U.S. government;

- demand deposits or 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 or similar funds or companies approved by the Mexican Central Bank, that satisfy certain requirements; and

- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- a Capitalization Ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 Capital;

- a Capitalization Ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;

- a Capitalization Ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;

- a 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

- a 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.

These lending limits are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank is inadequate.

The following financings are exempt from these lending limits:

- 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 established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability);

- securities issued by the Mexican government and financings made to the Mexican government, Mexican local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government; and

- cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender).

However, such financings may not exceed 100% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned limits, but such financings may not exceed 100% of a bank's Tier 1 Capital. In turn, the controlled 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.

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 granted to the Mexican federal government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, 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 for Mexican Banking GAAP purposes, (*i*) the number and amount of financings that exceed 10.0% of Tier 1 Capital, and (*ii*) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the 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 the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of such bank's Tier 1 Capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 Capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

The General Rules Applicable to Mexican Banks establish that the aggregate amount of operations subject to credit risk relating to relevant related parties shall not exceed 25% of the bank's Tier 1 Capital corresponding to the immediately preceding month. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

The Mexican Central Bank 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 the Mexican Central Bank, in connection with maturities of obligations denominated in foreign currencies (see "—Liquidity Requirements for Foreign Currency-Denominated Liabilities").

Derivative Transactions

The Mexican Central Bank has issued rules that 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,
- gold or silver,
- pork bellies, pork and cattle;

- wheat, corn, soybean and sugar,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances; and
- futures, forwards, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by the Mexican Central Bank to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval would require a specific approval from the Mexican Central Bank 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 the Mexican Central Bank, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding limits set forth in the Mexican Banking Law in respect of related party transactions.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. Derivative transactions that are entered into in over-the-counter (OTC) markets, may be collateralized only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, pension fund managers, Sofomes, and any other counterpart authorized by the Mexican Central Bank. Mexican banks are required to periodically inform their Board of Directors with respect to the derivative transactions entered into, and whether or not the Mexican bank is in compliance with limits imposed by the Board of Directors and any applicable committee. Mexican banks must also inform the Mexican Central Bank periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, or Mexican financial entities authorized to enter into such derivatives by the Mexican Central Bank or foreign financial institutions or recognized markets. Derivatives must be entered into pursuant to master agreements that must include terms and guidelines, similar to international standards such as ISDA master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from the Mexican Central Bank to engage in swaps, forwards and options related to stocks, indices, currencies and interest rates.

Repurchase Operations and Securities Lending

Under a circular issued by the Mexican Central Bank, 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.

Mexican Central Bank 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 SHCP (which shall take into consideration the opinions of the Mexican Central Bank 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 SHCP 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:

- up to 5.0% of the capital of such companies at any time;
- 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
- 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, among others: (*i*) pledging their properties as collateral (except when pledging collection rights or securities in transactions with the Mexican Central Bank, 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:

- the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact;
- judicial authorities in trial proceedings in which the accountholder is a party or defendant;
- the Mexican federal tax authorities for tax purposes;
- the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering;

- the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority (including information on accounts or agreements involving federal public resources);

- the supervisory unit of the federal electoral agency (*Unidad de Fiscalización de los Recursos de los Partidos Políticos*);

- the Federal Attorney General's office (*Procuraduría General de la República*) for purposes of criminal proceedings;

- the Treasurer of the Federation (*Tesoreria de la Federación*), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and

- the Secretary and undersecretaries of the Ministry of Interior (*Secretaría de la Función Pública*) when investigating or auditing the estates and assets of federal public officers, among others.

In most cases, the information needs to be requested through the CNBV. The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the set of rules applicable to banking institutions have been in effect since April 21, 2009 and have subsequently been amended (the "Money Laundering Rules").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));

- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);

- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and

- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

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 (which must be maintained and updated): (*i*) full name, (*ii*) sex, (*iii*) date of birth, (*iv*) nationality and country of birth, (*v*) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (*vi*) occupation, profession, main activity or line of business, (*vii*) complete domicile (including telephone number), (*viii*) e-mail address, if any, and (*ix*) advanced electronic signature series number, when applicable.

An entity's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (*i*) corporate name, (*ii*) domicile, (*iii*) nationality, (*iv*) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact, (*v*) main activity or line of business, (*vi*) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (*vii*) advanced electronic signature series number, when applicable, and (*viii*) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

The Mexican Banking Law requires banks to have a manual for anti-money laundering procedures that is approved by the board of directors and certified by the CNBV.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV:

- quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.$10,000;

- 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.$10,000;

- reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems; and

- periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010 new regulations were issued by the SHCP, as amended in September and December 2010 and August 2011, which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

On October 17, 2012, the Federal Law to Prevent and Identify Transactions with Illegal Proceeds (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Official Gazette of the Federation (the "New Money Laundering Law"). The New Money Laundering Law became effective on July 17, 2013. Under such law, the SHCP is given broad authority to obtain information about unlawful activities, coordinate activities with foreign authorities and present claims related to unlawful activities. This law also grants authority to the Federal Attorney General to investigate and prosecute illegal activities, in coordination with the SHCP. Pursuant to the law, we are required to satisfy the following requirements:

- the establishment and implementation of policies and procedures, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities;

- the reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and

- the maintenance of information and documentation regarding the client identification, as well as of relevant, unusual and suspicious transactions, for at least 10 years;

Additionally, pursuant to the Mexican Banking Law reforms published on the Official Gazette on January 10, 2014, the following sanctions were included, with the purpose of preventing and detecting operations that might encourage acts of terrorism:

- A fine of 10% to 100% of the amount of the activity, operation or service performed by an entity for a client or user the entity knows to be on the blocked persons list prepared by the SHCP;

- A fine of 10% to 100% of the amount of any unreported unusual transaction and, if applicable, any additional transactions related to same client or user involved in the unreported transaction.

- A fine of 30,000 to 100,000 days' worth of the minimum wage applicable in Mexico for significant transactions or, if applicable, a series of related transactions involving international transfers and unreported transactions in cash undertaken in a foreign currency.

- A fine of 5,000 to 50,000 days' worth of the minimum wage applicable in Mexico for other failures to comply with applicable law.

The amendments to the General Provisions on Money Laundering and Terrorist Financing published on the Official Gazette on April 25, 2014, September 12, 2014 and December 31, 2014, added the following obligations to the prevention of money laundering and terrorist financing:

- Provide the CNBV, through the Financial Intelligence Unit (*Unidad de Inteligencia Financiera*), within the first ten business days of January, April, July and October of each year, a report for each issuance or payment of cashier's checks carried out with its clients or users in the previous three months in an amount equal to or exceeding U.S.$10,000.

- Inform the CNBV prior to, or simultaneously with, the sharing of information regarding money laundering and terrorist financing activities.

- Immediate cancellation of any transaction or service related to a client or user identified to be on the SHCP's blocked persons list and notification to the client that it has been included on such list.

Amendments to the regulation on money laundering prevention and financing of terrorism applicable to financial institutions

In March 2017, amendments to the General Provisions on Money Laundering Terrorism Financing were published in the Official Gazzete. The following are the principal changes resulting from such amendments:

1. Implementation of a Risk-Based Approach

Banks must incorporate and implement methodology to carry out a risk assessment arising from their products, services, practices and information technologies. Such methodology must establish the processes for the identification, measurement and mitigation of risks, for which the identified risk factors must be taken into account, together with the national risk assessment and its respective updates conducted by SHCP, and communicated to the CNBV.

In the case of entities that are part of a financial group, like the Bank, the results of the methodology that, if applicable, has been implemented by the other entities that are part of the same financial group should be taken into account.

2. Identification of the shareholdings and corporate structure of clients that are legal entities

In respect of clients that are legal entities, information that identifies the following must be gathered in the identification file of the client: (i) shareholding structure and (ii) in the event that the client has a degree of risk other than "low," its internal corporate structure, which refers to the organizational chart of the client as a legal entity, taking into account at least the full name and position of those individuals who occupy the positions of CEO and the immediate lower positions, as well as the full name and corresponding position of each of the members of its board of directors or equivalent. Likewise, the beneficiaries (i.e., the individuals who benefit from an account, contract or transaction and are ultimately the owners) who have the control of the clients that are legal entities must be identified.

3. Threshold of Relevant Transactions

The threshold is modified in the definition of "relevant transaction" to include in such definition a transaction carried out with the bills and coins of legal tender in the United Mexican States or in any other country, as well as with traveler's checks, and coins minted in platinum, gold and silver for an amount equal to or greater than the equivalent in national currency at US $7,500. Previously, this threshold was US $10,000.

4. Terms for the submission of Unusual Transactions and Alarming Internal Transactions

For each unusual transaction identified by a bank, a corresponding report must be submitted to the SHCP through the CNBV within three business days from the conclusion of the determination that establishes such transaction as unusual. For purposes of carrying out such resolution, the bank, through the communication and control committee, will have a term that will not exceed 60 calendar days from the generation of the alert through the respective system, model, process, or by the employee of the bank, whichever occurs first.

5. Internal appointment of a Compliance Officer for a specific period

To be able to comply with the applicable provisions regarding the obligation to have, at all times, an officer who acts as a representative with authorities, it is possible to appoint an internal compliance officer in case the current officer in charge is revoked from his position or is unable to carry out his duties. The period for which the internal compliance officer may occupy the position shall be up to ninety calendar days in a calendar year.

6. Agreement for the exchange of information between Entities that belong to the same financial group

Financial entities that belong to the same financial group in accordance with the Financial Groups Law may exchange information with regard to the prevention of transactions with resources of illicit origin and financing of terrorism at a group level.

Financial entities have a maximum term of 45 calendar days counted from the implementation of the applicable resolution, in order to, at the latest within 270 calendar days, make the necessary adjustments to their systems and start to collect the client information according to the stated terms, submit their internal policies to the CNBV and comply with the rest of the imposed obligations.

Rules on Interest Rates

The Mexican Central Bank regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, the TIIE, *Cetes* rate, CCP (*costo de captación promedio a plazo*), the rate determined by the Mexican Central Bank as applied to loans funded by or discounted with NAFIN, the rate agreed upon with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo interbancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency- denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by the Mexican Central Bank.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate, or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, the Mexican Central Bank published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards.

In June 2014, the Mexican Supreme Court of Justice issued jurisprudential guidance, of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed on a promissory note is evidently excessive, violating an individual's human rights and, consequently, establish a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the extension of credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of NCPI during the term of the loan; (i) market conditions; and (j) other issues that the judge may deem relevant.

Fees

Under the Mexican Central Bank regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others:

- charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*):
- charge alternative fees, except if the fee charged is the lower fee; and
- charge fees for the cancellation of credit cards issued.
- In addition, among other things, Mexican banks may not:
- charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts;
- charge fees for returned checks received for deposit in a deposit account or as payment for loans granted;
- charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services; or
- charge different fees depending upon the amount of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes operating or permitting customers to use ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (*i*) specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or (*ii*) permit credit card or debit card issuers to charge a fee to clients, in which case, banks and Sofomes may not charge additional fees to clients.

The Mexican Central Bank, on its own initiative or as per request from the CONDUSEF, banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks or Sofomes in performing financial operations. The Mexican Central Bank must obtain the opinion of the Mexican Antitrust Commission in carrying out this assessment. The Mexican Central Bank may take measures to address these issues.

On October 3, 2014, the Mexican Central Bank published a bulletin that modified the rules on ATM user fees which limited our ability to charge fees for the use of ATMs by customers and the amount of such fees for services including:

- cash withdrawals;
- checking account balances;
- account deposits; and
- credit payments, both in bank windows and ATMs operated by the clients' bank.

The bulletin also specifies that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. The 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 the IPAB grant financial support to banking institutions.

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the 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 the IPAB and the CNBV can share information and databases of banks.

The 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. The 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 the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members:

- the Minister of Finance and Public Credit;
- the Governor of the Mexican Central Bank;
- the President of the CNBV; and
- 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 the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The 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. The IPAB will not guarantee:

- deposits and loans constituting negotiable instruments and bearer promissory notes;
- liabilities for financial institutions or subsidiaries of the bank;
- liabilities not incurred in the ordinary course of business and related party transactions; or
- liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of the IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to the 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:

- holdings of term bonds issued by other commercial banks;
- financing granted to other commercial banks;
- financing granted by the IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain forward- operations.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the 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 the 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 the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Limitations on Investments in Other Entities

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and

- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 Capital.

A Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that render ancillary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity taking into consideration the opinion of the Mexican Antitrust Commission and the favorable opinion of the Mexican Central Bank.

At the end of 2014, pursuant to the new Mexican Financial Groups Law, the SHCP issued the General Rules for Financial Groups. These rules repealed the previous General Rules for the Incorporation and Operation of Financial Groups and provide the requirements for the operation of financial groups.

Law for the Protection and Defense of Financial Services Users

A Law for the Protection and Defense of Financial Services Users is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks, such as us, 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. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

We 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. As of the date of this offering memorandum, we are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform being undertaken in Mexico in 2013, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things:

- CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;

- CONDUSEF shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;

- CONDUSEF is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers provisions thereof as detrimental to users;

- CONDUSEF is permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings; and

- CONDUSEF is given broader authority to fine financial institutions, if any such financial institution does not comply with an order issued by CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Law for the Transparency and Ordering of Financial Services regulates:

- the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds;

- the fees that financial institutions charge to each other for the use of any payment system;

- interest rates that may be charged to clients; and

- other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services.

This law grants Mexican Central Bank the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see "—Rules on Interest Rates" and "—Fees" above). The Mexican Central Bank 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 the Mexican Central Bank of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which the Mexican Central Bank may issue temporary regulations applicable to interest rates and fees, if it or the Mexican Federal Economic Competitive Commission determine that no reasonable competitive conditions exist among financial institutions. Also, the Mexican Central Bank and the CNBV are given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

Law on Transparency and Development of Competition for Secured Credit

The Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*) ("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:

- 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;

- the compliance by credit institutions and borrowers with certain requirements in the application process;
- the binding effect of offers made by credit institutions granting secured loans;
- the inclusion of mandatory provisions in loan agreements; and
- 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.

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. Grupo Financiero Banorte, S.A.B. de C.V. has entered into such an agreement with 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 if 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, the 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 the 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 the 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.

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:

- pursuant to preventive temporary measures, such as financial support or rescue programs;
- 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

- 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:

- 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;

- 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;

- the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank; and

- 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.

New Regulation Applicable to our Business

Bill on Financial Discipline for States and Municipalities

On February 5 2015, a positive opinion was published on the draft bill aiming to amend and add several provisions of the Mexican Constitution regarding Financial Discipline for States and Municipalities for the purposes of legislative programming.

The bill considers the following:

- Financial stability is considered the foundation for development and it should be observed when preparing and implementing the National Development Plan, and the states' and municipalities' plans.

- The Mexican Congress has the faculty to set the guidelines on how subnational governments should resort to financial debt and to issue laws on fiscal accountability aiming to manage finance adequately. Such guidelines will include the following concepts:

- Limits and procedures for subnational governments to modify their contributions in order to secure their loans and meet their payment obligations;

- The obligation to register and publish the total amount of loans and payment obligations in a single public register, indicating, for each loan or obligation: debtor, creditor, amount, interest rate, maturity date, type of guaranty or source of payment, and any other information deemed necessary to enhance transparence and access to information;

- The creation of a warning system on debt management;

- Sanctions to government officials for improper management of public resources and public debt; and

- Limits and requirements for contracting short term liabilities which should be settled, at the latest, three months before the end of the government term.

- A bicameral committee will be created, through which, the Congress will analyze the adjustment strategy made by the federal government in order to strengthen public finance for those states and municipalities with high indebtedness. Such states will be able to celebrate agreements with the federal government to obtain guarantees. The committee should be informed in the case such an agreement has been celebrated.

- Greater Tax Audit. The Superior Audit Office of Mexico will be in charge of auditing revenues, expenditures, debt and guarantees that the Federal Government grants in the form of states and municipalities loans. In the case of those states that have a guaranty from the Federation, the SAO will audit the fiscal year and the destination of the corresponding resources of the local governments. At the local level, the audit bodies from the state legislatures will be responsible for auditing the states and municipalities actions regarding funds, local resources and public debt.

- Accountability of government officers. State and municipality officers in office will be accountable for improper management of public resources and public debt.

- Destination of the loan and negotiation of agreements under the best market conditions. Subnational governments can only take on obligations or loans destined for productive public investment, refinancing or restructure; and these should be negotiated under the best market conditions. The Regulatory Act will establish the arrangements and conditions of the public debt that should be selected through a bidding process, as well as the mechanisms to ensure the market conditions or even better ones. Under no circumstances loans should be destined to cover current expenditure.

- Local congresses will authorize the debt under the following conditions:

    - By the vote of two thirds of its members.

    - Establishing a debt ceiling and ensuring negotiation of agreements under the best market conditions.

    - Previous analysis of the loan destination, ability to pay, the grant of guaranty and the source of payment.

The purpose of this law is to support government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to a Financial Discipline for States and Municipalities.

Dodd-Frank Act and Regulation of Derivatives

Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act) ("Dodd-Frank") establishes a new U.S. regulatory regime for derivatives contracts, including swaps, security-based swaps and mixed swaps (generically referred to in this paragraph as “swaps”). Among other things, Title VII provides the Commodity Futures Exchange Commission) (the “CFTC”) and the SEC with jurisdiction and regulatory authority over swaps, establishes a comprehensive registration and regulatory framework applicable to swap dealers and other major market participants in swaps (referred to as “major swap participants”), imposes clearing and execution requirements on many types of swaps, requires higher-margin requirements for uncleared swaps, and requires swap market participants to report all swaps transactions to swap data repositories. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants will be required to register with the SEC or the CFTC, or both, and will become subject to requirements as to capital, business conduct, recordkeeping, collateral segregation, and other requirements. The specific parameters of these requirements are being developed through CFTC, SEC and bank regulator rulemakings. While some of these requirements are already final and effective, others are subject to further rulemaking or deferred compliance dates.

DESCRIPTION OF THE NC5 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the "Bank"), will issue its 6.875% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC5 Notes, the "Notes") through its Cayman Islands branch (the "Branch"). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of July 6, 2017, executed by the Bank and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent (the "Trustee"), and acknowledged by the Mexican National Banking and Securities Commission (the "CNBV"), which may be amended or supplemented from time to time (for purposes of this Description of the NC5 Notes, the "Indenture"). This summary describes the general terms and provisions of the Notes. This 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. The Bank urges 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 relevant Mexican law will prevail. Capitalized terms not otherwise defined in this "*Description of the NC5 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.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on July 6, 2022 and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.$350,000,000 in registered form, in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank's general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank's present and future Senior Indebtedness and Subordinated Preferred Indebtedness, (ii) *pari passu* without preference among themselves and with all the Bank's present and future other unsecured Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of the Bank's equity or capital stock, as described in this offering memorandum. See "—*Subordination*." The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of March 31, 2017, the Bank had approximately Ps.15,199 million (U.S.$809 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps.2,352 million (U.S.$125 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. ("GRUPO FINANCIERO BANORTE") OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES. THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK'S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER "*—REDEMPTION—OPTIONAL REDEMPTION,*" "*—REDEMPTION—WITHHOLDING TAX REDEMPTION*" AND "*—REDEMPTION—SPECIAL EVENT REDEMPTION*" WITH THE PRIOR APPROVAL OF *BANCO DE MÉXICO*. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A

WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "—*Book-Entry System.*"

The Bank 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 the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank's credit quality resulting from a takeover, recapitalization or other restructuring or other event involving the Bank that may adversely affect the Bank's credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including July 6, 2017 (the "Issue Date"), to (but excluding) July 6, 2022 (for purposes of this Description of the NC5 Notes, the "First Call Date"), at an initial fixed rate *per annum* equal to 6.875%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank's net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every fifth anniversary thereafter shall each be a "Reset Date"(for purposes of this Description of the NC5 Notes). Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 503.5 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

"*Treasury Yield*" means, as of any Reset Determination Date, 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 Reset Date following the next succeeding Reset Determination 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 Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination 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 Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

"*H.15 (519)*" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

"*Reset Determination Date*" means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

"*Current Principal Amount*" means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down (as defined below) or a redemption of the Notes as permitted herein, 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.

Upon the occurrence of a Write-Down (as defined below), 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 unpaid interest.

Subject to the provisions under "*—Interest Cancellation*" and "*—Trigger Event and Write-Down—Write-Down,*" from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears on July 6, October 6, January 6 and April 6 of each year (each an "Interest Payment Date"), commencing on October 6, 2017. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, the First Call 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. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by the Paying Agent by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). 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.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

Interest on the Notes will be due and payable at the Bank's sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under "*—Other Restrictions on Certain Payments*" below, the Bank may use the funds corresponding to such cancelled payments to meet the Bank's other obligations as they become due or to be kept by it to satisfy capitalization requirements under the Mexican Capitalization Requirements.

If the Bank elects not to make an interest payment on the relevant Interest Payment Date, or if the Bank elects to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence its exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall be cancelled and shall not be or become due and payable. For the avoidance of doubt, if the Bank provides notice to cancel a portion, but not all, of an interest payment in respect of the Notes, and the Bank subsequently does not make a payment of the remaining portion of such interest payment on the relevant Interest Payment Date, such non-payment will evidence the Bank's exercise of its discretion to cancel such remaining portion of such interest payment, and accordingly such remaining portion of the interest payment will also not be due and payable.

Such cancelled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of the Notes shall not have any right to or claim against the Bank with respect to such unpaid interest amount. Any such cancellation shall not constitute a default or an Enforcement Event (as defined below) under the terms of the Notes or the Indenture and the holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional interest or amounts, penalty or compensation as a result of such cancellation.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under "—*Redemption,*" unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs (as defined below) of the Notes upon the occurrence of a Trigger Event, as described under "—*Trigger Event and Write-Down—Write-Down*" below, any accrued but unpaid interest on the Notes shall be cancelled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time nor shall any further interest accrue.

See also "—*Agreement to Interest Cancellation*" and "—*Notice of Interest Cancellation*" below.

Other Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) on the Notes have been paid, the Bank 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 its capital stock; or

(2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELLED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN "INTEREST CANCELLATION EVENT"). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW) ARE (I) 10.5% IN RESPECT OF 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 (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE II BANKS OF 0.90% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT APPLICABLE TO THE BANK, BOTH TO BE CREATED BY THE BANK IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELLED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELLED, HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELLED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON ANY WRITE-DOWN OF

THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL INTEREST WILL CONTINUE TO BE CANCELLED.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

(a) interest is payable solely at the Bank's discretion, and no amount of interest shall become due and payable in respect of the relevant interest period to the extent that it has been cancelled by the Bank (in whole or in part) at its sole discretion and/or has been cancelled as a result of the occurrence and continuation of an Interest Cancellation Event; and

(b) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event (as defined below), under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not cancelled (in whole or in part) in accordance with the provisions described under "*—Interest Cancellation*" and "*—Trigger Event and Write-Down—Write-Down.*" Any interest cancelled (in whole or in part) in the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, 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 Capital Ratios required to be classified as Class I pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, which may include:

(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 relevant debt documentation;

(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 pursuant to Article 73 and related provisions of the Mexican Banking Law; 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 below the 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) If a Mexican bank does not comply with any Capital Supplement requirements pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements, the CNBV may order the bank to suspend any payment of dividends or other distributions to its shareholders.

(4) Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the Capital Ratios required to be classified as Class I pursuant to 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 required to be classified as Class I 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 (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 applicable Capital Supplement.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, 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 applicable Capital Supplement thereof required under the Mexican Capitalization Requirements.

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 on 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.

In May 2016, as a bank of systemic importance, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. Also, an initial Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements are required to be implemented by the Bank in four annual steps, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	**2017**	**2018**	**2019**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (*capital básico*)	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (*capital básico fundamental*)	7.23%	7.45%	7.68%	7.90%

As of March 31, 2017, the Bank's Capital Ratios were (i) 16.58% in the case of Total Net Capital (*capital neto*), (ii) 14.04% in the case of Tier 1 Capital (*capital básico*), and (iii) 13.68% in the case of Fundamental Capital (*capital básico fundamental*). As of December 31, 2016, the Bank's Capital Ratios were (i) 15.30% in the case of

Total Net Capital (*capital neto*), (ii) 12.70% in the case of Tier 1 Capital (*capital básico*), and (iii) 12.10% in the case of Fundamental Capital (*capital básico fundamental*).

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee acting on behalf of the holders of the Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee acting on behalf of the holders of the Notes, shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

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 the Bank subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured or other additional indebtedness, or require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's 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 Cayman Islands, 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, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (collectively, holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of 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, beneficial owner 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) the Bank has or its 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 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 and the Treasury regulations thereunder ("FATCA"), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitations, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that 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

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

The Bank 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.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

The Bank 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 the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank 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 the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

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 THE BANK'S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT);

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK'S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK'S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK´S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK'S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS 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 ITS 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 THE BANK 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 THE BANK TO AVOID REVOCATION OF ITS LICENSE BECAUSE THE BANK'S ASSETS ARE INSUFFICIENT TO SATISFY THE BANK'S LIABILITIES, OR THE BANK'S 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 THE BANK (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-R 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 THE BANK, 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 A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW); 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 THE BANK 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 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.

THE BANK 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 AN OFFICER OF THE BANK 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 OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 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 OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, 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 THE BANK 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 THE LIABILITIES OF THE BANK, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination

The Indenture for the Notes will provide that the Notes constitute Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and (i) will rank subordinate and junior in right of payment and in liquidation to all present and future Senior Indebtedness and Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*) of the Bank, (ii) will rank *pari passu* without preference among themselves and with all other present or future unsecured Subordinated Non-Preferred Indebtedness of the Bank and (iii) will rank senior only to all classes of equity or capital stock of the Bank.

In the event of the Bank’s insolvency or liquidation (*resolución*), 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 the insolvency or bankruptcy of the Bank, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness and Subordinated Preferred Indebtedness must be paid in full before the holders of Subordinated Non-Preferred Indebtedness (including the Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Non-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 Non-Preferred Indebtedness will be senior to all classes of equity or capital stock of the Bank.

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 or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “*Subordinated Preferred Indebtedness*” refers to *obligaciones subordinadas preferentes* and 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 (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “*Subordinated Non-Preferred Indebtedness*” (including the Notes) refers to *obligaciones subordinadas no preferentes* and 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 capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term "*Indebtedness for Money Borrowed*" is defined in the Indenture to mean any obligation of, or any obligation guaranteed by the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities 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 the Bank's employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, 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; and

(5) The term "*Mexican Capitalization Requirements*" is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the general rules applicable to Mexican banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) 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").

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0 % IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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 THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

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

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) 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) THE BANK 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, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK'S OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO 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 THE BANK 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 OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN "ADMINISTRATIVE ACTION"), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A "CHANGE IN TAX LAW"), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* 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 PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES

AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, 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) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK'S OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO 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 THE BANK 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 THE BANK WILL NOT BE ENTITLED TO TREAT THE NOTES AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO THE BANK;

(3) THE TERM "TAX EVENT" IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK 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 THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELLED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE MADE IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN "—NOTICES." WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELLED, 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 THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK 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 THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS 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 SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED*, *HOWEVER*, THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, 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 THE BANK DEFAULTS 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.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL SHALL BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be cancelled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x)(a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its 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-R of the general rules applicable to Mexican banks or any successor regulation, which as of the date of this offering memorandum are (i) 10.5% in the case of 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 the then-applicable Countercyclical Capital Supplement and Systemically Important Bank Capital Supplement, or (b) the Bank issues securities that replace the amount of Notes so cancelled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided*, however, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

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 Bank 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, the Bank 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 the Bank's fiscal years, an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP ("GAAP"), together with an audit report thereon by the Bank's independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank 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.

Enforcement Events and Remedies

There are no events of default under the Notes. In addition, under the terms of the Indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an "Enforcement Event":

(i) certain events involving the liquidation (*resolución*) of the Bank;

(ii) a Principal Non-Payment Event (as defined below); or

(iii) breach of a Performance Obligation (as defined below).

Remedies

(i) *The occurrence of a liquidation (resolución) of the Bank.* If a liquidation (*resolución*) of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to a liquidation (*resolución*) may affect the timing or amount paid to holders of the Notes. See "Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

(ii) *Principal Non-Payment Event*. In the event of any redemption of the Notes described under "—*Redemption*" above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a "Principal Non-Payment Event"), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes, subject to any applicable laws, institute proceedings for the Bank's liquidation (*resolución*). In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.

(iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank's payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a "Performance Obligation"), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See "Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. For the avoidance of doubt, such limitations shall not apply to the Bank's obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee's rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in this offering memorandum.

The Notes are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders and beneficial owners of the Notes may not request any redemption of the Notes at any time.

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from a liquidation (*resolución*) of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (a) must not be in conflict with any rule of law or the Indenture and (b) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction, in the case of either (a) or (b) as determined by the Trustee in its sole discretion. The Trustee may also take any other action, consistent with the direction of the holders, that it deems proper.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this "*Description of the NC5 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*, the Bank 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 of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México*, the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- 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 any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with liquidation (*resolución*) of the Bank and the governing law of the Notes in any manner adverse to the holders of the Notes.

The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a provision that cannot be modified without the consent of each holder of a Note that would be affected. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

(1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:

(x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and

(y) perform and observe all of the other obligations of the Bank under the Indenture;

(2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and

(3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and 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 the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under "*—Open Market Purchases and Other Repurchase of Notes*") or by any person controlled by the Bank, 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 the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing at least 51 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is 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 the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*); and

(d) the Bank or another entity that forms part of its 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. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

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).

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, the Bank, 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 the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will 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 the Bank 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 the Bank within 90 calendar days; or

- the Bank, in its sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph 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. The Bank has 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 the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders' Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in "*—Enforcement Events and Remedies*" above.

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, Floor 7-East, New York, NY 10286, Attention Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent and transfer agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank 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 has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee 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 the Bank, 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 the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest for the Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar 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, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event 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.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth herein and in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (I) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR 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); (II) 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 THE BANK; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY THE BANK, 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). THE BANK, EACH PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT 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 THE LIQUIDATION (*RESOLUCIÓN*) OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM

TIME TO TIME, OR ANY SUCCESSOR THEREOF, 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, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS 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 THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE OR DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS 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, THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE BANK WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS 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 THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 111 EIGHTH AVENUE, NEW YORK, NEW YORK 10011, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has 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, the Bank will indemnify, to the fullest extent permitted by applicable law, 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 the Bank's 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 the Bank. 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 the Bank 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.

DESCRIPTION OF THE NC10 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the "Bank"), will issue its 7.625% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC10 Notes, the "Notes") through its Cayman Islands branch (the "Branch"). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of July 6, 2017, executed by the Bank and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent (the "Trustee"), and acknowledged by the Mexican National Banking and Securities Commission (the "CNBV"), which may be amended or supplemented from time to time (for purposes of this Description of the NC10 Notes, the "Indenture"). This summary describes the general terms and provisions of the Notes. This 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. The Bank urges 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 relevant Mexican law will prevail. Capitalized terms not otherwise defined in this "*Description of the NC10 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.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on January 10, 2028 and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.$550,000,000 in registered form, in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank's general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank's present and future Senior Indebtedness and Subordinated Preferred Indebtedness, (ii) *pari passu* without preference among themselves and with all the Bank's present and future other unsecured Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of the Bank's equity or capital stock, as described in this offering memorandum. See "—*Subordination*." The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of March 31, 2017, the Bank had approximately Ps.15,199 million (U.S.$809 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps.2,352 million (U.S.$125 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. ("GRUPO FINANCIERO BANORTE") OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES. THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK'S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER "*—REDEMPTION—OPTIONAL REDEMPTION,*" "*—REDEMPTION—WITHHOLDING TAX*

REDEMPTION" AND "*—REDEMPTION—SPECIAL EVENT REDEMPTION*" WITH THE PRIOR APPROVAL OF *BANCO DE MÉXICO*. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "*—Book-Entry System.*"

The Bank 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 the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank's credit quality resulting from a takeover, recapitalization or other restructuring or other event involving the Bank that may adversely affect the Bank's credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including July 6, 2017 (the "Issue Date"), to (but excluding) January 10, 2028 (for purposes of this Description of the NC10 Notes, the "First Call Date"), at an initial fixed rate *per annum* equal to 7.625%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank's net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every tenth anniversary thereafter shall each be a "Reset Date"(for purposes of this Description of the NC10 Notes). Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 535.3 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

"*Treasury Yield*" means, as of any Reset Determination Date, 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 Reset Date following the next succeeding Reset Determination 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 Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination 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 Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

"*H.15 (519)*" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

"*Reset Determination Date*" means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

"*Current Principal Amount*" means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down (as defined below) or a redemption of the Notes as permitted herein, 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.

Upon the occurrence of a Write-Down (as defined below), 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 unpaid interest.

Subject to the provisions under "*—Interest Cancellation*" and "*—Trigger Event and Write-Down—Write-Down,*" from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears July 6, October 6, January 6 and April 6 of each year (each an "Interest Payment Date"), commencing on October 6, 2017. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, the First Call 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. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by the Paying Agent by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). 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.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

Interest on the Notes will be due and payable at the Bank's sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under "*—Other Restrictions on Certain Payments*" below, the Bank may use the funds corresponding to such cancelled payments to meet the Bank's other obligations as they become due or to be kept by it to satisfy capitalization requirements under the Mexican Capitalization Requirements.

If the Bank elects not to make an interest payment on the relevant Interest Payment Date, or if the Bank elects to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence its exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall be cancelled and shall not be or become due and payable. For the avoidance of doubt, if the Bank provides notice to cancel a portion, but not all, of an interest payment in respect of the Notes, and the Bank subsequently does not make a payment of the remaining portion of such interest payment on the relevant Interest Payment Date, such non-payment will evidence the Bank's exercise of its discretion to cancel such remaining portion of such interest payment, and accordingly such remaining portion of the interest payment will also not be due and payable.

Such cancelled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of the Notes shall not have any right to or claim against the Bank with respect to such unpaid interest amount. Any such cancellation shall not constitute a default or an Enforcement Event (as defined below) under the terms of the Notes or the Indenture and the holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional interest or amounts, penalty or compensation as a result of such cancellation.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under "—*Redemption,*" unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs (as defined below) of the Notes upon the occurrence of a Trigger Event, as described under "—*Trigger Event and Write-Down—Write-Down*" below, any accrued but unpaid interest on the Notes shall be cancelled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time nor shall any further interest accrue.

See also "—*Agreement to Interest Cancellation*" and "—*Notice of Interest Cancellation*" below.

Other Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) on the Notes have been paid, the Bank 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 its capital stock; or

(2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELLED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN "INTEREST CANCELLATION EVENT"). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW) ARE (I) 10.5% IN RESPECT OF 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 (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE II BANKS OF 0.90% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT APPLICABLE TO THE BANK, BOTH TO BE CREATED BY THE BANK IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELLED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELLED,

HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELLED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON ANY WRITE-DOWN OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL INTEREST WILL CONTINUE TO BE CANCELLED.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

(c) interest is payable solely at the Bank's discretion, and no amount of interest shall become due and payable in respect of the relevant interest period to the extent that it has been cancelled by the Bank (in whole or in part) at its sole discretion and/or has been cancelled as a result of the occurrence and continuation of an Interest Cancellation Event; and

(d) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event (as defined below), under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not cancelled (in whole or in part) in accordance with the provisions described under "*—Interest Cancellation*" and "*—Trigger Event and Write-Down—Write-Down.*" Any interest cancelled (in whole or in part) in the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, 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 Capital Ratios required to be classified as Class I pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, which may include:

(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 relevant debt documentation;

(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 pursuant to Article 73 and related provisions of the Mexican Banking Law; 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 below the 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) If a Mexican bank does not comply with any Capital Supplement requirements pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements, the CNBV may order the bank to suspend any payment of dividends or other distributions to its shareholders.

(4) Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the Capital Ratios required to be classified as Class I pursuant to 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 required to be classified as Class I 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 (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 applicable Capital Supplement.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, 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 applicable Capital Supplement thereof required under the Mexican Capitalization Requirements.

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 on 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.

In May 2016, as a bank of systemic importance, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. Also, an initial Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements are required to be implemented by the Bank in four annual steps, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	**2017**	**2018**	**2019**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (*capital básico*)	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (*capital básico fundamental*)	7.23%	7.45%	7.68%	7.90%

As of March 31, 2017, the Bank's Capital Ratios were (i) 16.58% in the case of Total Net Capital (*capital neto*), (ii) 14.04% in the case of Tier 1 Capital (*capital básico*), and (iii) 13.68% in the case of Fundamental Capital (*capital básico fundamental*). As of December 31, 2016, the Bank's Capital Ratios were (i) 15.30% in the case of Total Net Capital (*capital neto*), (ii) 12.70% in the case of Tier 1 Capital (*capital básico*), and (iii) 12.10% in the case of Fundamental Capital (*capital básico fundamental*).

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee acting on behalf of the holders of the Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee acting on behalf of the holders of the Notes, shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

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 the Bank subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured or other additional indebtedness, or require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's 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 Cayman Islands, 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, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (collectively, holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of 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, beneficial owner 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) the Bank has or its 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 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 and the Treasury regulations thereunder ("FATCA"), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitations, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that 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

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

The Bank 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.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

The Bank 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 the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank 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 the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

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 THE BANK'S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT);

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK'S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK'S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK´S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK'S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS 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 ITS 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 THE BANK 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 THE BANK TO AVOID REVOCATION OF ITS LICENSE BECAUSE THE BANK'S ASSETS ARE INSUFFICIENT TO SATISFY THE BANK'S LIABILITIES, OR THE BANK'S 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 THE BANK (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-R 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 THE BANK, 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 A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW); 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 THE BANK 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 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.

THE BANK 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 AN OFFICER OF THE BANK 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 OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 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 OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, 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 THE BANK 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 THE LIABILITIES OF THE BANK, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination

The Indenture for the Notes will provide that the Notes constitute Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and (i) will rank subordinate and junior in right of payment and in liquidation to all present and future Senior Indebtedness and Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*) of the Bank, (ii) will rank *pari passu* without preference among themselves and with all other present or future unsecured Subordinated Non-Preferred Indebtedness of the Bank and (iii) will rank senior only to all classes of equity or capital stock of the Bank.

In the event of the Bank's insolvency or liquidation (*resolución*), 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 the insolvency or bankruptcy of the Bank, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness and Subordinated Preferred Indebtedness must be paid in full before the holders of Subordinated Non-Preferred Indebtedness (including the Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Non-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 Non-Preferred Indebtedness will be senior to all classes of equity or capital stock of the Bank.

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 or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term "*Subordinated Preferred Indebtedness*" refers to *obligaciones subordinadas preferentes* and 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 (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term "*Subordinated Non-Preferred Indebtedness*" (including the Notes) refers to *obligaciones subordinadas no preferentes* and 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 capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term "*Indebtedness for Money Borrowed*" is defined in the Indenture to mean any obligation of, or any obligation guaranteed by the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities 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 the Bank's employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, 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; and

(5) The term "*Mexican Capitalization Requirements*" is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the general rules applicable to Mexican banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN "<u>OPTIONAL REDEMPTION</u>").

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0 % IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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 THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

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

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) 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) THE BANK 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, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK'S OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO 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 THE BANK 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 OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN "ADMINISTRATIVE ACTION"), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH

JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A "CHANGE IN TAX LAW"), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* 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 PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELLED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, 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) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS 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-R 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) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS 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, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK'S OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO 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 THE BANK 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 THE BANK WILL NOT BE ENTITLED TO TREAT THE NOTES AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO THE BANK;

(3) THE TERM "TAX EVENT" IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK 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 THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELLED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE MADE IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN "—NOTICES." WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELLED, 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 THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK 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 THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS 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 SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED*, *HOWEVER*, THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, 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 THE BANK DEFAULTS 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.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL SHALL BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be cancelled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x)(a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its 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-R of the general rules applicable to Mexican banks or any successor regulation, which as of the date of this offering memorandum are (i) 10.5% in the case of 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 the then-applicable Countercyclical Capital Supplement and Systemically Important Bank Capital Supplement, or (b) the Bank issues securities that replace the amount of Notes so cancelled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided*, however, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

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 Bank 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, the Bank 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 the Bank's fiscal years, an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP ("GAAP"), together with an audit report thereon by the Bank's independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank 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.

Enforcement Events and Remedies

There are no events of default under the Notes. In addition, under the terms of the Indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an "Enforcement Event":

(i) certain events involving the liquidation (*resolución*) of the Bank;

(ii) a Principal Non-Payment Event (as defined below); or

(iii) breach of a Performance Obligation (as defined below).

Remedies

(i) *The occurrence of a liquidation (resolución) of the Bank.* If a liquidation (*resolución*) of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to a liquidation (*resolución*) may affect the timing or amount paid to holders of the Notes. See "Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

(ii) *Principal Non-Payment Event*. In the event of any redemption of the Notes described under "—*Redemption*" above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a "Principal Non-Payment Event"), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes, subject to any applicable laws, institute proceedings for the Bank's liquidation (*resolución*). In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.

(iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank's payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a "Performance Obligation"), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See "Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. . For the avoidance of doubt, such limitations shall not apply to the Bank's obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee's rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in this offering memorandum.

The Notes are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders and beneficial owners of the Notes may not request any redemption of the Notes at any time.

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from a liquidation (*resolución*) of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (a) must not be in conflict with any rule of law or the Indenture and (b) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction, in the case of either (a) or (b) as determined by the Trustee in its sole discretion. The Trustee may also take any other action, consistent with the direction of the holders, that it deems proper.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this "*Description of the NC10 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*, the Bank 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 of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México*, the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- 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 any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with liquidation (*resolución*) of the Bank and the governing law of the Notes in any manner adverse to the holders of the Notes.

The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a provision that cannot be modified without the consent of each holder of a Note that would be affected. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

(1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:

(x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and

(y) perform and observe all of the other obligations of the Bank under the Indenture;

(2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and

(3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and 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 the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under "*—Open Market Purchases and Other Repurchase of Notes*") or by any person controlled by the Bank, 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 the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing at least 51 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is 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 the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*); and

(d) the Bank or another entity that forms part of its 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. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

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).

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, the Bank, 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 the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will 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 the Bank 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 the Bank within 90 calendar days; or

- the Bank, in its sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph 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. The Bank has 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 the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders' Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in "*—Enforcement Events and Remedies*" above.

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, Floor 7-East, New York, NY 10286, Attention Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent and transfer agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank 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 has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee 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 the Bank, 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 the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest for the Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar 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, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event 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.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth herein and in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (I) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR 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); (II) 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 THE BANK; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY THE BANK, 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). THE BANK, EACH

PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT 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 THE LIQUIDATION (*RESOLUCIÓN*) OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF, 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, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS 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 THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE OR DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS 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, THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE BANK WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS 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 THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 111 EIGHTH AVENUE, NEW YORK, NEW YORK 10011, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has 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, the Bank will indemnify, to the fullest extent permitted by applicable law, 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 the Bank's 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 the Bank. 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 the Bank 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.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated June 29, 2017 we have agreed to sell to the initial purchasers and the initial purchasers have agreed, severally and not jointly, to purchase the principal amount of Notes of each series opposite their name on the table herein.

Initial Purchasers of the Notes	**Principal Amount of the NC5 Notes**	**Principal Amount of the NC10 Notes**
Morgan Stanley & Co. LLC	U.S.$165,278,000	U.S.$259,722,000
UBS Securities LLC	U.S.$155,556,000	U.S.$244,444,000
MUFG Securities Americas Inc.	U.S.$14,583,000	U.S.$22,917,000
Wells Fargo Securities, LLC	U.S.$14,583,000	U.S.$22,917,000
Total	**U.S.$350,000,000**	**U.S.$550,000,000**

The purchase agreement provides that the initial purchasers are required to purchase all of the Notes of each series, 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.

The initial purchasers propose to offer the Notes of each series initially at the offering price on the cover page of this offering memorandum and may also offer the Notes of each series to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed. 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 initial purchasers may offer and sell the notes through their affiliates.

We have agreed that, for a period of 30 days from the date of the initial offering of the Notes of each series, other than with respect to the Notes, we will not, without the prior consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or announce the offering of, or file a registration statement for, any U.S. dollar-denominated debt similar to either series of Notes that is issued or guaranteed by us or any of our direct or indirect subsidiaries or enter into any agreement to do any of the foregoing.

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. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes of any series (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 of any series 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. Resales of the Notes of each series 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.

We expect that delivery of the Notes will be made to investors on or about July 6, 2017, which will be the fourth business day in the United States following the date of this offering memorandum. Under Rule 15c6-1 of the Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of the pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in "T+4," to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

General

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.

The initial purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and other financial and non-financial activities and services. The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the initial purchasers and their respective 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 investment and securities activities may involve assets, securities and/or instruments of the issuer directly, as collateral securing other obligations or otherwise and/or persons and entities with relationships with the issuer. 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 credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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.

Application will be made to have the Notes of each series listed on the Singapore Stock Exchange. The initial purchasers have advised us that they intend to make a market in the Notes of each series 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 and covering transactions.

- 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 Notes in the open market after the distribution has been completed in order to cover short positions.

These stabilizing transactions and covering transactions may cause the price of the Notes of each series to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

United Kingdom

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

Each of the initial purchasers have advised that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the EEA each initial purchaser has represented and agreed that it has not made and will not make an offer of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchasers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement by us or any representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Notes in any 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 to 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 and includes any relevant implementing measure in that Member State.

This EEA selling restriction is in addition to any other selling restrictions set out in this offering memorandum.

Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed in the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, The Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, The Laws of Hong Kong), or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

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 or 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 under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Notes to the public in Singapore.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "FIEL") and each initial purchaser has agreed that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit 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, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Mexico

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and therefore may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico; the notes may be sold to Mexican investors that satisfy the requirements to be institutional and accredited investors under Mexican law, pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the terms and conditions of this offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with Article 7, second paragraph, of the Mexican Securities Market Law and for informational purposes. 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 our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum.

Chile

The offer of the Notes will begin on June 29, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*) ("SVS"). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the Notes is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 29 de junio de 2017 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Colombia

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 to offer privately the notes to their Colombian clients.

Peru

This offering memorandum and the Notes have not been, and will not be, registered with or approved by the *Superintendencia del Mercado de Valores*, the Lima Stock Exchange or the *Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones*. Accordingly, the Notes cannot be offered or sold in Peru, except in compliance with the applicable securities laws and regulations of Peru. This notice is for information purposes only and it does not constitute a public offering of any kind in Peru.

Canada

The Notes may be sold in Canada 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 offering memorandum (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 initial purchaser is not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering of the Notes.

Cayman Islands

No invitation, whether directly or indirectly, may be made to members of the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange. The Notes may, however, be offered and sold to ordinary non-resident and exempted companies in the Cayman Islands.

TRANSFER RESTRICTIONS

The Notes of each series are subject to restrictions on transfer as summarized below. By purchasing Notes of either or both series you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:

   - The offering is being made in accordance with Rule 144A and Regulation S;

   - the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

   - unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

   - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance on Rule 144A; or

   - you are not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum.

4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

   (a) under a registration statement that has been declared effective under the Securities Act;

   (b) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

   (c) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S; or

   (d) under any other available exemption from the registration requirements of the Securities Act, subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

5. You understand that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise determined by us:

   THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

   UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

   TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

   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, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL AND ACCREDITED INVESTORS PURSUANT TO THE 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 TERMS AND CONDITIONS OF THIS OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND FOR INFORMATIONAL PURPOSES ONLY. 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 OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM.

   THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY 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 SECURITY 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) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF 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 COMPANY THAT

IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE COMPANY 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 UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT 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 SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE COMPANY 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. THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

6. If you are a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, you acknowledge and agree that, until the expiration of the 40-day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

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, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL AND ACCREDITED INVESTORS PURSUANT TO THE 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 TERMS AND CONDITIONS OF THIS OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND FOR INFORMATIONAL PURPOSES ONLY. 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 OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM.

THE SECURITIES 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 ("REGULATION S") UNDER THE SECURITIES ACT, THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

7. You represent that either (i) you are not, and for so long as you hold the Notes or any interest therein will not be, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA or any other plan, individual retirement account or arrangement that is subject Section 4975 of the Code (each, a "Plan"), (2) any governmental, church or non-U.S. plan or other arrangement (a "Non-ERISA Arrangement") that is subject to any applicable federal, state, local, non U.S. or Similar Laws, or (3) any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.

8. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

9. **Restrictions on marketing and sales to retail investors in the European Economic Area:** The Notes discussed 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 1 October 2015 (the "PI Instrument"). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "PI Rules"):

(a) 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

(b) 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.

Certain affiliates of the initial purchasers are required to comply with 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 interest 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 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 Notes (or any beneficial interests therein) to a retail client in any EEA Member State other than the United Kingdom, where (a) 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 (b) 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 Securities (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 Securities (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.

FORM OF NOTES, CLEARING AND SETTLEMENT

Global Notes

The Notes of each series will be issued in the form of one or more registered notes in global form, without interest coupons (the "Global Notes"), as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by a Restricted Global Note; and

- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by a Regulation S Global Note.

Upon issuance, each of the Global Notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC ("DTC participants"), including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC's custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the initial purchasers; and

- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Regulation S Global Note will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests. Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below. Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer Restrictions."

Exchanges Between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day period commencing on the original issue date of the notes, and to which Global Note the transfer is being made, the trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of us, the trustee nor the initial purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the New York State Banking Law;
- a "banking organization" within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC's participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and certain other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or its nominee will be considered the sole owner or holder of the notes represented by that Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the registered owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium, if any, and interest with respect to the notes represented by a global note will be made by the trustee to DTC's nominee as the registered holder of the Global Note. Neither we nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices and will be the responsibility of those participants or indirect participants and not of DTC, its nominee or us.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream account, an investor must send transfer instructions to Euroclear or Clearstream, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream immediately following the DTC settlement date. Cash received in Euroclear or Clearstream from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC, Euroclear and Clearstream have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form unless:

- DTC notifies us at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Securities Exchange Act of 1934, as amended, and a successor depositary is not appointed within 90 days;
- we, at our option, notify the trustee that we elect to cause the issuance of certificated notes; or
- certain other events provided in the indenture occur, including the occurrence and continuance of an event of default with respect to the notes.

In all cases, certificated notes delivered in exchange for any Global Note will be registered in the names, and issued in any approved denominations, requested by the depositary and will bear a legend indicating the transfer restrictions of that particular Global Note.

For information concerning paying agents and transfer agents for any notes in certificated form, see “Description of the NC5 Notes—General,” “Description of the NC5 Notes —Interest,” “Description of the NC10 Notes—General,” “Description of the NC10 Notes —Interest,” “Description of the NC5 Notes—Registrar, Transfer Agent and Paying Agents” and “Description of the NC10 Notes—Registrar, Transfer Agent and Paying Agents.”

TAXATION

The following discussion summarizes certain federal Mexican and U.S. income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the Notes. The summary does not purport to be a comprehensive description of all potential Mexican federal income tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, and is not intended as tax advice to any particular investor. This discussion is for general information purposes only and is based upon the federal tax laws of Mexico (including the Mexican Income Tax Law –Ley del Impuesto sobre la Renta- and the Mexican Federal Tax Code – Código Fiscal de la Federación) and the United States as in effect on the date of this offering memorandum, which are subject to change, and such changes may have retroactive effect. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Mexico and the United States.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican, United States or other tax consequences (including tax consequences arising under double-taxation treaties that are in full force and effect) of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, municipal, foreign or other tax laws.

Certain 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 U.S. Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering and will hold them as capital assets. It does not address the tax treatment of holders that may be subject to special tax rules, such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. expatriates and former citizens or long-term residents of the United States;
- "passive foreign investment companies" or "controlled foreign corporations," and corporations that accumulate earnings to avoid U.S. federal income tax;
- persons subject to the alternative minimum tax;
- U.S. Holders who own or are deemed to own 10% or more of the Bank's voting stock;

- persons who hold their Notes as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;

- persons who purchase or sell their Notes as part of a wash sale for tax purposes; and

- "S corporations," partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein).

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 offering memorandum may affect the tax consequences described herein, possibly with retroactive effect. 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, foreign and other tax laws and the possible effects of any changes in applicable tax laws.

For purposes of this discussion, a "U.S. Holder" means a beneficial owner of Notes that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds Notes the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership for U.S. federal income tax purposes and the partners in such partnership are urged to consult their tax advisors about the U.S. federal income tax consequences of the acquisition of Notes.

Characterization of the Notes

The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Despite the fact that the Notes are denominated as debt, the Notes should be treated as an equity interest in the Bank for U.S. federal income tax purposes. The Notes have several equity-like features, including (1) the absence of a fixed maturity date, (2) provisions for the cancellation of interest payments and the Write-Down of principal, and (3) the subordination of the Notes to Senior Indebtedness and Subordinated Preferred Indebtedness of the Bank. By purchasing a Note, each holder agrees to treat the Note as an equity interest in the Bank for U.S. federal income tax purposes. Accordingly, each "interest" payment should be treated as a distribution by the Bank with respect to such equity interest, and any reference in this discussion to "dividends" or "distributions" refers to the "interest" payments on the Notes. However, the Bank's characterization of the Notes is not binding on the Internal Revenue Service (the "IRS"). The remainder of this discussion assumes that the Notes will be characterized as equity in the Bank for U.S. federal income tax purposes.

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 U.S. 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. U.S. 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 U.S. 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 U.S. Holder's tax basis in a Note generally will be the price such holder 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 U.S. Holder (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. 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). For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets and gains from commodities transactions. The application of the PFIC rules to banks is unclear under present U.S. federal income tax law. Banks generally derive a substantial part of their income from assets that are interest-bearing or that otherwise could be considered passive under the PFIC rules. The IRS has issued a Notice and has proposed Treasury regulations that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the "Active Bank Exception"). The IRS Notice and proposed Treasury regulations have different requirements for qualifying as a foreign bank and for determining the banking income that may be excluded from passive income under the Active Bank Exception. The proposed Treasury regulations have been outstanding since 1994 and will not be effective unless finalized. Accordingly, the application of these rules to us is subject to substantial uncertainty.

Based on our Audited Consolidated Financial Statements, our Unaudited Condensed Consolidated Interim Financial Statements 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 assuming our financial results (including our gross income and gross assets) as of March 31, 2017 are representative of our financial results (including our gross income and gross assets) for the taxable year ending December 31, 2017 as a whole, we believe that we will not be classified as a PFIC for our current taxable year; however, given the substantial uncertainty regarding the application of the PFIC rules to us, it is possible that we could be classified as a PFIC for our previous or current taxable year, and that we could be classified as a PFIC for future taxable years. In addition, because the determination of whether we are a PFIC is factual in nature, is made annually and is based upon the composition of our income and assets (including a proportionate amount of the income and assets of certain entities in which we hold at least a 25% interest by value), and will depend on the nature of our activities (including our ability to qualify for the Active Bank Exception), there is additional uncertainty regarding our classification as a PFIC for any taxable year. Accordingly, U.S. Holders could be subject to U.S. federal income tax under the rules described below. U.S. Holders should consult their own independent tax advisors regarding the application of the PFIC rules under their particular circumstances.

If we are treated as a PFIC for any taxable years, unless a U.S. Holder is eligible to, and elects to be taxed annually on a mark-to-market basis with respect to our Notes, as described below, any gain realized on a sale or other taxable disposition of our Notes and certain "excess distributions" will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over the U.S. Holder's holding period for our Notes, (b) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current period of any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, payments on the Notes would not be eligible for treatment as "qualified dividend income." If we are treated as a PFIC and, at any time, we invest in non-U.S. corporations that are classified as PFICs ("Subsidiary PFICs"), U.S. Holders generally will be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interest in that Subsidiary PFIC. If we are treated as a PFIC, a U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, the Subsidiary PFIC or (2) the U.S. Holder disposes of all or part of our Notes. Further, a U.S. Holder of our Notes would be subject to additional U.S. tax form filing requirements, including reporting on IRS Form 8621 any payments received and gains realized with respect to each PFIC in which the U.S. Holder holds a direct or indirect interest, and the statute of limitations for collections may be suspended for a U.S. Holder that does not file the appropriate form.

We do not intend to provide information that would allow U.S. Holders to avoid the foregoing consequences by making a "qualified electing fund" election.

A U.S. Holder of stock in a PFIC (but not a Subsidiary PFIC, as discussed below) may make a "mark-to-market" election, provided the PFIC stock is "marketable stock" as defined under applicable Treasury regulations (*i.e.*, "regularly traded" on a "qualified exchange" or "other market"). It is unclear whether instruments such as the Notes, which we are treating as equity for U.S. federal income tax purposes, will be treated as stock for purposes of the mark-to-market election. Under applicable Treasury regulations, a "qualified exchange" includes a national securities exchange that is registered with the SEC or the national market system established under the Exchange Act, or a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, volume, listing, financial disclosure and other requirements. Under applicable Treasury regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure U.S. Holders that our Notes will be treated as "marketable stock" for any taxable year.

If an effective mark-to-market election is made with respect to the Notes, an electing U.S. Holder generally would (i) include in gross income, entirely as ordinary income, an amount equal to the excess, if any, of the fair market value of the Notes as of the close of such taxable year and such holder's adjusted tax basis in the Notes, (ii) deduct as an ordinary loss the excess, if any, of such holder's adjusted tax basis of the Notes over the fair market value of the Notes at the end of the taxable year, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election and (iii) upon the sale or other taxable disposition of a U.S. Holder's Notes, include any gain recognized as ordinary gain and any loss as ordinary loss, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election. A U.S. Holder's adjusted tax basis in our Notes would increase or decrease by the amount of the gain or loss taken into account under the mark-to-market regime. Although a U.S. Holder may be eligible to make a mark-to-market election with respect to our Notes, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Holder is treated as owning, because such Subsidiary PFIC stock is not marketable. The mark-to-market election is made with respect to marketable stock in a PFIC on a shareholder-by-shareholder basis and, once made, is effective for all subsequent tax years unless the Notes are no longer regularly traded on a qualified exchange or other market or the election is revoked with the consent of the IRS. Special rules would apply if the mark-to-market election is not made for the first taxable year in which a U.S. person owns stock of a PFIC.

U.S. Holders should consult with their own independent tax advisors regarding the application of the PFIC rules to our Notes and the availability and advisability of making an election with respect to the Notes to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year.

Information Reporting and Backup Withholding

Payments on the Notes and proceeds from the sale or other disposition of the Notes, by a U.S. paying agent or other U.S. intermediary, or made into the United States, generally will be reported to the IRS unless the U.S. Holder establishes a basis for exemption. In addition, certain U.S. Holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers or certification of exempt status. Any amounts withheld under the backup withholding rules will be allowed as a credit against a U.S. Holder's United States federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

Specified Foreign Financial Assets

Individual U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of $50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican federal income tax consequences of the purchase, holding and disposition of the 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, hold or dispose of 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 laws other than the federal tax laws of Mexico (it excludes the laws of any state or municipality within Mexico), or (3) that are applicable to a resident of Mexico for tax purposes that may purchase, hold or dispose of the Notes.

For purposes of this summary, the term "Non-Mexican Holder" shall mean a holder that is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Tax 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, to which income is attributable.

Pursuant to the Mexican Federal Tax Code:

- an individual is a resident of Mexico for tax purposes, if such individual has established his or her home in Mexico. In the event such individual also has a home available to him/her in another country then such, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" (*centro de intereses vitales*) is located within Mexican territory. This will be deemed to occur if, among other considerations (1) at least 50% of his or her aggregate annual income derives from Mexican sources, or (2) the main center of his or her professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered residents of Mexico for tax purposes during the year of filing of the notice of such residence change and during the following three years;

- unless otherwise evidenced, Mexican nationals are deemed residents of Mexico for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual's center of vital interests; and

- a legal entity is a resident of Mexico for tax purposes if the principal administration of its business or its place of effective management is established in Mexico.

This summary is based upon Mexican Income Tax Law and Mexican Federal Tax 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, holding and disposition of Notes, including, in particular, the effect of any state or municipal tax laws in effect in Mexico. Residents of Mexico who become holders of Notes are urged to analyze the tax consequences, under Mexican and other laws, of the purchase, holding or disposition 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 in respect of the purchase, holding or disposition of the Notes.

Payment of Interest

Under the Mexican Income Tax Law and regulations thereunder, payments of interest made by our Cayman Islands branch, in respect of the Notes (including payments of principal in excess of the issue price for the Notes, if any, which under Mexican law are deemed to be interest), to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Payment of Principal

Under the Mexican Income Tax Law and regulations thereunder, payments of principal made by our Cayman Islands branch, if any, in respect of the Notes, to a Non-Mexican Holder will not be subject to Mexican income tax withholding.

Taxation of Dispositions and Acquisitions of the Notes

Under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder, will not be subject to Mexican income tax withholding. Also, amounts deemed to be interest deriving from Notes acquired at a discount by a Non-Mexican Holder from another Non-Mexican Holder would not be subject to income tax withholding in Mexico.

Taxation of Make-Whole Amounts

Under the Mexican Income Tax Law and regulations thereunder, the payment of make-whole amounts, made by our Cayman Islands branch, as a result of the optional redemption of the Notes as provided in "Description of the NC5 Notes—Redemption—Optional Redemption" and "Description of the NC10 Notes—Redemption—Optional Redemption," to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Other Mexican Taxes

Under current Mexican laws, a Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance, succession or similar taxes with respect to the acquisition, ownership or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain Cayman Islands Income Tax Consequences

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and

- No stamp duties or other similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution or delivery of the Notes or the performance or enforcement of them, unless they are executed in or thereafter brought within the jurisdiction of the Cayman Islands (e.g. for the purposes of enforcement) in which case stamp duty of 0.25% of the principal amount specified on the face of each Note up to a maximum of CI$250.00 (US$304.88) unless CI$500.00 (US$609.76) has been paid in respect of the entire issue of Notes, will be payable. An instrument of transfer in respect of a Note if executed in or brought within the jurisdiction of the Cayman Islands will be subject to a Cayman Islands stamp duty of CI$100.00 (US$121.95). Subject as aforesaid, a holder of a Note will not incur or become liable for any transfer or other similar taxes or charges under the laws of the Cayman Islands by reason of the acquisition, ownership or disposal of the Notes.

The Cayman Islands – Automatic Exchange of Financial Account Information

The Cayman Islands has entered into two intergovernmental agreements to improve international tax compliance and the exchange of information - one with the United States and one with the United Kingdom (the "US IGA" and the "UK IGA," respectively). The Cayman Islands has also signed, along with over 80 other countries, a multilateral competent authority agreement to implement the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "CRS").

Regulations were issued pursuant to the Cayman Islands Tax Information Authority Law (2017 Revision) on 4 July 2014 to give effect to the US IGA and the UK IGA, and on 16 October 2015 to give effect to the CRS (together, the "AEOI Regulations"). Pursuant to the AEOI Regulations, the Cayman Islands Tax Information Authority (the "CITIA") has published guidance notes on the application of the US IGA, the UK IGA and the CRS. It is anticipated that the UK IGA related regulations and relevant provisions of the guidance notes will be phased out in 2017 and replaced with the CRS. All Cayman Islands "Financial Institutions" (including the Issuer) are required to comply with the reporting requirements of the AEOI Regulations, unless the Issuer can rely on an exemption that permits it to be treated as a "Non-Reporting Cayman Islands Financial Institution" (as defined in the relevant AEOI Regulations), in which case only the registration requirement would apply under the CRS. The Issuer does not propose to rely on any reporting exemption and will therefore comply with all of the requirements of the AEOI Regulations as a "Reporting Financial Institution." As such, the Issuer is required to (i) register with the IRS to obtain a Global Intermediary Identification Number (for the purposes of the US IGA only), (ii) register with the CITIA, and thereby notify the CITIA of its status as a "Reporting Financial Institution," (iii) adapt and implement written policies and procedures setting out how it will address its obligations under the CRS, (iv) conduct due diligence on its accounts to identify whether any such accounts are considered "Reportable Accounts," and (v) report information on such Reportable Accounts to the CITIA. The CITIA will transmit such information to the applicable overseas fiscal authorities as the case may be. Under the terms of the US IGA, withholding will not be imposed on payments made to the Issuer unless the IRS has specifically listed the Issuer as a non-participating financial institution, or on payments made by the Issuer to the holders of the Notes unless the Issuer has otherwise assumed responsibility for withholding under United States tax law.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to a "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Governmental, church or non-U.S. plans or other arrangements (each, a "Non-ERISA Arrangement"), while not subject to the fiduciary responsibility provisions of Title I of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Bank or any of its subsidiaries is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. Those exemptions include, without limitation:

- PTCE 96-23 (for certain transactions determined by in-house asset managers);
- PTCE 91-38 (for certain transactions involving bank collective investment funds);
- PTCE 95-60 (for certain transactions involving insurance company general accounts);
- PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts);
- PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers); and
- Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code (for certain transactions with service providers).

There can be no assurance that any class exemption, statutory exemption or other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan, or Non-ERISA Arrangement that is subject to Similar Laws or (ii) its purchase, holding and any subsequent disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws. Similarly, each transferee of any Notes, by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan or a Non-ERISA Arrangement that is subject to any Similar Laws or (ii) its purchase, holding and any subsequent 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 Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.

The foregoing summary is general in nature and not intended to be all encompassing. This summary does not purport to be complete, and future legislation, court decisions, administrative regulations, rulings or administrative pronouncements could significantly modify the requirements summarized above. Any of these changes may be retroactive and may thereby apply to transactions entered into prior to the date of their enactment or release. Any Plan fiduciary or other persons who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code or Similar Laws to such an investment, and the availability of an applicable exemption.

The sale of Notes to a Plan is in no respect a representation by the Bank that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

LEGAL MATTERS

Certain matters relating to the validity of the Notes will be passed upon for us by White & Case, S.C., Mexico, White & Case LLP, New York, New York, and Maples and Calder, Cayman Islands. Certain legal matters will be passed upon for the initial purchasers by Ritch, Mueller, Heather y Nicolau, S.C., Mexico, and Cleary Gottlieb Steen & Hamilton LLP, New York, New York.

INDEPENDENT AUDITOR

Our audited consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent auditors, as stated in their report. Our Unaudited Condensed Consolidated Interim Financial Statements for the Three-Month Period Ended March 31, 2017 and 2016 included in this offering memorandum have been subject to a review of interim financial information by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent auditors, as stated in their review report.

GENERAL INFORMATION

Clearing Systems

Application has been made to have the Notes of each series accepted for clearance through The Depository Trust Company.

For the Rule 144A Global NC5 Note, the ISIN number is US05962GAH20 and the CUSIP number is 05962GAH2. For the Regulation S Global NC5 Note, the ISIN number is USP14008AD19 and the CUSIP number is P14008AD1.

For the Rule 144A Global NC10 Note, the ISIN number is US05962GAJ85 and the CUSIP number is 059626AJ8. For the Regulation S Global NC10 Note, the ISIN number is USP14008AE91 and the CUSIP number is P14008AE9.

Listing

Application is expected to be made to list the Notes of each series on the SGX, and the Bank will use commercially reasonable efforts to obtain and maintain listing of the Notes on the SGX-ST; however, the Notes are not yet listed and the Bank cannot assure the holders of the Notes that they will be accepted for listing. Copies of our bylaws, the respective indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, registrar, paying agent and transfer agent, and at the offices of the Singapore listing agent, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Singapore for so long as any of the Notes of each series are listed on the SGX-ST. For so long as the Notes of each series are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the global notes are exchanged for notes in definitive form. In addition, an announcement of such exchange shall be made by or on behalf of the Bank through the SGX-ST and such announcement will include all material information with respect to the delivery of the notes in definitive form, including details of the paying agent in Singapore. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of SGD$200,000 (or its equivalent in foreign currencies) for so long as such series of Notes are listed on the SGX-ST.

The Notes will not be registered with RNV maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to institutional and qualified investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law. 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 submitted 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, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this offering memorandum.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of each series of Notes.

ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for banks as issued by the CNBV and MFRS prescribed by the CINIF to the extent that the aforementioned accounting criteria do not address or supersede the accounting to be followed. 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 the significant differences that relate to balances or transactions maintained by Banorte 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

On December 2, 2005, the General Rules Applicable to Mexican Banks became effective (amended through December 24, 2009) which include the accounting criteria applicable to banks. These accounting criteria also include the methodology for bank loan portfolio ratings. These provisions require the rating and 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), payment records and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remainder is classified parametrically based on the number of months elapsed as of the first default. This rating is used, among other things, to estimate a potential loan loss provision. However, as in our case, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV. Also, the CNBV allows the creation of additional reserves based on preventive criteria.

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 portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past due, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

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

- when there is evidence that the customer has declared bankruptcy;
- loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity;
- loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due;
- loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due;

- in the case where a revolving line of credit is 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 calendar days following maturity; and

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

The U.S. GAAP methodology for recognition of loan losses is provided by the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 450 *Contingencies* (previously Statement of Financial Accounting Standard ("SFAS") No. 5, "Accounting for Contingencies") and ASC 310 *Receivables* (previously SFAS No. 114, "Accounting by Creditors for Impairment of a Loan"), which establish that an estimated loss 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. For larger non-homogeneous loans, all individual loans should be assessed for impairment under ASC 310 (except for large groups of smaller-balance homogeneous loans which are collectively evaluated for impairment). Specific provisions are calculated 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.

Under U.S. GAAP, estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan's effective rate, 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 smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and non-impaired loans.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-Accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Foreclosed Assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in-kind and (2) those that are repossessed by judicial order. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by ASC 470 *Debt* (previously SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings"), foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with ASC 360 *Property, Plant and Equipment* (previously SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), such asset is thereafter carried at the lower of its carrying amount or fair value less estimated sale costs. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful lives and are subject to impairment tests under ASC 360.

Investment Valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.

- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of equity securities, net of deferred taxes, is recognized in stockholders' equity.

- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost. Furthermore, on November 9, 2009, the CNBV issued a ruling to amend the General Rules Applicable to Mexican Banks, which allows securities to be reclassified to the category of securities held to maturity or from the category of trading securities to that of securities available for sale, albeit with the prior express authorization of the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price quotes or in certain cases based on internal valuation methods. The fair value adjustment for for-sale equity securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position (if determined). All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

For U.S. GAAP, under ASC 320 *Investments—Debt and Equity Securities* (previously SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"):

- Debt securities must be classified, according to management's intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.

- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.

- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.

- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income ("OCI"), a separate component of shareholders' equity until realized, at which time the realized gain or loss is recorded in the income statement. Non-marketable equity securities are valued at cost, less a provision for other-than temporary impairment in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per ASC 310-10-35 (*Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities* paragraphs 36-37) (formerly EITF 96-15 "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities"), the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders' equity. This fair value serves as the basis under which other-than temporary impairment is considered.

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—Listed prices for identical instruments in active markets.
- Level 2—Listed prices for similar instruments in active markets; listed 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.

Repurchase Agreements

Under Mexican Banking GAAP, at the contracting date of the repurchase transaction, when the financial institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, is recorded and represents the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year. In relation to the collateral granted, the credit institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When an entity acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the agreed-upon price, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year. Similarly, if the repurchasing party becomes a reselling party based on the performance of another repurchase transaction with the collateral received in guarantee for the initial transaction, the interest generated by the second repurchase transaction must be recognized in the results of the year when accrued, according to the effective interest method, and also affects the valued account payable according to the applied cost.

Under U.S. GAAP, repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP, the assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset. Financial institutions initially recognize all derivatives as assets or liabilities in the balance sheet at fair value, taking into consideration the execution price. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results. All derivatives are valued at fair value without deducting any estimated sale costs or other types of disposal. The period net valuation effects are recognized in the results of the period as trading gain/loss.

Under Mexican Banking GAAP, a financial institution should consider the following the CNBV requirements for the purposes of classifying a derivative financial instrument:

- Hedging of an open risk position - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period. If they are cash flow hedges, the hedge derivative instrument is valued at market and the valuation for the effective portion of the hedge is recorded within OCI account in stockholders' equity. Any ineffective portion is recorded in results.

- Trading positions - Consist of the positions assumed by the financial institution as market participant for purposes other than hedging risk positions. In forward and futures contracts, the balances represent the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; however, if negative, it is considered as a shortfall and presented under liabilities. In options, their balance represents the fair value of the premium and they are valued at fair value, recognizing the valuation effects in the results for the year. In swaps, the balance represents the difference between the fair value of the swap asset and liability.

Under U.S. GAAP, ASC 815 *Derivatives and Hedging* (previously SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.

- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.

- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded in OCI in stockholders' equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.

- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. Under Mexican Banking GAAP, the recognition of embedded derivative instruments is required beginning in 2009.

Securitized Transactions and the Consolidation of Special-Purpose Entities

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and derecognition of financial assets" in order to be considered a sale and transfer of assets. If this is not the case, these assets must remain on the balance sheet, together with the respective debt issuances and the effects on results based on this criterion. 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, ASC 860 *Transfers and Servicing* (previously SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125") provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The guidance focuses on control. Under that approach, after 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. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

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 ("QSPE") (for more information on control that eliminates the QSPE exemption under U.S. GAAP beginning in 2016, see "—Consolidation"), 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; and

- 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, (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call, or (3) an agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Insurance and postretirement activities

According to the accounting practices prescribed by the Mexican National Insurance and Surety Commission (Mexican Insurance GAAP), commissions and costs at the origination of each policy are charged to income as incurred. In addition, for life insurance policies, any amount received from individuals is considered as premium income. As required by U.S. GAAP, commissions and costs at origination are capitalized and amortized over the life of the policy using the effective interest method (deferred acquisition costs). Furthermore, premiums received in excess for life insurance policies are recorded as premium income.

Also, under the accounting practices prescribed by the National System of Saving for the Retirement Commission, the direct costs associated with the reception of new clients for the administration of the bills of retirement is recognized in income as incurred. Under U.S. GAAP the costs are capitalized and amortized over the time in which the borrowed service is yielded, which the time is based on average in which the clients remain active in the company.

Under Mexican Insurance GAAP, certain reserves (disaster) are calculated using internal models previously approved by the Mexican National Insurance and Surety Commission. Generally pension reserves are based on the present value of benefits to be paid together with fees suggested by this Commission. U.S. GAAP establishes the use of a fee that allows policy benefits to be covered through premiums collected for pension reserves. Under U.S. GAAP, provisions for disaster reserves are based on actuarial calculations for losses incurred using the experience of the Financial Group.

The Financial Group records a reserve for catastrophic events under Mexican Banking GAAP as a liability which is not allowed by U.S. GAAP.

Business Combinations

Through December 31, 2004, under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of NIF B-7, "Business Acquisitions," which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

Under U.S. GAAP, prior to January 1, 2009, SFAS No. 141, "Business Combinations" required the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired.

Under U.S. GAAP, beginning in January 1, 2009, ASC 805-10 (SFAS No. 141(R), "Business Combinations – a replacement of FASB No. 141"), now requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 (SFAS No. 141(R)), also amends ASC 740-10 (SFAS No. 109, "Accounting for Income Taxes") to require that any reductions to an acquired entity's valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense.

Employee Retirement Obligations

Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 *Compensation—Nonretirement Postemployment Benefits* (previously SFAS No. 112, "Employers' Accounting for Post-employment Benefits"), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. Under U.S. GAAP, such costs are accounted for in accordance with ASC 715 *Compensation—Retirement Benefits* (previously SFAS No. 87, "Employers' Accounting for Pensions"), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at either corporate or government bonds based discount rates. The U.S. GAAP standard became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 (previously SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by NIF D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas NIF D-3 became effective on January 1, 1993.

In addition, under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through OCI. Accordingly, unrecognized items may exist in Mexican FRS which are included as part of the employee benefit liability under U.S. GAAP.

Starting January 1, 2016, amendments to NIF D-3 became effective, in which unrecognized actuarial items, should be treated as follows:

a) the whole balance of the modifications to the plan (past service) not yet recorded, should be recorded affecting the retained earnings of the oldest period presented;

b) the accumulated unrecorded Profit or Losses of the Plan (GPP) (for entities that used the projected unit credit method), should be recorded affecting the initial balance of OCI for remedies of the oldest period presented.

Therefore, a difference arises since U.S. GAAP has not amended the recognition of actuarial remeasurements.

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, guarantees are accounted for under ASC 460 *Guarantees* (previously FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34"), which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

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.

Equity Method Investees

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

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, deferred income taxes are also accounted for using the asset and liability approach. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset.

Consolidation

Under Mexican Banking GAAP, an entity is required to consolidate subsidiaries over which it is has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent. In addition to the traditional concept of consolidation, on January 17, 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities- an Interpretation of ARB No. 51," replaced in December 2003, by Interpretation ASC 810 Consolidation (previously No. 46(R) "Consolidation of Variable Interest Entities- an interpretation of APB 51" ("FIN 46R")), which contained certain clarifications to address accounting for variable interest entities. The primary purpose of ASC 810 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities ("VIEs"). Generally, VIEs are to be consolidated by the primary beneficiary which represents the enterprise that will absorb the majority of the VIEs' expected losses if they occur, receive a majority of the VIEs' residual returns if they occur, or both. Through 2009, QSPEs and certain other entities are exempt for the consolidation provisions of FIN 46R. As described in ASC 840-40 Transfers to Qualifying Special Purpose Entities (previously SFAS No. 140, par. 35), a QSPE is a trust or other legal vehicle that meets certain conditions. Under U.S. GAAP, a QSPE is not consolidated in the financial statements of a transferor or its affiliates.

Effective beginning January 1, 2019, Accounting Standards Update No. 2009-16, seeks to improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting

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. Typically, however, no gain or loss on monetary position is recognized in the financial statements. However, specific rules and regulations established by the SEC allow for the presentation of inflation in a company's reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet. Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, NIF B-15, "Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations" allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of NIF B-15 do not meet the SEC's Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

Recent Mexican Banking GAAP Accounting Standards

As part of its efforts to converge Mexican standards with international standards, in 2009, CINIF issued the following Mexican Financial Reporting Standards (NIF), Interpretations to Financial Information Standards (INIF) and improvements to NIF applicable to profitable entities which became effective for fiscal years that begin on January 1, 2017.

The improvements consist in specifying the scope and definitions of these NIF to indicate more clearly their application and accounting treatment.

- NIF B-7, Business acquisitions - A modification was made to the prospective adoption of the improvements to NIF 2016, which establishes that acquisitions under common control should not form part of the scope of such NIF.

- NIF B-13, Events after the reporting period - If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

- NIF C-11, Stockholders' equity - Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already owned by investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.

- NIF D-3, Employee benefits - Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term defined benefit obligation should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market. Early application is allowed.

Recent U.S. GAAP Accounting Standards

In October 2009, FASB ASC 105-10 (SFAS No. 168), the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles was issued. FASB ASC 105-10 (SFAS No. 168) establishes the FASB Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with U.S. GAAP. FASB ASC 105-10 (SFAS No. 168) is effective for interim and annual periods ending after September 15, 2009. On the effective date, all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain items listed in FASB ASC 105-10 (SFAS No. 168). The purpose of the Codification is not to create new accounting and reporting guidance, but rather to simplify user access to all authoritative U.S. GAAP.

The disclosure requirements of ASC 820-10 (SFAS No. 157, Fair Value Measurements) in relation to nonfinancial assets and liabilities became effective in 2009.

In January 2009, ASC 810-10 (SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51), which establishes the accounting and reporting standards for the noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary, and also amends certain consolidation guidance for consistency with revised standards regarding business combinations was issued. The accounting provisions of ASC 810-10 (SFAS No. 160) must be applied prospectively starting at the beginning of the fiscal year in which the provisions are initially adopted, while the presentation and disclosure requirements must be applied retrospectively, to provide comparability in the financial statements. ASC 810-10 (SFAS No. 160) was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

In January 2009, ASC 805-10 (SFAS No. 141(R), Business Combinations – a replacement of SFAS No. 141 (R)) was issued and, which among other changes, requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 also amends ASC 740-10 (SFAS No. 109, Accounting for Income Taxes) to require that any reductions to an acquired entity's valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense. FASB ASC 805-10 (SFAS No. 141(R)) must be applied prospectively to all business combinations for which the acquisition date occurs during fiscal years beginning on or after December 15, 2008, with the exception to the amendments to ASC 740-10, which will also be applied to business combinations with acquisition dates prior to the effective date of this standard.

In July 2009, the ASC 855-10 (SFAS 165, Subsequent Events). ASC 855-10 (SFAS 165) was issued and establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. ASC 855-10 was effective for fiscal years and interim periods ending after June 15, 2009.

In June 2009, ASC 860-10 (SFAS No. 166, Accounting for Transfer of Financial Assets – an amendment of FASB Statement No. 140), was issued, which eliminates the concept of a QSPE and modifies the derecognition provisions of a previously issued accounting standard. ASC 860-10 (SFAS No. 166) also required additional disclosures which focus on the transferor's continuing involvement with the transferred assets and the related risks retained. ASC 860-10 (SFAS No. 166) is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited.

In June 2009, ASC 810-10 (SFAS No. 167, Amendments to FASB Interpretation No. 46 (R)) was issued, which amends the consolidation guidance that applies to variable interest entities. The new guidance requires an entity to carefully reconsider its previous consolidation conclusions, including (1) whether an entity is a variable interest entity (VIE), (2) whether the enterprise is the VIE's primary beneficiary, and (3) what type of financial statement disclosures are required. ASC 810-10 (SFAS No. 167) is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The amendments to the consolidation guidance affect all entities and enterprises currently within the scope of ASC 810-10 (SFAS No. 167), as well as qualifying special-purpose entities that are currently outside the scope of ASC 810-10 (FIN 46(R)). Early adoption is prohibited.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, which contains new guidance on accounting for revenue arrangements with multiple deliverables. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The guidance in the ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2016. Early adoption is permitted.

In January 2016, the FASB issued ASU 2016-06. The ASU amends ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715, Compensation – Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this ASU eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This ASU is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those of ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The ASU also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2019 with early application permitted.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 with early adoption permitted.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU eliminates the probable initial recognition threshold in current guidance and, instead, requires an entity to reflect its current estimate of all expected credit losses. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU are effective for annual periods beginning after December 15, 2020.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted.

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Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2016, 2015, and 2014, and Independent Auditors' Report Dated February 27, 2017

Banco Mercantil del Norte, S. A.,

Institución de Banca Múltiple,

Grupo Financiero Banorte and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements as of December 31, 2016,2015 and 2014

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Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Lázaro Cárdenas 2321 Pte., PB
Residencial San Agustín
66260 Garza García, N.L.
México

Tel +52 (81) 8133 7300
Fax +52 (81) 8133 7383
www.deloitte.com/mx

Independent Auditors' Report to the Board of Directors and Shareholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the Institution) which compromise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, the consolidated statement of changes in stockholders' equity and the consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Institution as of December 31, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows, for the years ended December 31, 2016, 2015 and 2014 in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Credit Institutions" (the Accounting Criteria).

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements of our report.* We are independent of the Institution in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Arithmetical translation of the consolidated financial statements from Mexican pesos into United States of America (U.S.) dollars for the year ended December 31, 2016

Our audit included a review of the arithmetical translation of the amounts in Mexican pesos into U.S. dollars and, in our opinion, was performed in conformity with the basis established in Note 4 to the consolidated financial statements for the year ended December 31, 2016. The amounts in U.S. dollars are presented solely for the convenience of the user.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

Preventive estimates of credit risks (see Note 4 and 11 to the consolidated financial statements)

The methodology for calculating the preventive estimate for credit risks requires that the expected loss for the next twelve months be evaluated in accordance with the Accounting Standards issued by the National Banking and Securities Commission (the Commission). This expected loss considers 3 credit risk factors that are (i) the probability of default, (ii) the severity of the loss and (iii) the exposure to non-compliance. It has been considered a key audit issue because of the relative importance of the integrity and accuracy of the source information used for its determination and updating of each of the aforementioned credit risk factors in the calculation of that estimate.

Our audit procedures to cover this key audit issue included:

a) Test the design and operational effectiveness of the relevant controls regarding the valuation of the Preventive Estimate for credit risks of the Institution.

b) Recalculate the valuation on a sample of credits, considering the risk factors and the source of information used to carry out this calculation. In addition, we review the source of information used to determine and update each of the risk factors in the calculation.

c) Involve our team of Regulatory Compliance specialists.

d) Validate the correct presentation and disclosure in the consolidated financial statements.

The results of our auditing procedures described above were reasonable and we noted no exceptions.

Investments in securities (see note 4 and 6 to the consolidated financial statements)

We identified risks in (i) the classification of investments in securities since, according to their intention, valuation effects could be recorded in results or in stockholders' equity in accordance with the Accounting Criteria issued by the Commission and (ii) The Institution does not recognize the effect of impairment even if there is objective evidence that a security is impaired.

Our audit evidence, with respect to what was mentioned in the previous paragraph, included the following:

a) Review the integrity by confirmation of the custodian (SD INDEVAL, Institution for the Deposit of Securities, SA de CV or "INDEVAL") and its valuation according to the price vector, and that in turn, it is recorded in results or Stockholders' equity according to their intention and classification.

b) Verify that the Institution complies with the provisions of Criterion B-2, Investments in securities, of the Accounting Criteria issued by the Commission, inasmuch as it does not classify securities acquired from December 2014 until December 31 2016 in the category of Securities held to maturity.

c) With regards to investments with characteristics of equity instruments, review i) the valuation, obtaining as evidence the fair value determined by an independent price provider and ii) the presentation according to the intention and classification of the instrument.

d) With regards to investments that show signs of deterioration and for which the Institution's management performed an impairment analysis, verify that these calculations are carried out in accordance with the accounting regulations, in addition prove the controls that the Institution has implemented for said procedure.

The results of our auditing procedures described above were reasonable and we noted no exceptions.

Derivative financial instruments (See notes 4 and 8 to the consolidated financial statements)

The valuation of the financial instruments of the Institution was considered as a key issue in our audit given the degree of complexity involved in the valuation techniques used for some of the financial instruments and the importance of the judgments and estimates made by the Institution's management.

In the accounting policies of the Institution, management has described the main sources of information involved in determining the valuation of derivative financial instruments and in particular, how fair value is established using a valuation technique when the estimate cannot be carried out with inputs directly observed in an active market. Our audit included review of the evidence of valuation adjustments, including those by inclusion of the collateral.

Our auditing procedures to cover these significant items included:

a) Test the design and operational effectiveness of the key controls with respect to the valuation of derivative financial instruments of the Institution.

b) Review methodologies and inputs through the recalculation of valuation, on a sample of derivative financial instruments. In those cases where the results had presented differences in the valuations, ensure that such variations were reasonable.

c) Involve our team of Capital Market specialists.

d) Review the correct presentation and disclosure in the consolidated financial statements.

The results of our auditing procedures described above were reasonable and we noted no exceptions.

Other Matter

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

Information other than the consolidated financial statements and the auditor's report

The administration is responsible for the other information. The other information will include the information that will be incorporated in the annual report, which will include the consolidated financial statements and our audit report. The annual report is expected to be available for our reading after the date of this audit report.

Our opinion of the consolidated financial statements will not cover the other information and we will not express any form of security about it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information mentioned, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the financial statements or our knowledge obtained during the audit, or appears to contain a material error.

Responsibilities of the management and those charged with Governance of the consolidated financial statements

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

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

Those charged with government are responsible for overseeing the Institution financial reporting process.

Auditors´ responsibility for the audit of the consolidated financial statements

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

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting and related disclosures by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditors´ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about of the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

C.P.C. Daniel Castellanos Cárdenas
Registration in the General Administration
Of Federal Tax Audit No. 17195
February 27, 2017

June 16, 2017 with respect to Note 38

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos and in millions of U.S. dollars)

ASSETS	2016	2016	2015
CASH AND CASH EQUIVALENTS	**US$ 3,193**	**Ps. 65,844**	**Ps. 107,457**
MARGIN SECURITIES	**106**	**2,185**	**91**
INVESTMENT IN SECURITIES			
Trading securities	6,279	129,477	130,211
Securities available for sale	7,426	153,128	73,026
Securities held to maturity	304	6,258	7,761
	14,009	**288,863**	**210,998**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**-**	**-**	**493**
DERIVATIVES FINANCIAL INSTRUMENTS			
For trading purposes	1,983	40,881	18,771
For hedging purposes	36	742	79
	2,019	**41,623**	**18,850**
VALUATION ADJUSTMENTS FOR ASSETS HEDGING	**5**	**113**	**128**
PERFORMING LOAN PORTFOLIO			
Commercial loans			
Business loans	9,785	201,753	189,522
Financial institutions' loans	982	20,240	17,317
Government loans	6,476	133,540	128,567
Consumer loans	4,201	86,632	74,235
Credits of Housing			
Media and Residencial	5,375	110,825	96,285
Social interest	2	40	68
Earned Credits at INFONAVIT O FOVISSSTE	191	3,942	3,599
TOTAL PERFORMING LOAN PORTFOLIO	**27,012**	**556,972**	**509,593**
PAST-DUE LOAN PORTFOLIO			
Commercial loans			
Business loans	265	5,467	7,723
Financial institutions' loans	17	344	-
Consumer loans	155	3,200	2,839
Credits of Housing			
Media and Residencial	46	952	1,030
Social interest	-	1	6
Earned Credits at INFONAVIT O FOVISSSTE	5	96	36
TOTAL PAST-DUE LOAN PORTFOLIO	**488**	**10,060**	**11,634**
LOAN PORTFOLIO	**27,500**	**567,032**	**521,227**
(Minus) ALLOWANCE FOR LOAN LOSSES	(676)	(13,941)	(13,334)
LOAN PORTFOLIO, net	**26,824**	**553,091**	**507,893**
ACQUIRED COLLECTION RIGHTS	**68**	**1,400**	**1,376**
TOTAL LOAN PORTFOLIO, net	**26,892**	**554,491**	**509,269**
RECEIVABLES GENERATED BY SECURITIZATIONS	**8**	**155**	**184**
OTHER ACCOUNTS RECEIVABLE, net	**1,939**	**39,989**	**21,164**
FORECLOSED ASSETS, net	**59**	**1,222**	**1,800**
PROPERTY, FURNITURE AND EQUIPMENT, net	**578**	**11,927**	**11,364**
PERMANENT STOCK INVESTMENTS	**9**	**185**	**13,485**
LONG-TERM ASSETS AVAILABLE FOR SALE	**257**	**5,299**	**-**
DEFERRED INCOME TAX, net	**205**	**4,228**	**3,096**
OTHER ASSETS, net			
Deferred charges, advance payments and intangibles	544	11,214	15,394
Other short-term and long-term assets	150	3,097	3,837
TOTAL ASSETS	**US$ 49,974**	**Ps. 1,030,435**	**Ps. 917,610**

MEMORANDUM ACCOUNTS (Note 33)

These balance sheets were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the consolidated balance sheet dates above.

As of December 31, 2016, the stockholders' equity amounts to Ps.13,730

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

"The attached notes are an integral part of these consolidated balance sheets."

LIABILITIES AND STOCKHOLDERS' EQUITY	2016	2016	2015
DEPOSITS			
Demand deposits	US$ 18,546	Ps. 382,409	Ps. 349,805
Time deposits			
General public	9,241	190,536	208,019
Money market	71	1,459	4,606
Senior debt issued	66	1,352	1,240
	27,923	**575,756**	**563,670**
INTERBANK AND OTHER LOANS			
Demand loans	195	4,019	1
Short-term loans	391	8,063	7,557
Long-term loans	445	9,178	7,385
	1,031	**21,260**	**14,943**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**11,372**	**234,490**	**171,133**
COLLATERAL SOLD OR PLEDGED			
Repurchase or resale agreements (creditor balance)	**-**	**-**	**1**
DERIVATIVES FINANCIAL INSTRUMENTS			
For trading purposes	1,959	40,403	19,940
For hedging purposes	455	9,372	5,004
	2,414	**49,775**	**24,944**
OTHER ACCOUNT PAYABLES			
Income tax	95	1,965	703
Employee profit sharing	19	396	375
Creditors from settlements of transactions	339	6,988	7,464
Creditors from collaterals received in cash	501	10,326	-
Sundry creditors and other payables	701	14,444	13,351
	1,655	**34,119**	**21,893**
SUBORDINATED DEBENTURES	**1,063**	**21,917**	**17,385**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**16**	**331**	**1,058**
TOTAL LIABILITIES	**45,474**	**937,648**	**815,027**
STOCKHOLDERS' EQUITY			
PAID-IN CAPITAL			
Common stock	878	18,105	20,074
Additional paid-in capital	3	72	11,682
	882	**18,177**	**31,756**
OTHER CAPITAL			
Capital reserves	558	11,509	10,157
Retained earnings from prior years	2,435	50,215	48,398
Result from valuation of securities available for sale	(80)	(1,645)	(1,310)
Result from valuation of instruments for cash flow hedging	(103)	(2,131)	(936)
Cumulative foreign currency translation adjustment	96	1,985	990
Remeasurement of employee defined benefit	(18)	(377)	-
Net income	730	15,044	13,518
	3,618	**74,600**	**70,817**
NON-CONTROLLING INTEREST	**-**	**10**	**10**
TOTAL STOCKHOLDERS' EQUITY	**4,500**	**92,787**	**102,583**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**US$.49,974**	**Ps.1,030,435**	**Ps. 917,610**

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

C.P.C. Mayra Nelly López López
Executive Director - Accounting

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016,2015 AND 2014
(In millions of Mexican pesos and in millions of U.S. dollars)

	2016	**2016**	**2015**	**2014**
Interest income	US$.3,366	Ps.69,407	Ps.58,970	Ps. 57,815
Interest expense	1,127	23,244	19,369	19,889
NET INTEREST INCOME	**2,239**	**46,163**	**39,601**	**37,926**
Allowance for loan losses	(634)	(13,070)	(10,370)	(11,087)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**1,605**	**33,093**	**29,231**	**26,839**
Commission and fee income	765	15,764	13,476	11,592
Commission and fee expense	(218)	(4,498)	(3,527)	(3,091)
Brokerage revenues	89	1,839	2,606	3,807
Other operating Income	101	2,078	1,851	2,420
Non interest expense	(1,414)	(29,155)	(27,334)	(26,448)
	(678)	**(13,972)**	**(12,928)**	**(11,720)**
OPERATING INCOME	**927**	**19,121**	**16,303**	**15,119**
Equity in earnings of unconsolidated subsidiaries and associated companies	51	1,043	1,280	1,241
INCOME BEFORE INCOME TAX	**978**	**20,164**	**17,583**	**16,360**
Current income tax	(266)	(5,479)	(4,063)	(6.787)
Deferred income tax, net	6	116	(235)	2,154
	(260)	**(5,363)**	**(4,298)**	**(4,633)**
INCOME BEFORE DISCONTINUED OPERATIONS	**718**	**14,801**	**13,285**	**11,727**
Discontinued operations	12	243	233	209
NET INCOME	**US$. 730**	**Ps. 15,044**	**Ps. 13,518**	**Ps. 11,936**

These income statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the consolidated income statements dates above.

The accompanying consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

“The attached Notes are an integral part of these consolidated income statements.”

Act. José Marcos Ramírez Miguel
CEO

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Executive Director - Accounting

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In millions of Mexican pesos)

	PAID-IN CAPITAL			OTHER CAPITAL		
	Common Stock	**Additional paid-in capital**	**Contributions for future capital increases**	**Capital reserves**	**Retained earnings from prior years**	**Result from valuation of securities available for sale**
Balances, January 1, 2014	**Ps.15,577**	**Ps.10,389**	**Ps.1,950**	**Ps.7,761**	**Ps.32,284**	**Ps.517**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	-	12,122	-
Dividends declared at the General Stockholders' meetings on:						
December 16 2013	1,950	-	(1,950)	-	-	-
March 24,	2,499	-	-	-	-	-
April 14	48	-	-	-	-	-
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	-	1,207	(1,207)	-
Share-based payments payable in stock options	-	710	-	-	-	-
Total transactions approved by stockholders	**4,497**	**710**	**(1,950)**	**1,207**	**10,915**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	-	(7)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	2	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**2**	**(7)**
Non- Controlling interest	-	-	-	-	-	-
Balances, December 31, 2014	**20,074**	**11,099**	**-**	**8,968**	**43,201**	**510**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	-	11,936	-
Dividends declared at the General Stockholders' meetings on:						
January 21, April 24, July 22, November 4 2015	-	-	-	-	(5,554)	-
Creation of reserves as per General Stockholders' meeting on April 24, 2015	-	-	-	1,189	(1,189)	-
Share-based payments payable in stock options	-	583	-	-	-	-
Total transactions approved by stockholders	**-**	**583**	**-**	**1,189**	**5,193**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	-	(1,819)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	4	(1)
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**4**	**(1,820)**
Minority interest	-	-	-	-	-	-
Balances, December 31, 2015	**20,074**	**11,682**	-	**10,157**	**48,398**	**(1,310)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	-	13,518	-
Dividends declared at the General Stockholders' meetings on:			-			
August 12, December 15 2016	-	-	-	-	(5,967)	-
Creation of reserves as per General Stockholders' meeting on April 22, 2016	-	-	-	1,352	(1,352)	-
Excision of AFORE XXI Banorte	(1,969)	(12,052)	-	-	(68)	-
Special judgement of CNBV for sale of INB	-	-	-	-	(3,809)	-
Share-based payments payable in stock options	-	442	-	-	-	-
Total transactions approved by stockholders	**(1,969)**	**(11,610)**		**1,352**	**2,322**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	-	(335)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	3	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Remeasurement of employee defined benefit	-	-	-	-	(37)	-
Modification in the normativity of the portfolio	-	-	-	-	(471)	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**(505)**	**(335)**
Non- Controling interest	-	-	-	-	-	-
Balances, December 31, 2016	**Ps.18,105**	**Ps.72**	**-**	**Ps.11,509**	**Ps.50,215**	**(Ps.1,645)**

These statements of changes in stockholder's equity were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the dates above.

"These consolidated Statements of Changes in Stockholder's Equity were approved by the Board of Directors in accordance with the responsibility assigned to them."

"The attached Notes are an integral part of these consolidated statements of changes in stockholders´equity."

				OTHER CAPITAL			
	Result from valuation of instruments for cash flow hedging	**Cumulative foreign currency translation adjustment**	**Remeasure ment of employee defined benefit**	**Net income**	**Total majority interest**	**Minority interest**	**Total stockholder s' equity**
Balances, January 1, 2014	**(Ps. 1,541)**	**(Ps. 1,143)**	**Ps. -**	**Ps. 12,122**	**Ps.77,916**	**Ps. 10**	**Ps. 77,926**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(12,122)	-	-	-
Capital increase as per Extraordinary Stockholders' Meeting on:							
January 21, April 24, July 22, November 4 2015	-	-	-	-	2,499	-	2,499
April 24 2016	-	-	-	-	48	-	48
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	-	-	-	-	-
Share-based payments payable in stock options	-	-	-	-	710	-	710
Total transactions approved by stockholders	**-**	**-**	**-**	**(12,122)**	**3,257**	**-**	**3,257**
COMPREHENSIVE INCOME:							
Net income	-	-	-	11,936	11,936	-	11,936
Result from valuation of securities available for sale	-	-	-	-	(7)	-	(7)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	2	-	2
Cumulative foreign currency translation adjustment	-	1,005	-	-	1,005	-	1,005
Result from valuation of instruments for cash flow hedging	672	-	-	-	672	-	672
Total comprehensive income	**672**	**1,005**	**-**	**11,936**	**13,608**	**-**	**13,608**
Non- Controling interest	-	-	-	-	-	-	-
Balances, December 31, 2014	**(869)**	**(138)**	**-**	**11,936**	**94,781**	**10**	**94,791**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(11,936)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
January 21, April 24, July 22, November 4 2015	-	-	-	-	(5,554)	-	(5,554)
Creation of reserves as per General Stockholders' meeting on April 22, 2016	-	-	-	-	-	-	-
Excision of AFORE XXI Banorte	-	-	-	-	-	-	-
Special judgement of CNBV for sale of INB	-	-	-	-	-	-	-
Share-based payments payable in stock options	-	-	-	-	583	-	583
Total transactions approved by stockholders	**-**	**-**	**-**	**(11,936)**	**4,971**	**-**	**(4,971)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	13,518	13,518	-	13,518
Result from valuation of securities available for sale	-	-	-	-	(1,819)	-	(1,819)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	3	-	3
Cumulative foreign currency translation adjustment	-	1,128	-	-	1,128	-	1,128
Remeasurement of employee defined benefit	-	-	-	-	-	-	-
Modification in the normativity of the portfolio	-	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	(67)	-	-	-	(67)	-	(67)
Total comprehensive income	**(67)**	**1,128**	**-**	**13,518**	**12,763**	**-**	**12,763**
Minority interest	-	-	-	-	-	-	-
Balances, December 31, 2015	**(936)**	**990**	**-**	**13,518**	**102,573**	**10**	**102,583**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(13,518)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
August 12, December 15 2016	-	-	-	-	(5,967)	-	(5,967)
Creation of reserves as per General Stockholders' meeting on April 22, 2016	-	-	-	-	-	-	-
Excision of AFORE XXI Banorte	-	-	-	-	(14,089)	-	(14,089)
Special judgement of CNBV for sale of INB	-	-	-	-	(3,809)	-	(3,809)
Share-based payments payable in stock options	-	-	-	-	442	-	442
Total transactions approved by stockholders	**-**	**-**	**-**	**(13,518)**	**(23,423)**	**-**	**(23,423)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	15,044	15,044	-	15,044
Result from valuation of securities available for sale	-	-	-	-	(335)	-	(335)
Effect of subsidiaries, affiliates and mutual funds	-	-	11	-	14	-	14
Cumulative foreign currency translation adjustment	-	995	-	-	995	-	995
Remeasurement of employee benefit	-	-	(388)	-	(425)	-	(425)
Modification in the normativity of the portfolio	-	-	-	-	(471)	-	(471)
Result from valuation of instruments for cash flow hedging	(1,195)	-	-	-	(1,195)	-	(1,195)
Total comprehensive income	**(1,195)**	**995**	**(377)**	**15,044**	**13,627**	**-**	**13,627**
Non- Controling interest	-	-	-	-	-	-	-
Balances, December 31, 2016	**(Ps. 2,131)**	**Ps. 1,985**	**(Ps. 377)**	**Ps. 15,044**	**Ps. 92,777**	**Ps. 10**	**Ps. 92,787**

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In millions of Mexican pesos and in millions of U.S. dollars)

	2016	2016	2015	2014
Net income	**US$. 730**	**Ps. 15,044**	**Ps. 13,518**	**Ps. 11,936**
Items not requiring (generating) resources:				
Real estate, furniture and equipment depreciations	53	1,084	1,261	1,153
Provisions	167	3,434	(3,615)	6,138
Current and deferred income tax	260	5,363	4,298	4,633
Discontinued operations	12	243	-	-
Equity in earnings of unconsolidated subsidiaries and associated companies	(51)	(1,043)	(1,280)	(1,241)
	1,170	**24,125**	**14,182**	**22,619**
OPERATING ACTIVITIES:				
Changes in margin accounts	(102)	(2,094)	(46)	13
Changes in investments in securities	(4,158)	(85,738)	48,825	(20,336)
Changes in debtor balances under repurchase and resale agreements	24	493	(491)	1
Changes in asset position of derivatives financial instruments	(1,142)	(23,539)	(2,246)	(1,696)
Change in loan portfolio	(3,001)	(61,882)	(42,587)	(42,114)
Changes in acquired collection rights	(1)	(24)	142	400
Changes in receivables generated by securitizations	1	29	403	151
Change in foreclosed assets	26	540	469	18
Change in other operating assets	(902)	(18,589)	(9,225)	(5,851)
Change in deposits	1,661	34,256	61,575	52,166
Change in interbank and other loans	304	6,270	152	(1,308)
Change in creditor balances under repurchase and sale agreements	3,073	63,357	(37,229)	12,321
Collateral sold or pledged	-	(1)	(152)	145
Change in liability position of derivative financial instruments	992	20,463	2,669	2,444
Change in subordinated debentures	216	4,464	865	(1,567)
Change in other operating liabilities	331	6,816	10,449	(6,740)
Change in hedging instruments related to operations	122	2,511	923	1,162
Assets for discontinued operations	(59)	(1,224)	-	
Income tax	(238)	(4,910)	(8,569)	(2,684)
Net cash generated by operating activities	**1,682**	**34,677**	**40,109**	**9,144**
INVESTING ACTIVITIES:				
Proceeds on disposal of property, furniture and equipment	30	617	138	744
Payments for acquisition of property, furniture and equipment	(138)	(2,853)	(2,538)	(2,448)
Subsidiaries and associated companies acquisitions charges	-	2	-	300
Payment for disposal of other permanent investments	-	(2)	-	-
Discontinued operations	-	(10)	-	-
Charges for cash dividends	54	1,122	1,419	1,132
Net cash used in investing activities	**(55)**	**(1,124)**	**(981)**	**(272)**
FINANCING ACTIVITIES:				
Dividends paid	(289)	(5,967)	(5,554)	-
Charges for issuance of shares	-	-	-	2,547
Net cash (used in) generated by financing activities	**(289)**	**(5,967)**	**(5,554)**	**2,547**
Net increase(decrease) in cash and cash equivalents	(2,026)	(41,768)	33,574	11,419
Effects from changes in the value of cash and cash equivalents	8	155	261	236
Cash and cash equivalents at the beginning of the year	5,211	107,457	73,622	61,967
Cash and cash equivalents at the end of the year	**US.$3,193**	**Ps.65,844**	**Ps.107,457**	**Ps.73,622**

These cash flow statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Institution as of the dates above. The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached Notes are an integral part of these consolidated cash flow statements. "The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them".
"The attached Notes are an integral part of these consolidated cash flow statements."

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

C.P.C. Mayra Nelly López López
Executive Director - Accounting

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the Institution), is a full-banking institution whose main activities are regulated by the Credit Institutions Law (LIC), the Mexican Central Bank (Banco de México) and the Mexican National Banking and Securities Commission (the "Commission"). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC. Its subsidiaries' activities are supervised by the Commission.

The subsidiaries' main activity involves financial operations such as managing retirement funds (Until October 17, 2016, the date on which the spin-off of the Institution became effective), issuing credit cards, providing full service banking services in the United States of America.

The main regulating aspect compel the Institution to maintain a minimum capitalization index for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves, with which the Institution complies satisfactorily with as of December 31, 2016.

The Institution is a 98.22% owned subsidiary of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

The faculties of the Commission in its capacity as Banking Institutions' regulator include reviewing the Institution's financial information and requesting modifications to such information.

The Institution performs its activities throughout Mexico and the United States of America.

The Institution's consolidated financial statements have been approved by the Board of Directors at their January 26, 2017 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Changes to the corporate structure

1. Banorte-Ixe Fusion Cards

On April 15, 2016, the letter No. UBVA / 023/2016 was issued by the Ministry of Finance and Public Credit (SHCP) authorizing the merger of Banorte-Ixe Tarjetas, S.A. C.V., SOFOM, E.R. (Banorte-Ixe Tarjetas) and the Institution.

On May 2, 2016, the merger of Banorte-Ixe Tarjetas as a merged and extinguished company became effective, with the Institution as the merging and surviving company

The merger had no effect on the figures presented in the consolidated financial statements, since the Institution already consolidated Banorte-Ixe Tarjetas.

2. Banorte Futuro

At the Extraordinary General Meeting of Shareholders of the Institution, held on November 4, 2015, the spin-off of the Institution as the splitting company was approved, and the creation of Banorte Futuro, S.A. de C.V. (Banorte Futuro) as a new split company. Banorte Futuro's main objective is to acquire and manage shares of financial institutions and service providers and real estate companies, in accordance with the terms of the Law to Regulate of Financial Groupings (LRAF). Simultaneously to the spin-off, the Institution contributed shares of Banorte Futuro to Seguros Banorte.

As a result of the spin-off, the Institution transferred in October 2016 to Banorte Futuro an asset of Ps.14,494 to the permanent investment in shares, goodwill and intangible assets associated with the investment that Banorte had in Afore XXI Banorte, S.A. de C.V.(Afore XXI Banorte), totaling Ps. 404 as liability and Ps. 14,090 of stockholders' equity. Banorte Futuro assumed all the obligations that derive from the equity transferred as a result of the spin-off.

This spin-off had no effect on the figures presented in the consolidated financial statements, since the Institution had already recognized the equity method in Afore XXI Banorte.

b) Follow-up on loan exposure with the housing development sector

During 2016 and 2015, Urbi Desarrollos Urbanos, S.A.B. de C.V. (URBI), Corporación GEO S.A.B. de C.V. (GEO) and Desarrolladora Homex, S.A.B. de C.V (Homex), the three main housing developers of the country concluded the process of mercantile competition, which allowed them to restructure the debt they had with their creditors, including the Institution.

As of December 31, 2016, the credit exposure related to the developers of housing that was classified as due was Ps. 2,230.

URBI

<u>Capitalization of liabilities</u>

Derived from the restructuring processes and agreements reached with URBI, during 2016 the Institution received in exchange for the unsecured credits recognized by the commercial competition judge, shares and optional securities to subscribe shares of said company for an amount equivalent to the credit exposure Unsecured, net of reserves, reducing the outstanding loan portfolio with this company by Ps. 1,476.

The shares and optional securities to subscribe shares received as payment in kind were initially recorded as "foreclosed assets" based on the requirements established in the accounting criteria B-7 "Foreclosed Assets".

Subsequently, in accordance with its intention and business plan, the Institution reclassified shares and optional securities to subscribe shares to securities investments (in the "available-for-sale securities" category, see Note 6b) and derivatives (See Note 8), respectively. The Institution values these assets at fair value

GEO and Homex

<u>Capitalization of liabilities</u>

During 2015, as part of the GEO and Homex liabilities restructuring, the Institution received in exchange for the unsecured credits recognized by the judges of the various commercial competitions, including shares and optional bonds to subscribe for shares within a term of 12 years of GEO and shares of Homex, which means that the Institution eliminates from its balance sheet the unsecured loans that it had in charge of said developers, amounting to Ps.1, 631.

The shares and optional securities to subscribe shares received as a grant were initially registered as “foreclosed assets" based on the requirements established in the accounting criteria B-7 “Foreclosed Assets ".

Subsequently, in accordance with its intention and business plan, the Institution reclassified shares and optional securities to subscribe shares to securities investments (in the "available-for-sale securities" category, see Note 6b) and derivatives (See Note 8), respectively. The Institution values these assets at fair value.

At December 31, 2016, the impairment from market valuation of the shares was (Ps. 756), recorded in equity in the income from valuation of securities available for sale. On the other hand, an impairment in the value of the optional securities of Ps. 17 was recognized, recorded in income for the year in the item of income from intermediation.

c) Issuance of Subordinated Debt

On September 30, 2016, the Institution successfully completed the issuance of subordinated and preferred bonds (Tier 2 Complementary Capital Notes) in the international market in the amount of USD 500 million.

The transaction included the issuance of Complementary Capital Notes (Tier 2) over a term of 15 years, prepaid to the tenth, with a coupon rate of 5.750%. Ratings provided by rating agencies Moody's and Fitch were Ba1 and BB +, respectively. The notes issued comply with the Basel III regulation.

The resources from the issuance will be used for general corporate purposes and to strengthen the regulatory capital of the Institution.

d) Settlement of subordinated obligations due 2021

On October 13, 2016, the Institution carried out the full payment of non-cumulative and non-preferred subordinated debentures, maturing in 2021 in the amount of USD 200 million.

These obligations were issued on October 13, 2006 and had the option of being amortized in advance as of the tenth year

3 – BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes December 31, 2016, 2015 and 2014 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of the Institution and its subsidiaries mentioned below.

All significant consolidated intercompany balances and transactions have been eliminated.

As of December 31, 2016, 2015 and 2014, the Institution’s consolidated subsidiaries and its equity ownership is as follows:

	2016	2015	2014
Derivados Banorte, S.A. de C.V.	51.00%	51.00%	51.00%
Banorte USA Corporation y Subsidiarias	100.00%	100.00%	100.00%
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%	99.99%
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R.	-	99.99%	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.60%	99.99%
Fideicomiso BONY 469	100.00%	100.00%	-%

During 2016, the Institution merged its subsidiary Banorte-Ixe Tarjetas as described in Note 2

Equity investments in mutual funds and investments in associated companies are valued under the equity method according to the accounting principles established by the Commission.

Conversion of Financial Statements of Banorte USA Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of the foreign subsidiaries, whose functional and registration currency is the US dollar, they are first adjusted in the recording currency and are homologated according to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same, convert their financial statements using the following exchange rates: a) year-end rate for monetary assets and liabilities (20.6194 for 2016)
b) historical rate for non-monetary assets and liabilities as well as stockholders' equity, and c) the weighted average rate of the period for income, costs and expenses (18.6908 for 2016). The conversion effects are presented in the Institution's stockholders' equity.

Long Term Assets Available for Sale and Disposition

During 2016, the Institution decided to dispose of the Inter National Bank (INB), as part of the corporate restructuring program initiated and on the limitations in the development of its business strategy caused mainly by the change in the regulatory environment in the United States Of America (USA).

<u>Application of Special Accounting Criteria</u>

Since the Institution is carrying out a process of corporate restructuring, coupled with the complicated conditions of regulation in the US and with the objective of ensuring its adequate solvency and stability, the CNBV, based on Article 175 of the "General provisions applicable to credit institutions" issued a special accounting standard through Official Letter P071 / 2016. This standard authorizes the Institution to recognize the result derived from the sale of INB shares in "retained earnings from prior years" and not from the result of the year in accordance with the corresponding NIF's.

As part of the sale process and once the requirements established in Bulletin C-15 "Impairment of the value of long-lived assets and their disposal" were met, the Institution has classified its investment in INB as an available for sale long-term asset, which was recorded at the end of the year at its estimated sale value. The intention to dispose of this entity meets the definition to be classified as a discontinued operation, whereby the assets and liabilities corresponding to December 31, 2016 have been presented net in the Consolidated Balance Sheet in accordance with the accounting criteria issued by the Commission and the Results of said entity have been presented as discontinued operations for the years ended December 31, 2016, 2015 and 2014.

The comparison between the net book value of the investment and the estimated value of the sale generates a difference of (Ps. 3,809) which was recorded by decreasing in the asset the value of the investment against a reduction of "retained earnings from prior years".

If the authorized Special Accounting Criteria were not applied, the amounts that would have been recognized and presented in the Consolidated Balance Sheet as of December 31, 2016 and the items affected would be:

	Figures Without Special Accounting Criteria	Figures with Special Accounting Criteria	Variation
Retained earnings from prior years	Ps.54,024	Ps.50,215	(Ps.3,809)
Net income	11,235	15,044	3,809
Total stockholders' equity	**92,787**	**92,787**	**-**
Total liabilities and stockholders' equity	**Ps.1,030,435**	**Ps.1,030,435**	**Ps.-**

Assets, liabilities and discontinued results

As of December 31, 2016, the discontinued assets are comprised as follows:

ASSETS AND LIABILITIES	2016
Loan portfolio	Ps.21,479
Investment in securities	6,178
Cash and cash equivalents	3,519
Other assets	2,462
Property, furniture and equipment	862
Deposits	(26,644)
Interbank and other loans	(1,394)
Other account payables	(739)
Subordinated debentures	(424)
Total Long Term Assets Available for Sale:	**Ps.5,299**

For the years ended December 31, 2016, 2015 and 2014, the discontinued results are as follows:

Results	2016	2015	2014
Interest income	Ps.1,077	Ps.942	Ps.778
Interest expense	(81)	(105)	(114)
Net interest income	**996**	**837**	**664**
Allowance for loan losses	33	(5)	(20)
Adjusted financial margin	**1,029**	**832**	**644**
Non-financial income	259	228	241
Non-financial expenses	(887)	(705)	(589)
Operating income	**401**	**355**	**296**
Income tax	(158)	(122)	(87)
Net income	**Ps.243**	**Ps.233**	**Ps.209**

Comprehensive Income

Is the change in stockholders' equity during the year, for items that are not distributions nor activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2016, 2015 and 2014, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; remeasurement for employee benefits, the effect of subsidiaries, affiliates and mutual funds; the cumulative translation adjustment, modification in the normativity of the qualification of the consumption portfolio and the result from valuation of cash flow hedging instruments.

4 – SIGNIFICANT ACCOUNT POLICIES

The significant accounting policies of the Institution are in conformity with the accounting criteria prescribed by the Commission which are included in the "General Provisions applicable to Credit Institutions" (the Provisions), in their circulars, and in specific and general trades issued for such purpose, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting Criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (MFRS), individually referred to as Normas de Informacion Financiera or NIFs), defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Criteria, considering the fact that financial institutions perform specialized operations.

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US$") are included solely for the convenience of the readers and have been made at the rate of Ps. 20.6194 per one U.S. dollar on December 31, 2016, as issued by Banco de México. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.

Changes in accounting policies

On December 31, 2015, the Commission published a resolution amending the Provisions regarding the application of NIF D-3 Employee Benefits. The purpose of this provision is to make known the transitory articles that indicate the options that institutions have to recognize the accounting effects of the entry into force of the new NIF.

Based on the above, the Institution took the option established in the third transitional article to progressively recognize in the stockholders' equity the changes by reformulation referred to in NIF D-3, issued by the CINIF, which entered into force on January 1, 2016, which was duly informed to the Commission in accordance with the deadlines established in the Provisions.

The recognition of the balances indicated in NIF D-3, began in 2016 recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, reaching 100% in a maximum period 5 years.

The total amounts to be recognized were determined using the discount rate of Corporate Bonds for the market valuation of the defined benefit obligation under the NIF D-3, in the following terms:

I. The balance of changes to the plan not yet recognized is progressively recognized, recording a 20% increase during 2016 and affecting the concept of income from previous years, using as a counterpart in the account "provision for employee benefits ", corresponding to the liability concept "sundry creditors and other accounts payable ", as follows:

Discount rate	Total balance to be applied	Annual application 20%	Gradual recognition as of December 31, 2016
Corporate Bonds	Ps.183	Ps.37	Ps.37

II. In the case of the accumulated balance of gains or losses of the plan to be recognized (corridor approach), it is progressively recognized, recording a 20% increase during 2016, increasing the account "provision for employee benefits" corresponding to the concept of liabilities "sundry creditors and other accounts payable", and used as a counterpart the concept of "remeasurement off defined benefit to employees" in the caption "capital earned", as follows:

Discount rate	Total balance to be applied	Annual application 20%	Gradual recognition as of December 31, 2016
Corporate Bonds	Ps.2,729	Ps.546	Ps.546

The application of 20% per annum is recognized on a monthly basis proportionally.

The amounts that would have been recognized and presented in the Consolidated Balance Sheet as of December 31, 2016, if the aforementioned option was not applied in the affected items are:

Concept	Amount
Other assets and short and long term	Ps.768
Total of assets	**1,028,105**
Retained earnings from prior years	50,069
Reimbursement for benefits to employees	(2,560)
Total stockholders' equity	**90,457**
Total liabilities and stockholders' equity	**Ps.1,028,105**

(1) In this item, the "provision for employee benefits" account is shown to show the "net asset for defined benefits" arising from the advance payments made by the Institution.

As of January 1, 2016, the Institution adopted the changes regarding the following improvements to NIFs:

NIF B-7, Business Acquisitions - Clarifies that the acquisition and / or merger of entities under common control are outside the scope of this NIF, regardless of how the amount of the consideration was determined. Previously, in an operation in which the consideration was determined by interested, willing and informed parties in a free competition market, such transaction was within the scope of NIF B-7. It is indicated that the application of this change should be recognized retrospectively.

NIF C-7, Investments in associates, joint ventures and other permanent investments - Establishes that contributions in kind, should be recognized at the fair value that was negotiated between the owners or shareholders, unless they are the result of debt capitalization, in which case, they should be recognized for the capitalized amount.

As of December 31, 2016, the Institution had no effect of these improvements on the standards in its consolidated financial information.

Recognition of the effects of inflation in financial information

Inflation recognition is done pursuant to MFRS B-10 "Inflation Effects" which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2016 and 2015 was 10.39% and 12.34%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2016 and 2015 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2016 and 2015 were 3.38% and 2.10%, respectively.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the consolidated balance sheet date.

Trading securities

Trading securities are securities owned by the Institution, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Institution as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Institution.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from the trading or holding them to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in stockholders' equity

If, in a subsequent period, the fair value of a debt security classified as available for sale was increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment was recognized in the results of the Year, the impairment loss shall be reversed in the results for the year.

The impairment loss recognized in the income statement of an equity instrument classified as available for sale shall not be reversed.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the accrued interest.

<u>General valuation standards</u>

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized from reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in the Institution's stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from the trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Institution periodically verifies whether its available for sale securities and those held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

a) Information that the Institution has about the securities (breach of contract covenants, financial, economic or legal problems).
b) Information that the Institution has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Institution uses to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per a severity average used to estimate the return on investment. Similarly, it incorporates the existence of guaranties, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the Consolidated Income Statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Institution, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Institution, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Institution reclassifies the financial asset in the consolidated balance sheets as restricted and values it according to the criteria mentioned earlier in this Note until the maturity of the repurchase agreement.

The Institution, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Institution records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Institution is authorized to perform two types of transactions involving derivatives financial instruments:

<u>Transactions to hedge the Institution's open risk position:</u> Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

<u>Transactions for trading purposes:</u> The Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Institution's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by the Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

<u>Forward and futures contracts</u>

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by the Institution in the Consolidated Balance Sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific line item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance, respectively. Such debtor or creditor balances in the Consolidated Balance Sheets are offset when the Institution has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

By paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument to which said price is established is the reference or underlying value.

The premium is the price the holder pays the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Institution records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option’s premium are recorded by affecting the Consolidated Income Statements in "trading results” and the corresponding Consolidated Balance Sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year’s results.

Management’s policy regarding hedging contracts is to protect the Institution's Consolidated Balance Sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders’ Equity.

For hedging derivatives, the Institution applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both methods are approved by current accounting standards. If the hedging is found to be ineffective, the case is reported in the year's results.

The Institution documents the hedging transactions as of the date on which the derivative financial instruments are designated for hedging. A file is created for each transaction with the documentary evidence as required in paragraph 72 of standard B-5 “Derivatives and Hedging Transactions” (B5) issued by the Commission, which establishes the conditions for hedging accounting usage.

Based on the above, the Institution acknowledges and documents its cash flow hedging transaction as per the following directives:

a. The effective portion of the hedging instrument's gains or losses are recorded in the "comprehensive income" account in stockholders' equity under the valuation result for cash flow hedging instruments using an asset or liability account called "derivative financial instruments as offsetting account, as applicable within the current assets or liabilities. The portion determined as ineffective is measured by performing retrospective tests. When the result is over-hedging, it is immediately recorded in the period's results under Trading Results.

b. The effective hedging component recorded in stockholders' equity associated with hedging is adjusted to match the lowest amount (in absolute terms) from among the following items:

   i. The hedging instrument's cumulative gain or loss since its inception.
   ii. The accumulated change in fair value (current value) of the expected future cash flows of the hedged item since its inception.

Valuation techniques

As the derivative products operated by the Institution are deemed Plain Vanilla, the standard valuation models contained in the Institution's derivatives operation and risk management systems are used.

All the valuation models used by the Institution render the fair value of the transactions as a result and are periodically calibrated and audited by independent third parties.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black and Scholes method, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization start as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

<u>Operation strategies</u>

Trading

The Institution participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Institution's Treasury Committee, which analyzes the current risks and then makes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5, "Derivatives and hedging transactions" issued by the Commission. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of locking the rates paid on the debt issued by the Institution, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Institution's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Institution is bound by an agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Institution; if the statements stipulated in the contract are incorrect; the Institution's failure to fulfill its obligations and/or payments; breach of contract; the Institution's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees are expired or diminished in value; the Institution's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Institution that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Institution's ability to comply.

At present no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Institution prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified in the past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.

- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.

- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan’s contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year’s results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans y credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid the accrued interest on time or at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt forgiveness or term extensions.

The Institution regularly evaluates whether a past-due loan should remain in the Consolidated Balance Sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Institution may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.

- Consumer loans – 180 days or more overdue.

- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

Such provisions also establish general methodologies for the rating and calculating the allowance for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The commercial loan portfolio rating procedure requires credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

As a result of acquiring INB Financial Corp. (INB) in 2006, the Institution applied the loan rating methodologies established by the Commission to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

General description of rules established by the commission

The rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve month period.

Such methodologies stipulate that estimate of such loss evaluates the probability of breach of contract, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the hedges that need to be created in order to face the loan risk.

Depending on the type of loan, the probability of breach of contract, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of default

- Non-revolving consumer loan – it takes into account the current delay, the payments made on the last due balances, how many times the original value is paid, the type of loan, the remaining terms, among other things.
- Revolving consumer loan – it considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used.
- Mortgage loan – it considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance.
- Commercial loans.- They consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving consumer loan – depends on the number of outstanding payments. Revolving consumer loan – depends on the number of outstanding payments.
- Mortgage loan – it considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – they consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Institution, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method - The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Institution's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method - The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the consolidated Income Statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the consolidated Income Statements.

For the portfolios valued using the interest method, the Institution evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Institution uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as “highly effective” if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment.- The Institution performs an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period’s results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Securitization transactions

Through securitization transactions involving the transfer of ownership in mortgage and government loans, transfers those financial assets to a trust so that it publicly issues securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Institution receives cash and a record, which grants it the right over the trust’s residual cash flows after settling the certificates to their holders. This record is registered at its fair value under “receivables generated by securitizations”.

The Institution provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. Those revenues are recorded under “other operating income (expenses)”.

The valuation of the benefits to be received from securitization operations is recorded in the Consolidated Income Statement under “other revenues”, as applicable.

Other accounts receivable and payable

The Institution performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine their percentage of non-recoverability to calculate its allowance for doubtful accounts, as per the Provisions. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, which are recorded when entered into and settled within 48 hours.

Impairment of the value of long-lived assets and their disposal

The Institution has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "other operating income”.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the net asset’s value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the investee.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Institution records additional reserves based on management's best estimates. On December 31, 2015, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate signs of impairment or realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and fixtures are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Institution recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income Tax (ISR) is recorded in the year it is incurred. Deferred ISR is calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "deferred income tax, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Balance Sheets provided they are identifiable and generate future economic benefits that are controlled by the Institution. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the regulatory provisions regarding annual impairment tests.

Goodwill

The Institution records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 “Business acquisitions”. As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to Bulletin C-15, “Impairment in the value of long-lived assets and their disposal”. No indicators of impairment of goodwill have been identified as of December 31, 2016 and 2015.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year’s earnings as accrued. The Institution records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds’ financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Provisions

Provisions are recognized when the Institution has a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Institution has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefit plan

The Institution records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Institution's overall employees, as well as the obligation related to retired personnel.

Derived from the entry into force of the NIF D-3, the Institution took the option established in the third transitional article published by the Commission to progressively recognize in the stockholders' equity the changes by reformulation referred to in NIF D-3. In this way, the Institution gradually recognizes in 5 years, from the year 2016, the initial balance of actuarial gains or losses in other comprehensive income, as well as the initial balance of the improvements to the plan in retained earnings.

At the close of 2016, actuarial gains (losses) / losses were recorded on all the benefits, these amounts are included in the other comprehensive income account, and will be recycled to results during the employees' future working life according to the benefit.

The Institution applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

The Institution has a "defined contribution" pension plan in place. The participating employees are those hired as of January 2001 as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in "other assets".

The employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Institution for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Institution's contributions made to the plan's participants.

The provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Institution determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Institution can act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Institution evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Institution grants stock options to key officers through different payment schemes based on stocks. The Institution has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.
The Institution records its stock option plans according to the guidelines of NIF D-8, “Share-based payments”. The compensation expense is recorded at fair value as of the date the stock options are granted. As per MRFS D-8 and as the Institution grants stock of the Institution, the Institution reports the expense as a capital contribution by the Institution.

Pursuant to NIF D-8 and given that the Institution grants shares of the Financial Group, the institution recognizes the expense as a capital contribution by the Financial Group.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Institution’s general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):

  It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.

- Loan commitments (unaudited):

  The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit grated to client, not disposed.

- Assets in trust or mandate (unaudited):

  For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Institution is recorded.

- Assets in custody or under management (unaudited):

  This account records the movement of others’ assets and securities that are received in custody or are to be managed by the Institution.

- Collateral received:

  The balance represents all the collateral received in securities repurchase agreement operations when the Institution is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Institution is acting as the buyer, and which in turn are sold by the Institution acting as the seller.

5 – CASH AND CASH EQUIVALENTS

This line item was composed as follows:

	2016	2015
Cash	Ps. 20,155	Ps. 20,168
Banks	45,584	87,132
Other deposits and available funds	105	157
	Ps. 65,844	**Ps. 107,457**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 20.6194 and Ps. 17.2487 as of December 31, 2016 and 2015, respectively and is made up as follows:

	Mexican pesos		USD		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Call money	Ps. -	Ps. 10,155	Ps. 5,155	Ps. 8,279	Ps. 5,155	Ps. 18,434
Deposits with foreign credit institutions	-	-	14,476	21,726	14,476	21,726
Domestic banks	19	16	-	-	19	16
Banco de México	25,853	46,777	81	179	25,934	46,956
	Ps. 25,872	**Ps. 56,948**	**Ps. 19,712**	**Ps. 30,184**	**Ps. 45,584**	**Ps. 87,132**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2015 and 2014, the Institution had made monetary regulation deposits of Ps. 25,683 and Ps. 33,453, respectively. As of December 31, 2015 the balance with Banco de México is Ps. 13,323 relevant to the deposit auctions, as of December 31, 2016, there are no related balances in auctions.

As of December 31, 2016 and 2015, the total sum of restricted cash and cash equivalents is Ps. 34,466 and Ps. 58,332, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

As of December 31, 2016 and 2015, "other deposits and available funds" includes:

	2016	2015
Minted metals in gold and silver	Ps. 52	Ps. 28
Cashable checks received, pending payment at a 3-day term	40	43
Remittances	13	86
	Ps. 105	**Ps. 157**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 581.13 and Ps. 376.10, per unit, respectively, in 2016; and Ps. 449.69 and Ps. 272.87, per unit, respectively, in 2015.

6 - INVESTMENT IN SECURITIES

a. Trading securities

Trading securities are as follows:

	2016				2015
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 10	Ps. -	Ps. -	Ps. 10	Ps. 1
Bonds	69	-	(1)	68	3,955
Development Bonds	12,677	27	(5)	12,699	-
Saving Protection Bonds (BPAS)	91,501	488	48	92,037	104,215
Udibonos	9	-	-	9	1,673
Bank securities	9,454	21	1	9,476	3,689
Exchange listed debt certificates	14,624	27	(10)	14,641	16,066
Other securities	455	1	81	537	612
	Ps. 128,799	**Ps. 564**	**Ps. 114**	**Ps. 129,477**	**Ps. 130,211**

During 2016 and 2015, the Institution recognized under "trading results" a net loss of Ps. 142 and a net profit of Ps. 130, respectively, for the fair value valuation of these instruments.
As of December 31, 2016 and 2015, there are Ps. 128,939 and Ps. 129,411, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

Securities available for sale were as follows:

	2016				2015
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government Bonds	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 7,538
CETES	109	-	-	109	98
Bonds	8,157	3	(40)	8,120	374
Development Bonds	100	-	-	100	100
Saving Protection Bonds (BPAS)	93,922	1,214	(23)	95,113	35,686
Bank securities	4,877	15	(144)	4,748	634
Shares	5,070	-	(1,370)	3,700	3,574
EUROBONDS	-	-	-	-	16,206
CBIC	32,219	779	(671)	32,327	-
Exchange listed debt certificates	9,300	49	(438)	8,911	8,816
	Ps. 153,754	**Ps. 2,060**	**(Ps. 2,686)**	**Ps. 153,128**	**Ps. 73,026**

As of December 31, 2016 and 2015 there are Ps. 101,520 and Ps. 42,458, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2016, there were 77,783,110 of BREMSR securities acquired as of May 2016, these BREMSRs were initially classified in the available-for-sale securities category due to the legal impossibility of being classified as trading securities since they did not has a secondary market, ie they are not subject to trading operations. They could not be classified under the category of securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations for changes in the TIIE28 interest rate, which is feasible only in the category of available-for-sale securities in accordance with paragraph 60 of the Criterion B-5.

During 2016, as a result of the restructuring processes and agreements reached with URBI in which the institution participated, it received as payment in shares of said company for an amount equivalent to the outstanding unsecured credit exposure and net of reserves, which decreased The balance of past due loans at Ps. 1,476 (see Note 2b).

During 2015, as a result of the restructuring processes and agreements reached with GEO and Homex, in which the institution participated, the institution received as payment the shares of said companies for an amount equivalent to the unsecured credit exposure, net of reserves, which decreased the outstanding loan portfolio by Ps. 1,631.

The shares and optional securities to subscribe shares received as payment were initially recorded as "Foreclosed assets" based on the requirements established in the accounting criteria B-7, "Foreclosed assigned".

Subsequently, in accordance with its intention and business plan, the Institution reclassified shares and optional securities to subscribe shares to Securities Investments (in the "available-for-sale securities" category, see Note 6b) and Derivatives (See Note 8), respectively. The Institution values these assets at fair value.

Shares received in exchange were initially recorded as a foreclosed assets and subsequently reclassified to investments in securities within the category of securities available for sale and will be valued on the market in accordance with applicable accounting rules. As of December 31, 2016 and 2015, the impairment on market value of these shares was (Ps. 1,249) and (Ps. 707), respectively, recorded in equity in the Consolidated Income Statement for valuation of available-for-sale securities.

c. Securities held to maturity

Securities held to maturity are as follows:

<u>Medium and long-term debt instruments:</u>

	2016			2015
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Special CETES	Ps. 951	Ps. -	Ps. 951	Ps. 912
Exchange listed debt certificates	5,288	19	5,307	6,849
	Ps. 6,239	**Ps. 19**	**Ps. 6,258**	**Ps. 7,761**

As of December 31, 2016 and 2015, there are Ps. 5,307 and Ps. 3,956, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2016, the maturities of the securities (expressed at their acquisition cost), are as follows:

	More than 10 years	**Total**
Special CETES	Ps. 951	Ps. 951
Exchange listed debt certificates	5,288	5,288
	Ps. 6,239	**Ps. 6,239**

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collaterals given in derivative transactions is made up as follows:

		2016	
		Fair value in millions	
Type of collateral:	**Instrument category**	**Pesos**	**USD**
Cash	-	Ps. 9	Ps.16,002
PEMEX bonds	Available for sale	-	-
		Ps. 9	**Ps. 16,002**

		2015	
		Fair value in millions	
Type of collateral:	**Instrument category**	**Pesos**	**USD**
Cash	-	Ps. 470	Ps.536
PEMEX bonds	Available for sale	96	63
		Ps.566	**Ps.599**

As of December 31, 2015 and 2016, the Institution had no instruments received as collateral.

During 2016 and 2015 the interest income from negotiable instruments is as follows:

Concept	**2016**	**2015**
Trading securities	Ps. 6,725	Ps. 6,552
Securities available for sale	4,401	2,764
Securities held to maturity	344	319
	Ps. 11,470	**Ps. 9,635**

e. Impaired negotiable instruments

The objective proof that a negotiable instrument is impaired includes observable information on, among others, the following events:

a) considerable financial difficulties of the instrument's issuer;
b) the issuer may be declared bankrupt or in some other financial reorganization;
c) breach of contractual clauses, such as failure to pay interest or the principal;
d) unavailability of an active market for the instrument in question due to financial difficulties; or
e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:

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

As December 31, 2016 and 2015, the amount recorded for the impairment of securities held to maturity and available-for-sale securities amounts to Ps. 267 and Ps. 37, respectively.

During 2016 and 2015, accrued interest income from impaired instruments was Ps. 1 and Ps. 1, respectively.

f) Restating of securities held-to-maturity

In December 2014, the Institution restated securities held to maturity to securities available for sale, made up mainly of stock certificates and Eurobonds of private companies in the amount of Ps. 4,447. The book value of the securities was Ps. 4,447, with a market value of Ps. 4,396, recognizing an appreciated shortfall of (Ps. 51) in the stockholders equity

According to the Commission's Circular B-2 "Investments in Securities", the Institution may not classify securities acquired as of that date and up to December 31, 2016 in the category of securities held to maturity.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

The debtor and creditor balance in repurchase transactions consists of:

Acting as seller of securities

Instrument	2016	2015
CETES	Ps. 10	Ps. 1
Bonds	13,150	-
Bonds IPAB	7,141	13,465
Quarterly IPAB bonds	132,816	97,981
Semi-annual IPAB bonds	47,206	25,051
20-year bonds	69	3,944
UDIBONOS	9	1,703
Government securities	**200,401**	**142,145**
Promissory Notes	2,457	2,991
CEDES	7,017	74
CEBUR Bank	10,845	9,857
Bank securities	**20,319**	**12,922**
Short-term CEBUR	13,744	16,018
Mortgage certificates	26	48
Private securities	**13,770**	**16,066**
	Ps. 234,490	**Ps. 171,133**

With the Institution acting as the seller, accrued premiums were charged to the results of operations as of December 31, 2016 and 2015 for Ps. 10,435 and Ps. 8,050, respectively, and recorded under “interest expenses”.

During 2016, the period of repurchase transactions carried out by the Institution in its capacity as seller ranged from 1 to 364 days.

Acting as securities purchaser

Instrument	2016				2015			
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
Development Bonds	Ps. -	Ps.-	Ps.-	Ps.-	Ps. 21,311	21,155	156	Ps.-
Bonds IPAB	-	-	-	-	16,617	16,391	226	-
Quarterly IPAB bonds	13,004	13,004	-	-	22,678	22,578	101	1
Semi-annual IPAB bonds	1,080	1,080	-	-	12,969	12,969	-	-
M bonds	-	-	-	-	3,716	3,716	-	-
Bonds	101	101	-	-	-	-	-	-
CEBUR in UDIS	1,701	1,701	-	-	500	500	-	-
Government securities	**15,886**	**15,886**	**-**	**-**	**77,791**	**77,309**	**483**	**1**
CEDES	-	-	-	-	2,094	2,094	-	-
Bank bonds	-	-	-	-	1,507	1,507	-	-
Securitized bank certificates	916	916	-	-	496	496	-	-
Bank securities	**916**	**916**	**-**	**-**	**4,097**	**4,097**	**-**	**-**
Short-term CEBUR	3,322	3,322	-	-	4,088	4,078	10	-
Private securities	**3,322**	**3,322**	**-**	**-**	**4,088**	**4,078**	**10**	**-**
	Ps. 20,124	**Ps. 20,124**	**Ps. -**	**Ps. -**	**Ps. 85,976**	**Ps. 85,484**	**Ps. 493**	**Ps. 1**

With the Institution acting as the purchaser, accrued interest were charged to the results of operations as of December 31, 2016 and 2015 for Ps. 1,417 and Ps. 884, respectively, and reported under “interest income”.

During 2016, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 to 364 days.

By December 31, 2016, the amount of goods corresponding to the collateral given and received in repurchasing transactions that involved the transfer of property totaled Ps. 20,124 and Ps. 82,197, respectively, and by December 31, 2015, the totals were Ps. 85,898 in collateral given and Ps. 141,993 in collateral received.

8 - DERIVATIVES FINANCIAL INSTRUMENTS

The transactions carried out by the Institution involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

The Institution has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective

The Institution's derivatives positions held for trading purposes are as follows

Asset position	2016	2015
Forwards		
Foreign currency forwards	Ps. 9	Ps. 16
Options		
Interest rate options	1,059	495
Stock options	2	4
Currency options	4	-
Swaps		
Interest rate swaps	34,570	15,734
Exchange rate swaps	5,237	2,522
Total trading	**40,881**	**18,771**
Options		
Rate Options	46	-
Swaps		
Interest rate swaps	696	27
Exchange rate swaps	-	52
Total hedging	**742**	**79**
Total position	**Ps. 41,623**	**Ps. 18,850**

Liability position	2016	2015
Forwards		
Foreign currency forwards	Ps. 28	Ps. 74
Options		
Interest rate options	1,112	346
Currency options	1	-
Swaps		
Interest rate swaps	32,937	15,062
Exchange rate swaps	6,325	4,458
Total trading	**40,403**	**19,940**
Swaps		
Interest rate swaps	168	1,149
Exchange rate swaps	9,204	3,855
Total hedging	**9,372**	**5,004**
Total position	**Ps. 49,775**	**Ps. 24,944**

The following are notional bonds in different currencies, depending on the type of product, as of December 31, 2016:

Trading instruments

Instrument	MXN	USD	EUR
Foreign currency forwards	Ps. 777	Ps. 37	Ps. 2
Interest rate options	137,676	14,214	-
Stock options	99	-	-
Foreign currency swaps (receiving leg)	34,566	1019	-
Foreign currency swaps (paying leg)	24,029	1,644	-
Interest rate swaps (receiving leg)	1,234,402	21,614	-
Interest rate swaps (paying leg)	1,234,402	21,614	-

Hedging instruments

Instrument	MXN	USD	EUR	GBP
Interest rate options	Ps. 5,900	-	-	-
Foreign currency swaps (receiving leg)	12,951	-	-	-
Foreign currency swaps (paying leg)	-	181	462	106
Interest rate swaps (receiving leg)	21,135	-	-	-
Interest rate swaps (paying leg)	21,135	-	-	-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
	LIBOR	LIBOR	Euribor
			UDI

Risk management policies and internal control procedures to manage the risks inherent in contracts related to derivative transactions are described in note 32.

Transactions carried out for hedging purposes have maturities from 2016 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2016 is USD 776,059 thousand, and Ps. 8,700 thousand, while as of December 31, 2015 it was USD 600,000 thousand and 566,000. Futures transactions are made through recognized markets, and as of December 31, 2015 they represent 2% of the nominal amount of all the derivatives' operations contracts; the remaining 98% correspond to option, swap and fx forwards transactions in Over the Counter (OTC) markets.

As of December 31, 2016 and 2015, the collateral given was comprised mainly of cash, PEMEX bonds, and short-term government bonds restricted under the categories of Trading Securities and Available for sale securities. The restriction maturity date for this collateral is from 2016 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2016 and 2015, the Institution had no received collateral.

During 2016 and 2015, the net earnings from the valuation and realization of derivatives financial instruments were Ps. 371 and Ps. 553, respectively.

The net amount of estimated gains or losses originated by transactions or events recorded in other comprehensive income in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months total Ps. 81.

As of December 31, 2016 and 2015, the main positions hedged by the Institution and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2016, there are 99 hedge files related to hedging transactions. Their effectiveness ranges between 87% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2016, there are no ineffective portions that are recorded at the market value that the Institution has to record in earnings.

The following are the Institution's hedged cash flows as of December 31, 2016, expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More and 1 and up to 5 years	More than 5 years
Assets denominated in USD	180	185	1,474	139
Assets denominated in Euros	26	199	1,105	1,133
Assets denominated in GBP	156	21	887	313
	Ps. 362	**Ps. 405**	**Ps. 3,466**	**Ps. 1,585**

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders equity on December 31, 2016 and 2015 totaled (Ps. 2,131) and (Ps. 1,398), respectively. Furthermore, Ps. 63 and Ps. 16, respectively, were reclassified from stockholders' equity to the results of the year.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 382 and Ps. 458, as of December 31, 2016 and 2015, respectively.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balances, January 1º, 2007	(Ps. 58)	Ps. -	Ps. -
Balance, December 31, 2007	(Ps. 308)	(Ps. 250)	Ps. -
Balance, December 31, 2008	(Ps. 1,567)	(Ps. 1,259)	Ps. 18
Balance, December 31, 2009	(Ps. 1,394)	Ps. 173	Ps. 47
Balance, December 31, 2010	(Ps. 2,114)	(Ps. 720)	Ps. 42
Balance, December 31, 2011	(Ps. 2,907)	(Ps. 793)	Ps. 15
Balance, December 31, 2012	(Ps. 2,785)	Ps. 122	Ps. 75
Balance, December 31, 2013	(Ps. 1,541)	Ps. 1,244	Ps. 75
Balance, December 31, 2014	(Ps. 1,284)	Ps. 257	(Ps. 18)
Balance, December 31, 2015	(Ps.1,398)	(114)	16
Balance, December 31, 2016	(Ps.2,131)	(773)	63

During October 2016, the Institution received optional securities to subscribe for URBI shares as part of the restructuring process (see Note 2). These options were recorded as a Derivative Financial Instrument in the amount of Ps. 23. At December 31, 2016, a loss of (Ps.17) was recognized as a result of the market valuation, which was recorded in the Income from Intermediation. At December 31, 2016, for the optional bonds to subscribe GEO shares, a loss of (Ps. 49) was recognized as a result of the market valuation, which was recorded in the Income from Intermediation.

9 - LOAN PORTFOLIO

The loan portfolio by loan type is as follows:

	Performing Loan Portfolio		Past-due loan portfolio		Total	
	2016	2015	2016	2015	2016	2015
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 154,500	Ps. 136,705	Ps. 5,076	Ps. 6,983	Ps. 159,576	Ps. 143,688
Rediscounted portfolio	7,561	6,336	264	661	7,825	6,997
Denominated in USD						
Commercial	35,307	42,939	128	79	35,435	43,018
Rediscounted portfolio	4,384	3,542	-	-	4,384	3,542
Loans to financial institutions	20,240	17,317	344	-	20,584	17,317
Consumer loans	-	-	-	-	-	-
Credit card	28,445	25,837	1,623	1,511	30,068	27,348
Other consumer loans	58,187	48,398	1,576	1,328	59,763	49,726
Mortgage loans						
Denominated in domestic currency	114,619	98,236	1,034	1,025	115,653	99,261
Denominated in USD		1,480	-	33		1,513
Denominated in UDIS	189	236	15	14	204	250
Government loans	133,540	128,567	-	-	133,540	128,567
Total loan portfolio	**Ps. 556,972**	**Ps. 509,593**	**Ps. 10,060**	**Ps. 11,634**	**Ps. 567,032**	**Ps. 521,227**

Restructured loans

Below are the restructured loans, which changed the terms and rates, among others:

	2016		2015	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 5,018	Ps. 1,465	Ps. 3,559	Ps. 1,402
Financial institutions' loans	-	-	5	-
Government loans	-	-	8,654	-
Consumer loans	8	8	11	1
Mortgage loans	20	63	21	45
	Ps. 5,046	**Ps. 1,536**	**Ps. 12,250**	**Ps. 1,448**

As of December 31,2016 the past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 452	Ps. -	Ps. -	Ps. 5,360	Ps. 5,812
Consumer loans	3,079	115	1	4	3,199
Mortgage loans	731	318	-	-	1,049
	Ps. 4,262	**Ps. 433**	**Ps. 1**	**Ps. 5,364**	**Ps. 10,060**

As of December 31,2015 the past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,111	Ps. 1,074	Ps. 1,671	Ps. 3,867	Ps. 7,723
Consumer loans	2,743	92	1	3	2,839
Mortgage loans	594	478	-	-	1,072
	Ps. 4,448	**Ps. 1,644**	**Ps. 1,672**	**Ps. 3,870**	**Ps. 11,634**

Past-due loan movements for the years ended December 31, 2016 and 2015 are shown below:

	2016	2015
Balance at the beginning of the year	Ps. 11,634	Ps. 13,912
Liquidations	(2,165)	(4,322)
Write-offs*	(10,776)	(9,424)
Renewals	(2,538)	(893)
Loan portfolio purchases	1,776	2,064
Discounts	(1,205)	(512)
Foreclosures	(260)	(189)
Loan portfolio sales	(1,492)	(1,302)
Transfers to performing loans	(5,975)	(3,524)
Transfers from performing loans	21,034	15,802
Fluctuation from foreign exchange rate	27	22
Year-end balance	**Ps.10,060**	**Ps. 11,634**

* Corresponds to 100% hedged loans.

As of December 31, 2016, the balance of deferred loan origination fees was Ps. 2,455, and the amount recorded in results was Ps. 1,199. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,251, and the amount recorded in results was Ps. 485. As of December 31, 2015, the balance of deferred loan origination fees was Ps. 2,094, and the amount recorded in results was Ps. 1,250. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,352, and the amount recorded in results was Ps. 376. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of Deferred Loans and Advance Collections within the Consolidated Balance Sheets as well as in interest income and interest expenses, respectively, in the Consolidated Income Statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

For the years ended December 31, 2016 and 2015, the balance of fully reserved past-due loans that were written off was Ps. 10,776 and Ps. 9,424, respectively.

On December 31, 2016 and 2015, revenues from recoveries of previously written-off loan portfolios were Ps. 1,531 and Ps. 966, respectively.

The loans granted per economic sectors are shown below:

	2016		2015	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 207,220	36.55%	Ps. 197,245	37.84%
Financial institutions	20,584	3.63%	17,317	3.32%
Credit card and consumer	89,832	15.84%	77,074	14.79%
Mortgage	115,856	20.43%	101,024	19.38%
Government loans	133,540	23.55%	128,567	24.67%
	Ps. 567,032	**100.0%**	**Ps. 521,227**	**100.0%**

Policies and procedures for granting loans

The granting, control and recovery of loans are regulated by the Institution's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Areas (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network.
II. Operations Areas
III. General Comprehensive Risk Management
IV. Recovery Management

Similarly, the Institution has manuals establishing the policies and procedures to be utilized for credit risk management purposes. The structure of the credit management process is based on the following stages:

a) Product design
b) Promotion
c) Evaluation
d) Formalization
e) Operation
f) Administration
g) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to Commission Circular B6, “Loan Portfolio”, distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past-due portfolios are susceptible to be identified as a distressed portfolio. The commercial loans rating’s D and E risk degrees are shown below as distressed loans:

	2016	2015
Distressed commercial loans	**Ps. 7,028**	**Ps. 8,997**
Performing	1,375	1,440
Past-due	5,653	7,557
Commercial loans	**365,754**	**361,880**
Performing	365,595	361,714
Past-due	159	166
Total rated commercial loans	372,782	370,877
Total portfolio	**Ps. 578,439**	**Ps. 549,033**
Distressed Commercial Loans/Total Portfolio	**1.21%**	**1.64%**

The Institution’s Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2016 and 2015 the Institution has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

On June 30, 2010 the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (punto final and UDIS trusts) (the Agreement) consequently as of January 1, 2011 the Institution absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015 which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2016 the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 951 with maturities between 2017 and 2027.

11 - ALLOWANCE FOR LOAN LOSSES

The Institution's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2016						
	Loan portfolio	Required allowances for losses					
Risk category		**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps. 440,096	Ps. 820	Ps. 518	Ps. 87	Ps. 599	Ps. 163	Ps. 2,188
Risk A2	49,381	233	46	9	532	50	870
Risk B1	24,130	128	33	3	522	23	709
Risk B2	24,088	60	57	1	781	35	934
Risk B3	13,375	140	58	2	419	10	629
Risk C1	6,877	87	16	2	416	46	567
Risk C2	5,331	52	-	-	672	75	799
Risk D	10,540	2,045	-	155	1,521	283	4,004
Risk E	4,652	856	-	2	2,132	62	3,052
Unclassified	(31)	-	-	-	-	-	-
	Ps. 578,439	**Ps. 4,421**	**Ps. 728**	**Ps. 261**	**Ps. 7,594**	**Ps. 747**	**Ps. 13,752**
Less: Recorded allowance							**13,941**
Reserve supplement*							**Ps. 189**

	2015						
	Loan portfolio	Required allowances for losses					
Risk category		**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps. 401,983	Ps. 756	Ps. 379	Ps. 168	Ps. 368	Ps. 139	Ps. 1,810
Risk A2	64,159	272	238	4	371	43	928
Risk B1	22,488	109	87	1	547	9	753
Risk B2	20,974	78	32	-	723	18	851
Risk B3	12,628	236	1	3	345	11	596
Risk C1	6,019	111	-	1	270	42	424
Risk C2	5,029	91	-	2	521	68	682
Risk D	12,252	3,021	-	-	1,582	295	4,898
Risk E	3,549	823	-	-	1,289	77	2,189
Unclassified	(48)	-	-	-	-	-	-
	Ps. 549,033	**Ps. 5,497**	**Ps. 737**	**Ps. 179**	**Ps. 6,016**	**Ps. 702**	**Ps. 13,131**
Less: Recorded allowance							**13,334**
Reserve supplement*							**Ps. 203**

*The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau.

As of December 2016 and 2015, the amount of the rating base for loan portfolios includes Ps. 11,357 and Ps. 9,252, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 52 and Ps. 18,554 were also added for loans to related parties.

The estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2016 and 2015, the allowance for loan losses represents 139% and 115%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2016 and 2015.

Exposure to Default, Probability of Non-Compliance and Severity of the Loss are shown below for each type of loan as of December 31, 2016.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 315,031	5.8%	26.0%
Mortgage	Ps. 115,856	2.6%	24.9%
Non-revolving consumer	Ps. 59,764	9.5%	64.3%
Revolving Consumer loan	Ps. 45,315	11.4%	76.1%

* Loans intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2016	2015
Balance at the beginning of the year	Ps. 13,334	Ps. 14,718
Increase charged to results	12,727	10,064
Discounts and write-offs	(12,669)	(11,503)
Rebates granted to housing debtors	(8)	(7)
Recognized against results of previous years	672	-
Reclassification INB	(197)	-
Others	82	62
Year-end balance	**Ps. 13,941**	**Ps. 13,334**

As of December 31, 2016, the net amount of preventive loan loss reserves charged to the consolidated Income Statement totals Ps. 13,070, and is presented net of (Ps. 424) paid to other income or expenses, and due to the variation of the USD $81 exchange rate; such amounts are affected against results is comprised of Ps. 12,727 credited directly to the estimate. As of December 31, 2015, the net amount of preventive loan loss reserves charged to the consolidated Income Statement totals Ps. 10,401, and is presented net of (Ps. 399) paid to other income, and due to the variation of the USD 62 exchange rate; such amounts are affected against results is comprised of Ps. 10,064 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method	2016	2015
Cash Basis Method	Ps. 936	Ps. 804
Cost Recovery Method	425	514
Interest method	39	58
	Ps. 1,400	**Ps. 1,376**

As of December 31, 2016, derived from applying the valuation methods (described in Note 4), the Institution recognized income from credit asset portfolios of Ps. 392, together with the respective amortization of Ps. 251, the effects of which were recognized under the “other income” heading in the Consolidated Income Statement. For the year ended December 31, 2015, the Institution recognized income of Ps. 367, together with the respective amortization of Ps. 253.

The Institution performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year’s results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets other than cash that the Institution has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 - OTHER ACCOUNTS RECEIVABLE, NET

This item consists of:

	2016	2015
Loans to officers and employees	Ps. 2,573	Ps. 2,440
Debtors from liquidation settlements	17,754	4,806
Debtors from cash collateral	16,011	9,733
Real estate property portfolios	217	232
Sundry debtors in Mexican pesos	3,702	3,064
Sundry debtors in foreign currency	78	1,038
Others	8	82
	40,343	21,395
Allowance for doubtful accounts	(354)	(231)
	Ps. 39,989	**Ps. 21,164**

The loans to officers and employees mature in 3 to 30 years, and accrue at an interest rate of TIIE 0.6% to TIIE 1%.

14 -FORECLOSED ASSETS, NET

This item is made up as follows:

	2016	2015
Moveable property	Ps. 86	Ps. 113
Real estate property	2,610	2,971
Goods pledged for sale	10	14
	2,706	**3,098**
Allowance for losses on foreclosed assets	(30)	(35)
Allowance for losses on foreclosed real estate assets	(1,449)	(1,257)
Allowance for losses on assets pledged for sale	(5)	(6)
	(1,484)	**(1,298)**
	Ps. 1,222	**Ps. 1,800**

As of December 31, 2016, aging of the reserves for foreclosed assets consists of:

Concept / Months	More than 24	Total
Moveable property	Ps. 30	Ps. 30

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 15	Ps. 9	Ps. 73	Ps. 47	Ps. 42	Ps. 1,263	Ps. 1,449
Goods pledged for sale	-	-	-	-	-	5	5
	Ps. 15	**Ps. 9**	**Ps. 73**	**Ps. 47**	**Ps. 42**	**Ps. 1,268**	**Ps. 1,454**

15 - PROPERTY, FURNITURE AND FIXTURES, NET

This item consists of:

	2016	2015
Furniture and equipment	Ps. 8,732	Ps. 7,794
Property intended for offices	8,150	8,039
Installation costs	5,287	4,845
	22,169	**20,678**
Less - Accumulated depreciation and amortization	(10,242)	(9,314)
	Ps. 11,927	**Ps. 11,364**

The depreciation recorded in the results of 2016 and 2015 was Ps. 1,084 and Ps. 1,261, respectively.

The average estimated useful lives of the Institution's assets subject to depreciation are listed below:

	Useful Life
Furniture and equipment	4 to 10 years
Real estate	4 to 99 years
Installation costs	10 years

16 - PERMANENT STOCK INVESTMENTS -

Investments in associated companies are valued according to the equity method, as detailed below:

	Share %	2016	2015
Afore XXI-Banorte, S. A. de C. V.	50.00%	Ps. -	Ps. 13,160
Controladora PROSA, S. A. de C. V.	19.73%	101	73
Fondo Chiapas, S.A. de C.V.	8.96%	15	13
Others	Various	69	239
		Ps. 185	**Ps. 13,485**

The Institution exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of Afore XXI-Banorte, S.A. de C.V. are directed by both the Institution and the Mexican Institute of Social Security [Instituto Mexicano del Seguro Social], with equal rights and responsibilities. Therefore the Institution has no control over such entity and does not consolidate it.

17 - DEFERRED INCOME TAX, NET

The tax reported by the Institution is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Institution has recognized a recoverable net deferred tax asset of Ps. 4,228 and Ps. 3,096, respectively, as of December 31, 2016 and 2015 as detailed below:

	2016		2015	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Assets				
Tax losses in foreclosure sales	Ps. -	Ps. -	Ps. 270	Ps. 94
Allowance for loan losses	1	-	2,399	735
Surplus preventive allowances for credit risks over the net tax limit	13,941	4,182	9,337	2,801
Excess of tax over book value of foreclosed and fixed assets	2,647	791	2,374	704
PTU	380	114	365	110
Fees collected in advance	2,571	771	2,609	783
Accounting provisions	3,043	913	2,315	695
Financial instruments valuation	4,306	1,292	2,781	834
Other assets	2	1	69	24
Total deferred assets	**Ps. 26,891**	**Ps. 8,064**	**Ps. 22,519**	**Ps. 6,780**
Temporary Differences - Liabilities				
Advance contributions to pension fund	Ps. 3,254	Ps. 976	Ps. 3,578	Ps. 1,074
Portfolios acquired	606	182	661	198
Capitalizable projects' expenses	8,882	2,665	6,478	1,943
Intangible assets	74	20	1,644	466
Effect from other items	(19)	(7)	9	3
Total deferred liabilities	**12,797**	**3,836**	**12,370**	**3,684**
Net accumulated effect				
Deferred tax, net		**Ps. 4,228**		**Ps. 3,096**

As explained in Note 26, the applicable income tax rate is 30% for 2016 and 2015.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Derived from consolidating Banorte USA, as of December 31, 2016 and 2015 a net amount of Ps. 16 and 137, respectively, was added to deferred income tax determined at a rate of 35% as per the tax law of the USA.

18 - OTHER ASSETS

This item consists of:

	2016	2015
Net asset forecast from labor obligations and savings fund	Ps. 2,851	Ps. 3,618
Payments to amortize	11,763	11,773
Accumulated payment amortization	(1,709)	(1,246)
Goodwill	1,406	5,086
	Ps. 14,311	**Ps. 19,231**

As of December 31, 2016 and 2015, goodwill is as follows:

	2016	2015
INB Financial Corp.	Ps. -	Ps. 3,746
Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER*	1,005	1,005
Uniteller Financial Services	401	335
	Ps. 1,406	**Ps. 5,086**

Includes Ps. 727 of goodwill generated by the acquisition of Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER and Ps. 278 this business entity recorded at the time of the acquisition.

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2016 and 2015.

19 - DEPOSITS

Liquidity Coefficient

The “Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency”, designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2016 and 2015, the Institution generated a liquidity requirement of USD 383,170 thousand and USD 381,288 thousand, respectively, and held investments in liquid assets of USD 1,106,523 thousand and USD 908,846 thousand, representing a surplus of USD 383,170 thousand and USD 433,934 thousand, respectively.

Deposits

The liabilities derived from core deposits consists of:

	2016	**2015**
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 210,850	Ps. 152,376
Checking accounts in US dollars for individual residents on the Mexican border	2,621	1,780
Demand deposits accounts	16,572	20,522
Interest Bearing Checking accounts:		
Other bank checking deposit	80,433	80,096
Savings accounts	-	3
Checking accounts in US dollars for individual residents on the Mexican border	2,110	1,792
Demand deposits accounts	69,823	93,236
	382,409	**349,805**
Time deposits		
General public:		
Fixed-term deposits	18,938	24,413
Retail time deposits	169,687	181,148
Promissory note with interest payable at maturity PRLV primary market for individuals	1,248	2,111
Foreign residents deposits	14	13
Provision for interest	649	334
	190,536	**208,019**
Money market:		
Over the counter promissory notes	1,458	4,603
Provision for interest	1	3
	1,459	**4,606**
Global account with no movements	**1,352**	**1,240**
	Ps. 575,756	**Ps. 563,670**

The funding rates which the Institution uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

Foreign exchange	2016 1Q	2016 2Q	2016 3Q	2016 4Q	2015 1Q	2015 2Q	2015 3Q	2015 4Q
Mexican pesos and UDIS	0.49%	0.46%	0.47%	0.47%	0.47%	0.52%	0.54%	0.54%
Foreign Currency	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Banorte USA (INB)								
Demand deposits accounts	-%	-%	-%	-%	0.01%	0.01%	0.01%	0.01%
Money market	-%	-%	-%	-%	0.03%	0.03%	0.02%	0.02%

Time Deposits:

Foreign exchange	2016 1Q	2016 2Q	2016 3Q	2016 4Q	2015 1Q	2015 2Q	2015 3Q	2015 4Q
General public								
Mexican pesos and UDIS	2.75%	3.12%	3.43%	3.98%	2.42%	2.56%	2.59%	2.59%
Foreign Currency	0.37%	0.23%	0.18%	0.22%	0.51%	0.51%	0.55%	0.53%
Money market	3.52%	3.10%	2.76%	3.72%	3.09%	3.15%	3.24%	3.29%
Banorte USA(INB)	-%	-%	-%	-%	0.33%	0.31%	0.27%	0.18%

As of December 31, 2016 and 2015, the terms set for these deposits are as follows:

	2016			
	1 to 179 days	**6 to 12 months**	**More than 1 year**	**Total**
General public:				
Fixed-term deposits	Ps. 16,882	Ps. 1,384	Ps. 672	Ps. 18,938
Retail time deposits	163,040	6,388	259	169,687
Promissory note with interest payable at maturity				
PRLV primary market for individuals	1,143	63	43	1,248
Foreign residents deposits	14	-	-	14
Provision for interest	562	82	4	649
	181,641	**7,917**	**978**	**190,536**
Money market:				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	**-**	1,459	1,459
	Ps. 181,641	**Ps. 7,917**	**Ps. 2,437**	**Ps. 191,995**

	2015			
	1 to 179 days	**6 to 12 months**	**More than 1 year**	**Total**
General public:				
Fixed-term deposits	Ps. 22,589	Ps. 1,346	Ps. 478	Ps. 24,413
Retail time deposits	177,856	3,172	120	181,148
Promissory note with interest payable at maturity				
PRLV primary market for individuals	1,936	174	1	2,111
Foreign residents deposits	13	-	-	13
Provision for interest	304	29	1	334
	202,698	**4,721**	**600**	**208,019**
Money market:				
Promissory notes	-	-	4,603	4,603
Provision for interest	-	-	3	3
	-	**-**	4,606	4,606
	Ps. 202,698	**Ps. 4,721**	**Ps. 5,206**	**Ps. 212,625**

20 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2016 and 2015 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2016	2015	2016	2015	2016	2015
Immediately due:						
Domestic banks (Call money)	Ps. 4,019	Ps. 1	Ps. -	Ps. -	Ps. 4019	Ps. 1
Short-term:						
Commercial banking	-	1	15	101	15	102
Development banking	315	541	520	484	835	1,025
Public trusts	6,336	5,812	857	611	7,193	6,423
Provision for interest	14	2	6	5	20	7
	6,665	**6,356**	**1,398**	**1,201**	**8,063**	**7,557**
Long-term:						
Commercial banking	-	-	2,567	1,725	2,567	1,725
Development banking	-	-	2,751	2,330	2,751	2,330
Public trusts	3,537	3,057	323	273	3,860	3,330
	3,537	**3,057**	**5,641**	**4,328**	**9,178**	**7,385**
	Ps. 14,221	**Ps. 9,414**	**Ps. 7,039**	**Ps. 5,529**	**Ps. 21,260**	**Ps. 14,943**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2016				2015			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	3.27%	3.15%	4.15%	5.07%	2.87%	2.90%	2.88%	3.14%
Other bank loans								
Mexican pesos and UDIS	4.28%	4.33%	4.85%	5.14%	4.20%	4.03%	4.19%	4.15%
Foreign currency	2.14%	2.06%	2.16%	2.39%	2.03%	2.01%	1.81%	1.88%

Banorte USA liabilities accrue interest at an average rate of 0.59% as of December 2015, as of December 31, 2016, the liabilities were reclassified as indicated in Note 3.

21 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2016	2015
Cashier and certified checks and other negotiable instruments	Ps. 2,729	Ps. 2,956
Provisions for indemnities	407	387
Provisions for other obligations	6,985	5,572
Others	4,323	4,436
	Ps. 14,444	**Ps. 13,351**

22 - EMPLOYEE RETIREMENT OBLIGATIONS

The Institution recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit" method, which considers the benefits accrued at the date of the Consolidated Balance Sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2016 and 2015, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2016			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,227)	(Ps. 239)	(Ps. 3,400)	(Ps. 4,866)
Fund market value	1,228	339	3,852	5,419
Funded status	1	100	453	553
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
Net projected asset	**Ps. 668**	**Ps. 117**	**Ps. 1,967**	**Ps. 2,752**

	2015			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,265)	(Ps. 245)	(Ps. 3,439)	(Ps. 4,949)
Fund market value	1,407	354	3,843	5,604
Funded status	142	109	404	655
Unrecognized prior service cost	2	-	183	185
Unrecognized actuarial losses	886	22	1,815	2,723
Net projected asset	**Ps. 1,030**	**Ps. 131**	**Ps. 2,402**	**Ps. 3,563**

Moreover, as of December 31, 2016, a separate fund amounting to Ps. 5,419, (Ps. 5,604 in 2015) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under “Other assets”. For the years ended December 31, 2016 and 2015, the net periodic pension cost is as follows:

	2016	**2015**	**2014**
Service cost	Ps. 206	Ps. 213	Ps. 230
Interest cost	406	400	354
Expected return on plan assets	(472)	(504)	(512)
Amortizations of unrecognized items:			
Profits (actuarial losses)	132	96	65
Cost of the advance reduction/liquidation of obligations	(85)	(165)	-
Plan modifications	-	11	11
Cost for immediate recognition of P/(G)	-	17	(26)
Net periodic pension cost	**Ps. 187**	**Ps. 68**	**Ps. 122**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2016, 2015 and 2014, are shown below:

Concept	**2016 Nominal**	**2015 Nominal**	**2014 Nominal**
Discount rate	9.00%	8.25%	8.00%
Rate of wage increase	4.50%	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets	8.75%	8.75%	8.75%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	**2016**	**2015**	**2014**
Defined and projected benefit obligations	(Ps. 248)	(Ps. 251)	(Ps. 247)
Net projected liability	**(Ps. 248)**	**(Ps. 251)**	**(Ps. 247)**

For the years ended December 31, 2016 and 2015, the net periodic pension cost is as follows:

Concept	2016	2015	2014
Service cost	Ps. 37	Ps. 37	Ps. 33
Interest cost	15	14	18
Cost / (income) for immediate recognition of P/(G)	-	(46)	82
Net periodic pension cost	**Ps. 52**	**Ps. 5**	**Ps. 133**

Pursuant to the law, the Institution makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was Ps. 50 in 2016 and Ps. 96 in 2015.

The balance of the employee retirement obligations presented in this Note refers to the Institution's defined benefit pension plan for those employees who remain enrolled.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Institution's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2016 and 2015, equivalent to Ps. 2,506 and Ps. 2,290, respectively, which is recorded under "other assets" and is equivalent to the recorded plan liability.

23 - SUBORDINATED DEBENTURES

As of December 31, 2016 and 2015, the subordinated debentures in circulation are as follows:

	2016	2015
Preferred subordinated obligations not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	Ps. 10,310	Ps. -
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1,5%, payable in 130 periods of 28 days each.	3,200	3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.	-	2,750
Nonpreferred subordinated nonconvertible debentures BANOA28 131021, maturing in October 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity.	-	3,449
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	2,487	2,406
Nonpreferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	2,472	2,070
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	212	178
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	212	178
Accrued interest	24	154
	Ps. 21,917	**Ps. 17,385**

Subordinated non-preferred liabilities not likely to become BANOC36 311004 issued during 2016 generated expenses of Ps. 58.

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 10 and Ps. 9 in 2016 and 2015, respectively.

24 – TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2016 and 2015 are made up as follows:

	Revenues			Accounts receivable		
Institution	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Arrendadora y Factor Banorte, S.A. de C.V.	Ps. 207	Ps. 161	Ps. 147	Ps. 5,272	Ps. 3,526	Ps. 2,285
Almacenadora Banorte, S.A. de C.V.	19	18	16	390	236	705
Seguros Banorte, S.A. de C.V.	694	575	543	62	48	42
Pensiones Banorte, S.A. de C.V.	1	-	2	-	-	-
Casa de Bolsa Banorte-Ixe, S.A. de C.V.	1,368	1,072	621	-	106	110
Ixe Fondos, S.A. de C.V.	369	355	426	35	34	43
Sólida Administradora de Portafolios, S.A. de C.V.	567	495	525	10,132	10,557	11,686
Total	**Ps. 3,225**	**Ps. 2,676**	**Ps. 2,28**	**Ps. 15,891**	**Ps. 14,507**	**Ps. 14,871**

	Expenses			Accounts payable		
Institution	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Grupo Financiero Banorte, S.A.B. de C.V.	Ps. 54	Ps. 48	Ps. 92	Ps. 3,524	Ps. 1,812	Ps. 598
Arrendadora y Factor Banorte, S.A. de C.V.	15	12	12	94	139	194
Almacenadora Banorte, S.A. de C.V.	1	-	-	2	35	21
Seguros Banorte, S.A. de C.V.	648	521	526	320	544	299
Pensiones Banorte, S.A. de C.V.	-	-	-	1	3	1
Casa de Bolsa Banorte-Ixe, S.A. de C.V.	356	651	2,277	609	1,568	1,084
Operadora de Fondos Banorte-Ixe, S.A. de C.V.	15	-	-	265	-	-
Ixe Servicios, S.A. de C.V.	1	1	5	32	32	32
Sólida Administradora de Portafolios, S.A. de C.V.	4	6	6	19	111	133
Total	**Ps. 1,094**	**Ps. 1,239**	**Ps. 2,918**	**Ps. 4,866**	**Ps. 4,244**	**Ps. 2,362**

The premiums paid and collected in repurchase operations with Banorte-Ixe Brokerage House and Grupo Financiero Banorteare among the most significant transactions, as well as the account receivable from Banorte Leasing and Factor and Sólida Administradora de Portafolios corresponding to loans granted.

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2016 and 2015, the amount of the loans granted to related parties was as follows:

Institution granting the loan	2016	% over the limit	2015	% over the limit
Banco Mercantil del Norte, S.A.	Ps. 9,792	11.8%	Ps. 7,552	10.5%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

Loan portfolio sales

In September 2014 Sólida acquired Banorte's consumer loans. The contract value of the acquired loans was Ps. 4,166 (Ps. 4,000 net of reserves).

Sale of loan portfolio packages between related parties (nominal values)

In February 2003 Banorte sold Ps. 1,925 of its own portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,861 relates to past-due amounts and Ps. 64 to performing loans. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. In conjunction with the sold loan portfolio, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Institution must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and as of December 2016 and 2015:

	Mexican pesos			Foreign currency			Total		
Type of portfolio	**Aug 02**	**Dec 15**	**Dec 16**	**Aug 02**	**Dec 15**	**Dec 16**	**Aug 02**	**Dec 15**	**Dec 16**
Performing Loan Portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	22	-	-	-	54	22	22
Total	**59**	**22**	**22**	**5**	**-**	**-**	**64**	**22**	**22**
Past-due loan portfolio									
Commercial	405	237	192	293	11	13	698	248	205
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	214	203	-	-	-	1,112	214	203
Total	**1,598**	**522**	**466**	**293**	**11**	**13**	**1,891**	**533**	**479**
Total portfolio	**1,657**	**544**	**488**	**298**	**11**	**13**	**1,955**	**555**	**501**
Allowance for loan losses(1)									
Commercial	326	236	192	246	11	13	572	247	205
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	226	214	-	-	-	669	226	214
Total allowance for loan loss	**1,072**	**533**	**477**	**246**	**11**	**13**	**1,318**	**544**	**490**
Net portfolio	**Ps. 585**	**Ps. 11**	**Ps. 11**	**Ps. 52**	**Ps. -**	**Ps. -**	**Ps. 637**	**Ps. 11**	**Ps. 11**

(1) Recorded reserves according to the Institution's rating methodology.

As of December 31, 2016 and 2015, the composition of the Institution's loan portfolio excluding its subsidiaries, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign currency		Total	
Type of portfolio	**Dec 16**	**Dec 15**	**Dec 16**	**Dec 15**	**Dec 16**	**Dec 15**
Commercial loans	Ps. 313,319	Ps. 303,835	Ps. 42,279	Ps. 35,435	Ps. 355,598	Ps. 339,270
Consumer loans	86,632	49,269	-	-	86,632	49,269
Mortgage loans	114,828	98,493	-	-	114,828	98,493
Performing Loan Portfolio	**514,779**	**451,597**	**42,279**	**35,435**	**557,059**	**487,032**
Commercial loans	5,862	7,881	141	80	6,003	7,961
Consumer loans	3,271	1,491	-	-	3,271	1,491
Mortgage loans	1,252	1,253	-	-	1,252	1,253
Past-due loan portfolio	**10,385**	**10,625**	**141**	**80**	**10,526**	**10,705**
Total portfolio	**525,164**	**462,222**	**42,220**	**35,515**	**567,584**	**497,737**
Allowance for loan losses	14,116	10,726	323	315	14,439	11,041
Net portfolio	**Ps. 511,048**	**Ps. 451,496**	**Ps. 42,097**	**Ps. 35,200**	**Ps. 553,145**	**Ps. 486,696**
Allowance for loan losses					**137.18%**	**103.14%**
% of past-due portfolio					**1.85%**	**2.15%**

25 – INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the Consolidated Balance Sheet and the Consolidated Income Statement are comprised as follows:

a. Interest and fees income consists of:

	2016		
	Interest	**Fees**	**Total**
	MXP	**MXP**	**MXP**
Cash and cash equivalents	Ps. 1,625	Ps. -	Ps. 1,625
Margin securities	119	-	119
Investment in securities	11,470	-	11,470
Securities repurchasing and loans	1,417	-	1,417
Hedging transactions	2,324	-	2,324
Commercial loans	21,690	465	22,155
Mortgage loans	10,501	471	10,972
Consumer loans	18,900	263	19,163
Others	162	-	162
	Ps. 62,808	**Ps. 1,199**	**Ps. 69,407**

	2015		
	Interest	**Fees**	**Total**
	MXP	**MXP**	**MXP**
Cash and cash equivalents	Ps. 1,222	Ps. -	Ps. 1,222
Margin securities	24	-	24
Investment in securities	9,505	-	9,505
Securities repurchasing and loans	884	-	884
Hedging transactions	2,337	-	2,337
Commercial loans	17,692	546	18,238
Mortgage loans	9,502	426	9,928
Consumer loans	16,389	226	16,615
Others	217	-	217
	Ps. 57,772	**Ps. 1,198**	**Ps. 58,970**

	2014		
	Interest	**Fees**	**Total**
	MXP	**MXP**	**MXP**
Cash and cash equivalents	Ps. 1,252	Ps. -	Ps. 1,252
Margin securities	27	-	27
Investment in securities	10,316	-	10,316
Securities repurchasing and loans	982	-	982
Hedging transactions	2,070	-	2,070
Commercial loans	17,636	1,633	19,269
Mortgage loans	8,854	362	9,216
Consumer loans	14,324	211	14,535
Others	148	-	148
	Ps. 55,609	**Ps. 2,206**	**Ps. 57,815**

b. The composition of interest expense, segmented by type of deposit, is as follows:

	2016			2015		
	MXP	**F.E.**	**Total**	**MXP**	**F.E.**	**Total**
Immediately Due and Payable Deposits:						
Checking accounts	Ps. 1,044	Ps. -	Ps. 1,044	Ps. 1,046	Ps. -	Ps. 1,046
Savings accounts	374	-	374	374	-	374
	1,418	-	1,418	1,420	-	1,420
Time Deposits:						
General public	6,259	36	6,295	4,460	-	4,460
Money market	73	-	73	298	-	298
	6,332	36	6,368	4,758	-	4,758
Total	**Ps. 7,750**	**Ps. 36**	**Ps. 7,786**	**Ps. 6,178**	**Ps. -**	**Ps. 6,178**

	2014		
	MXP	**F.E.**	**Total**
Immediately Due and Payable Deposits:			
Checking accounts	Ps. 952	Ps. 5	Ps. 967
Savings accounts	354	-	354
	1,306	5	1,311
Time Deposits:			
General public	4,394	77	4,471
Money market	246	-	246
	4,640	77	4,717
Total	**Ps. 5,946**	**Ps. 82**	**Ps. 6,028**

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	2016			2015		
	MXP	**F.E.**	**Total**	**MXP**	**F.E.**	**Total**
Call money	Ps. 35	Ps. -	Ps. 35	Ps. 48	Ps. -	Ps. 48
Banco de México	6	-	6	9	-	9
Commercial banks	-	34	34	-	-	-
Development banking	512	-	512	357	-	357
Provision for interest	19	-	19	17	-	17
Total	**Ps. 570**	**Ps. 34**	**Ps. 606**	**Ps. 431**	**Ps. -**	**Ps. 431**

	2014		
	MXP	**F.E.**	**Total**
Call money	Ps. 61	Ps. -	Ps. 61
Banco de México	12	-	12
Commercial banks	-	6	6
Development banking	426	41	467
Provision for interest	22	-	22
Total	**Ps. 521**	**Ps. 47**	**Ps. 568**

d. The trading results for the years ended December 31, 2016, 2015 and 2014, are as follows:

	2016	2015	2014
Valuation results			
Trading Securities	Ps. 142	(Ps. 130)	Ps.83
Decrease in securities	(267)	(37)	(71)
Derivatives financial instruments	385	444	877
Total valuation results	**260**	**277**	**889**
Securities purchase-sales result, net			
Trading Securities	(43)	445	976
Securities available for sale	70	485	531
Securities held to maturity	-	-	19
Derivatives financial instruments	(14)	110	340
Total securities' trading results	**13**	**1,040**	**1,866**
Spot foreign currency	1,505	1,277	1,038
Foreign currency valuation	45	6	3
Minted metals trading	6	5	6
Minted metals valuation	10	1	5
Total foreign currency trading results	**1,566**	**1,289**	**1,052**
Total trading results	**1,579**	**2,329**	**2,918**
Total trading results	**Ps. 1,839**	**Ps. 2,606**	**3,807**

e. The current loan portfolio, grouped by economic sector and geographical location, is as follows

	2016				
	Geographical location				
Economic sector	**North**	**Center**	**West**	**South**	**Total**
Agriculture	Ps. 3,590	Ps. 1,106	Ps. 1,431	Ps. 1,419	Ps. 7,546
Mining	50	94	2	4	150
Manufacturing	15,788	14,206	2,028	3,328	35,350
Construction	9,637	27,058	1,045	1,951	39,691
Public utilities	370	1,668	5	5	2,048
Commerce	20,921	18,647	5,570	7,928	53,066
Transportation	4,451	10,513	323	895	16,182
Financial services	28,614	18,227	2,513	3,126	52,480
Communal, social services	3,251	10,170	514	1,545	15,478
Public administration and services	41,325	66,710	11,425	14,080	133,540
Credit card	-	-	-	-	28,445
Consumer	-	-	-	-	58,187
Mortgage	-	-	-	-	114,807
Performing loan portfolio	**Ps. 127,997**	**Ps. 168,399**	**Ps. 24,856**	**Ps. 34,281**	**Ps. 556,972**

	2015				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 3,150	Ps. 1,217	Ps. 1,091	Ps. 1,068	Ps. 6,526
Mining	73	124	5	9	211
Manufacturing	13,412	13,262	1,901	2,638	31,213
Construction	7,556	20,923	807	2,621	31,907
Public utilities	337	1,718	3	5	2,063
Commerce	22,400	15,002	5,001	7,011	49,414
Transportation	4,505	6,491	311	636	11,943
Financial services	24,015	14,056	2,143	2,361	42,575
Communal, social services	2,717	11,817	482	1,281	16,297
Public administration and services	37,906	67,904	10,320	12,437	128,567
INB	-	-	-	-	16,301
Credit card	-	-	-	-	25,838
Consumer	-	-	-	-	48,266
Mortgage	-	-	-	-	98,472
Performing loan portfolio	**Ps. 116,071**	**Ps. 152,514**	**Ps. 22,064**	**Ps. 30,067**	**Ps. 509,593**

f. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows

	2016				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 86	Ps. 49	Ps. 31	Ps. 17	Ps. 183
Manufacturing industry	62	251	114	66	493
Construction	119	3,024	6	73	3,222
Electricity, gas and water	-	-	-	-	-
Commerce	348	512	120	317	1,297
Transportation	31	25	5	26	87
Financial services	26	18	2	15	61
Communal, social services	91	244	19	115	469
Credit card	-	-	-	-	1,623
Consumer	-	-	-	-	1,576
Mortgage	-	-	-	-	1,049
Past-due loan portfolio	**Ps. 763**	**Ps. 4,123**	**Ps. 297**	**Ps. 629**	**Ps. 10,060**

	2015				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 112	Ps. 62	Ps. 10	Ps. 17	Ps. 201
Mining	-	-	3	6	9
Manufacturing	94	368	79	75	616
Construction	73	4,441	5	70	4,589
Public utilities	-	1	-	1	2
Commerce	356	624	186	337	1,503
Transportation	53	111	11	32	207
Financial services	37	26	6	26	95
Communal, social services	60	344	24	64	492
INB	-	-	-	-	43
Credit card	-	-	-	-	1,510
Consumer	-	-	-	-	1,328
Mortgage	-	-	-	-	1,039
Past-due loan portfolio	**Ps. 785**	**Ps. 5,977**	**Ps. 324**	**Ps. 628**	**Ps. 11,634**

g. The assigned loan portfolio by responsibilities is made up as follows:

	2016			
	Commercial	**Corporate**	**INB**	**Total**
Commercial	Ps. 263,280	Ps. 92,254	Ps. -	Ps. 355,533
Consumer loans	86,632	-	-	86,632
Housing mortgage loans	114,807	-	-	114,807
Total performing loan portfolio	**464,717**	**92,254**	**-**	**556,972**
Commercial	3,223	2,588	-	5,811
Consumer loans	3,200	-	-	3,200
Housing mortgage loans	1,049	-	-	1,049
Total past-due loan portfolio	**7,472**	**2,588**	**-**	**10,060**
Total loan portfolio	**472,189**	**94,842**	**-**	**567,032**
Allowance for loan losses	(13,941)	-	-	(13,941)
Loan portfolio, net	**458,248**	**94,842**	**-**	**553,091**
Acquired collection rights	1,400	-	-	1,400
Total loan portfolio, net	**Ps. 459,648**	**Ps. 94,842**	**Ps.-**	**Ps. 554,491**

	2015			
	Commercial	**Corporate**	**INB**	**Total**
Commercial	Ps. 243,006	Ps. 77,711	Ps. 14,689	Ps. 335,406
Consumer loans	49,268	-	24,967	74,235
Housing mortgage loans	98,472	-	1,480	99,952
Total performing loan portfolio	**390,746**	**77,711**	**41,136**	**509,593**
Commercial	3,936	3,777	10	7,723
Consumer loans	1,420	-	1,419	2,839
Housing mortgage loans	1,039	-	33	1,072
Total past-due loan portfolio	**6,395**	**3,777**	**1,462**	**11,634**
Total loan portfolio	**397,141**	**81,488**	**42,598**	**521,227**
Allowance for loan losses	(10,440)	-	(2,894)	(13,334)
Loan portfolio, net	**386,701**	**81,488**	**39,704**	**507,893**
Acquired collection rights	1,376	-	-	1,376
Total loan portfolio, net	**Ps. 388,077**	**Ps. 81,488**	**Ps. 39,704**	**Ps. 509,269**

h. Deposit accounts grouped by product and geographical location are as follows:

	2016						
	Geographical location						
Product	**Monterrey**	**Mexico City**	**West**	**Northwest**	**South-east**	**Treasury and other**	**Total**
Non-interest bearing checking accounts	Ps. 46,533	Ps. 75,880	Ps. 23,494	Ps. 21,901	Ps. 27,042	Ps. 499	Ps.195,349
Interest-bearing checking accounts	17,083	49,825	10,102	9,007	23,096	495	109,608
Current account Ps. and pre-established	6,421	11,987	3,152	2,902	4,313	2	28,777
Non-interest bearing demand deposits, USD	7,165	15,415	1,396	7,017	1,871	626	33,490
Interest bearing demand deposits, USD	6,345	5,740	966	3,931	803	-	17,785
Retail time deposits	31,467	68,789	14,734	12,367	20,704	650	148,711
Time deposits, USD	7,675	4,788	1,741	2,519	1,036	27	17,786
Customers Money market	11,362	6,956	2,007	1,368	1,054	44	22,791
Financial intermediaries	-	-	-	-	-	1,459	1,459
Total Deposits	**Ps. 134,051**	**Ps. 239,380**	**Ps. 57,592**	**Ps. 61,012**	**Ps. 79,919**	**Ps. 3,802**	**Ps. 575,756**

Product	2015							
	Geographical location							
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 36,065	Ps. 59,325	Ps. 16,214	Ps. 15,730	Ps. 20,488	Ps. 350	Ps. -	Ps. 148,172
Interest-bearing checking accounts	20,529	57,547	9,403	9,810	21,869	428	-	119,586
Savings accounts	1	1	-	-	-	1	-	3
Current account Ps. and pre-established	8,985	13,881	4,180	4,960	6,027	258	-	38,291
Non-interest bearing demand deposits, USD	4,561	7,098	809	3,855	1,434	526	7,288	25,571
Interest bearing demand deposits, USD	4,914	4,375	687	3,919	739	1	6,384	21,019
Savings accounts in USD	-	-	-	-	-	-	518	518
Retail time deposits	26,209	57,835	12,260	10,548	17,342	337	-	124,531
Time deposits, USD	11,824	6,559	1,403	2,682	712	23	7,981	31,184
Customers Money market	24,268	15,847	4,747	2,748	2,561	21	-	50,192
Financial intermediaries	-	-	-	-	-	4,603	-	4,603
Total Deposits	**Ps. 137,356**	**Ps. 222,468**	**Ps. 49,703**	**Ps. 54,252**	**Ps. 71,172**	**Ps. 6,548**	**Ps. 22,171**	**Ps. 563,670**

26 - INCOME TAX

The Institution is subject to Income Tax (ISR).

ISR

ISR According to the ISR Law, the rate for 2016, 2015 and 2014 and subsequent years is 30%

Reconciliation of the accounting and fiscal results

The principal items affecting the determination of the current tax expense of the Institution were the annual adjustment for inflation, deduction of loan write-offs, and the valuation of financial instruments.

The reconciliation of the statutory ISR rate and the effective rate expressed as a percentage of pre-tax profit to income is:

	2016	2015	2014
Legal rate	30%	30%	30%
Tax inflation	(3%)	(2%)	(2%)
Non-tax accounting write-offs	3%	3%	3%
Other entries	(3%)	(7%)	(3%)
Effective rate	**27%**	**24%**	**28%**

27 - STOCKHOLDERS' EQUITY

The Institution's stockholders' common stock is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 0.10		
	2016	2015	2014
"O" Series	137,303,109,559	156,995,224,094	156,995,224,094

Paid-in Capital	Historical Amounts		
	2016	2015	2014
"O" Series	Ps. 13,730	Ps. 15,700	Ps. 15,700
Restatement in Mexican pesos through December 2007	4,375	4,374	4,374
	Ps. 18,105	**Ps. 20,074**	**Ps. 20,074**

Restrictions on Profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Institution at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of December 31, 2016, 2015 and 2014, the legal reserve is Ps. 11,509, Ps.9,992 and Ps. 8,802 respectively, as of December 31, 2016, 2015 and 2014 represents 63%, 50% and 44% of paid-in capital.

Share-based payments

During 2016, 2015 and 2014, the Institution recorded Ps. 408, Ps.583 and Ps. 710, respectively in administration expenses as compensation for share-based payments against the paid-in capital.

As of December 31, 2016 and 2015, the Institution has 15,919,639 granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. 81.48.

During 2016, 2015 and 2014, 5,015,798, 7,417,892 and 2,114,351 shares were operated, respectively.

Capitalization ratio

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2016 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2016 was 15.28% of total risk (market, credit and operational), and 20.51% of credit risk, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Net capital as of December 31, 2016	
Tier 1 common equity prior to regulatory adjustments.	Ps. 90,236
Goodwill (net of applicable deferred profit taxes)	986
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	5,851
Result from valuation of instruments for cash flow hedging	2,754
Benefits on the remainder in securitization transactions	155
Investments in its own shares	110
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Institution owns over 10% of the capital stock issued (amount over the 10% threshold)	5,616
National regulatory adjustments	1,985
Total regulatory adjustments to Tier 1 common equity	**12,718**
Tier 1 common equity (CET1)	**77,518**
Additional Tier 1 equity (AT1)	3,830
Tier 1 Equity (T1 = CET1 + AT1)	**81,348**
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	15,997
Reserv	646
Tier 2 equity (T2)	**16,643**
Total capital (TC = T1 + T2)	**Ps. 97,991**

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 51,214	Ps. 4,097
Floating rate securities' transactions in Mexican pesos	9,575	766
Real interest rate or UDI denominated securities' transactions in Mexican pesos	2,230	178
UDIS or inflation indexed (INPC) securities' transactions	-	1
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	8,787	703
Positions in foreign exchange or exchange rate indexed securities transactions.	7,598	608
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,741	139
Total	**Ps. 81,145**	**Ps. 6,492**

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group I B (weighted at 20%)	Ps. 531	Ps. 43
Group III (weighted at 20%)	9,060	725
Group III (weighted at 50%)	2,253	180
Group III (weighted at 100%)	9,837	787
Group IV (weighted at 20%)	7,898	632
Group V (weighted at 20%)	16,860	1,349
Group V (weighted at 50%)	5,780	462
Group V (weighted at 150%)	3,584	287
Group VI (weighted at 50%)	21,283	1,703
Group VI (weighted at 75%)	7,091	567
Group VI (weighted at 100%)	143,346	11,468
Group VII_A (weighted at 20%)	8,188	655
Group VII_A (weighted at 50%)	4,429	354
Group VII_A (weighted at 100%)	145,178	11,614
Group VII_A (weighted at 115%)	-	-
Group VII_A (weighted at 150%)	462	37
Group VII B (weighted at 20%)	4,052	324
Group VIII (weighted at 115%)	3,892	311
Group VIII (weighted at 150%)	991	79
Group IX (weighted at 100%)	27,443	2,195
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,132	91
Securitizations with a Risk Degree of 2 (weighted at 50%)	1,821	146
Securitizations with a Risk Degree of 3 (weighted at 100%)	52	4
Sum	**Ps. 425,163**	**Ps. 34,013**
For permanent shares, furniture and real property, and advance payments and deferred charges	32,006	2,560
Total	**Ps. 457,169**	**Ps. 36,573**

Assets subject to operational risk:

	Risk Weighted Assets	Capital requirement
Total	**Ps. 82,153**	**Ps. 6,572**

Institution of Local Systemic Importance

During 2016, Banorte was designated an Institution of Local Systemic Importance, so it must maintain a capital preservation supplement of 0.90 pp, to be constituted progressively in a maximum term of four years and beginning in December 2016. With the above, Banorte's minimum Capitalization Index amounts to 10.73% at the end of 2016, corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted

Management

Pursuant to the regulations in effect and the requirements of the CNBV, Banorte is developing its capital sufficiency assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.
In order to manage the capital, a weekly analysis is carried out to follow the requirements of the risk positions, as well as to support simulations of operations or strategies to the different business areas in order to know their consumption.

For more detailed information, see (Exhibit 1-O), Supplementary information of the fourth quarter of 2016, as per the obligation to reveal information about the capitalization ratio, which is found on the web page www.banorte.com/relacionconinversionistas.

28 - FOREIGN CURRENCY POSITION

As of December 31, 2016 and 2015, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 20.6194 and Ps. 17.2487 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2016	**2015**
Assets	6,997,632	7,171,173
Liabilities	6,916,344	6,776,580
Net asset position in US dollars	**81,288**	**394,593**
Net asset position in Mexican pesos	**Ps. 1,676**	**Ps. 6,806**

29 – POSITION IN UDIS

As of December 31, 2016 and 2015, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.562883 and Ps. 5.381175, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2016	**2015**
Assets	230,900	524,085
Liabilities	455,638	455,470
Net asset (liability) position in UDIS	**(224,738)**	**68,615**
Net asset (liability) position in Mexican pesos	**(Ps. 1,250)**	**Ps. 369**

30 - EARNINGS PER SHARE

Earnings per share is the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share are shown below:

	2016			2015	2014
	Net Income	Weighted share average	Earnings per share	Earnings per share	Earnings per share
UPA continuous operations	Ps. 14,801	137,303,109,559	Ps. 0.1078	Ps. 0.0846	Ps.0.0798
UPA discontinued operations	Ps. 243	137,303,109,559	Ps. 0.0018	Ps. 0.0015	Ps.0.0015
Net income per share	Ps. 15,044	137,303,109,559	Ps. 0.1096	Ps. 0.0861	Ps.0.0813

31 - RISK MANAGEMENT (unaudited)

Authorized Bodies

To ensure adequate risk management of the Institution, as of 1997, the Institution's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Institution is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:

    - The objectives, guidelines and policies for comprehensive risk management
    - The global limits for risk exposure
    - The mechanisms for implementing corrective measures
    - The special cases or circumstances in which the global and specific limits may be exceeded

2. Approve and review at least once a year:

    - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
    - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Institution is exposed
    - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit

3. Approve:
    - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Institution intends to introduce into the market
    - The corrective measures proposed by the Comprehensive Risk Management Unit
    - The manuals for comprehensive risk management
    - The technical evaluation of Comprehensive Risk Management aspects.

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.

5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.

6. Inform the Board of the corrective measures implemented.

32 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

Risk management at Grupo Financiero Banorte is a key element in determining and implementing the Financial Group's strategic planning. The Financial Group's risk management and policies comply with regulations and market best practices.

1. RISK MANAGEMENT'S OBJECTIVES, SCOPE AND FUNCTION

The main objectives of the Institution's Risk Management are to:

- Provide the different business areas with clear rules that help minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on preventive risk-taking within the Institution and are backed up by sound systems and processes.
- Verify adherence to the Desired Risk Profile.
- Protect the Institution's capital against unexpected losses from market movements, credit losses and operating risks.
- Implement valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.
- Update and follow up on the Contingency Plan to restore the level of capital and liquidity in case of adverse events.

Furthermore, the Institution has sound methodologies in place to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk, and Counterparty Risk.

<u>Credit Risk:</u> volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterparty.

<u>Market Risk:</u> volatility of revenues due to changes in the market, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, rate spreads, exchange rates, price indexes, etc.

<u>Liquidity Risk:</u> potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Institution, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

<u>Operational Risk:</u> Loss resulting from lack of adaptation or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk groups includes all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Institution.

<u>Concentration Risk:</u> potential loss attributed to the high and disproportionate exposure to specific risk factors within a single category or among different risk categories.

On the other hand, regarding Non-Quantifiable Risk, the Institution's objectives are set forth in the Risk Management Manual for:

<u>Reputational Risk:</u> potential loss in the development of the Institution's activity caused by a deteriorate perception of the various internal and external stakeholders' perception regarding its solvency and viability.

1.1. Risk Management Structure and Corporate Governance

Regarding the structure and organization for Comprehensive Risk Management, it is the responsibility of the Board of Directors to approve the general policies and strategies, such as:

- The Desired Risk Profile for the Institution
- The framework for Comprehensive Risk Management
- The Risk Exposure Limits, Risk Tolerance Levels, and the corrective action mechanisms.

The Board of Directors has designated the CPR as the responsible body to manage the risks to which the Institution is exposed as well as to verify that transactions are in keeping with the objectives, policies and procedures for Risk Management.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular and replacement members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

Moreover the Assets and Liabilities Committee (ALCO -Spanish acronym) and the Capital and Liquidity Group analyze, monitor, and make decisions regarding the risk rates in the balance sheet, the net interest margin, liquidity and net capital of the Institution.

The Comprehensive Risk Management Unit (UAIR - Spanish acronym) is in charge of the Office of Risk Management (DGAR). Its functions are to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures of the Institution.

The DGAR reports to the CPR pursuant to the regulations regarding the DGAR's independence from the business units.

1.2. Scope and Nature of the Institution's Risk Management

Risk Management extends to all the Institution's subsidiaries. Depending on each one's line of business, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

To accomplish this, the DGAR relies on several information and risk measuring systems which comply with the regulatory standards and are aligned with the best international practices in Risk Management. The information contained in the risk systems as well as the reports they generate are continuously backed up as per the institutional data security procedures. Furthermore the risk systems contain operations subject to Credit, Market, Liquidity and Operational Risk. Such systems are processed and subject to different valid models and methodologies, periodically generating reports for each one of said risks.

The Institution has policies and processes in place, which are contained in the Risk Management models, methodologies and procedures, for hedging and mitigation strategies and compensation for each type of risk in and out of balance. This policies and processes include: the features, pension funds afore, legal aspects, instrumentation and hedging degree that should be considered for hedging when compensating for or mitigating the risk. Such policies and processes also contemplate the execution of guaranties as a risk compensation mechanism each time there is a case of un-remedied default by the debtors. As part of the strategies and processes to monitor the continual efficiency of the hedgings or mitigations of the different risks, there limits for each type of Risk (Credit, Market, Liquidity and Operational) which are monitored constantly. There are also procedures in place so that the surpluses and their causes are documented, and the relevant corrective actions are taken to return to acceptable risk levels.

2. CREDIT RISK

It refers to the risk that clients, issuers or counterparties default on their payments. Therefore the proper administration of such risk is essential to maintain the portfolio's credit quality.

The Institution credit risk management objectives are as follows:

- Fulfill the Desired Risk Profile defined by the Institution's Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.
- Measure the Institution's vulnerability to extreme conditions, and consider such results for decision-making.

The Institution Credit Risk Management's policies apply to:

- Granting and managing consumer loans according to the best practices in the market through parametric models that make it possible to identify the risk, minimize the losses and increase quality loan placement.
- Granting and managing loans to companies and other entities in keeping with the best market practices by means of a loan strategy that includes Target Markets and Risk Acceptance Criteria, identifying and managing the risk through Loan Rating and Early Warning methodologies.
- Follow up and quality control of the loans by means of a Loan Rating System that indicates the treatment and general actions derived from specific situations as well as the areas or officers responsible for such actions.
- .Oversight and control of Credit Risk by Global and Specific Limits, loan rating policies and Credit Risk models for the portfolio by which to identify the expected and unexpected loss in a given trust level.
- Reporting and disclosure of the Credit Risk to the risk-taking areas, the CPR, Board of Directors, Financial Authorities and the investors.
- Definition of the powers in Credit Risk taking for the Institution.

In order to meet the objectives and comply with the policies, a series of strategies and procedures have been defined and which cover the origination, analysis, approval, management, follow-up, recovery and collection.

2.1. Credit Risk Scope and Methodologies

2.1.1. Individual credit risk

The Financial Institution divides Credit Risk into two large groups: Minor and Major.

Individual credit risk for the consumer (Minor) portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the pymes and consumer products (mortgage, automotive, payroll credit, personal and credit card).

Individual risk for the corporate (Major) portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria, Early Warnings and the Banorte Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Institution and support the estimate of the credit risk level.

The target markets are categories of economic activities for each region in which the Institution is interested in placing loans. Its definition is backed up by economic studies and loan behavior analysis as well as by expert opinions.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Institution in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

CIR Banorte is a debtor rating methodology that evaluates quantitative and qualitative criteria to determine their credit quality. It is applied to commercial loans equal to or over an amount equivalent in Mexican pesos to four million investment units (UDIs) on the rating date.

2.1.2. Portfolio credit risk

The Financial Institution has designed a portfolio credit risk methodology which, while also including international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Institution, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. As exposure is sensitive to market changes, a sensitivity estimate can be made for different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Institution in the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Institution calculates according to the migration of borrowers to different risk classification levels. The recovery rate is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, it has been determined, that the borrower’s “credit health” depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Institution is 99.5%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the Institution’s strategy. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

2.1.3. Credit risk of financial instruments

Financial Instrument Credit Risk Management is done through a series of fundamental cornerstones among which there is robust framework of Origination, Analysis, Approval and Management policies.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparts. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The Credit Committee is the body that authorizes operation lines with financial instruments for customers and counterparties according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee. Nevertheless, the UAIR has the power to approve counterparty lines (financial intermediaries, mainly) that meet certain criteria, using a parametric methodology approved by the CPR.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

To determine credit lines with adverse correlation (Wrong Way Risk "WWR"), an adjustment is considered in the potential exposure.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counter-party or issuer depending on the rating and type of transaction. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%. The higher the rating (or the lower the differential of the instrument's rate vs. that of an equivalent government bond), the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the operation's total in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Institution has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

2.2. Exposure to Credit Risk

As of December 31 2016, the total amount of gross exposures subject to the standard method for calculating the Capital Index is as follows:

Gross Exposures subject to Standard Method (Million of Mexican pesos)	**Institution**
Commercial	Ps. 161,067
Revenues or Annual sales < 14 MM UDIS	63,482
Revenues or Annual sales >= 14 MM UDIS	97,585
States or Municipalities	85,688
Decentralized Government Agencies and State-controlled companies	47,852
Projects with their own source of payment	46,548
Financial institutions	20,241
Mortgage	115,856
Consumer	89,832
Credit card	30,068
Non-revolving	59,763
Total portfolio subject to standard method	**Ps.567,083**

For transactions subject to credit risk, the Institution only uses external ratings issued by S&P, Moody's, Fitch, HR Ratings and Verum. Ratings are not assigned based on comparable assets.

2.2.1. Exposure with financial instruments

As of December 31, 2016, the credit risk exposure of the investments in securities was Ps. 286,965, of which 99.2% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 10% of the basic capital as of September 2016. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the net capital as of September 2016 has a simlar rating of AAA(mex) and is comprised of (*term in weighted average, amount in million pesos and interest rate*): stock certificates and Pemex bonds at 14 years and 9 months for Ps. 15,973 at a rate of 5.2%; and stock certificates of Banco Inbursa at 1 year and 3 months for Ps. 7,335 at a rate of 6.2%, and deposit certificates and stock exchanges of Banamex at 4 months for Ps. 6,500 at a rate of 2.9%

For derivatives operations, the 3 main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 1% of the Basic Capital as of September 2016.

The counterparty's risk exposure for transactions with derivative financial instruments for Banorte, and the compensation effect (netting) and exposure mitigation based on adding guaranties for performed transactions is shown below:

Position (at year's end)	**2016**
Forwards	(Ps. 14)
Options	12
Swap Interest Rate (IRS)	2,678
Cross Currency Swap (CCIRS)	10,280
Total	**(Ps. 7,628)**
Positive Fair Value *(Positive Market Value)*	12,732
Netting effect*	20,360
Guaranties Given (-) / Received (+)	**Ps. -**
Cash	(Ps. 6,153)
Securities	7.7
Total	**(Ps. 6,145)**

*The difference between the portfolio's positive market value (not considering position netting) and the market value. Futures are not included as they have no counterparty risk.

The following table presents the current exposure levels and future potential exposure at the year's end.

Financial Counterparties	**Potential Risk**	**Current Risk**
Forwards	Ps. 10	(Ps. 6)
Options	1,164	918
Interest rate swaps	14,776	5,575
Cross currency interest rate swaps	939	(10,267)
Total	**Ps. 14,885**	**(Ps. 3,781)**
Clients (Non Financial)		
Forwards	15	(8)
Options	6	(930)
Interest rate swaps	132	(2,897)
Cross currency interest rate swaps	10	(12)
Total	**Ps. 163**	**(Ps. 3,847)**

Based on the conditions set forth in the derivative financial instrument transaction contracts, the exposure tolerance levels are considered in terms of the rating that the entities involved in the transaction have. The following table lists the amount of guaranties to give in the event of impairment due to a drop in the Institution's rating:

Net Cash Outlays *(at year's end)*	**2016**	**Average 4Q**
Outlays with 1-step downgrade	Ps. -	-
Outlays with 2-step downgrade	-	-
Outlays with 3-step downgrade	-	-

The market value according to rating ranges for the counterparties of the performed derivative financial instruments is shown below:

Range	2016
AAA/AA-	Ps. -
A+/A-	(710)
BBB+/BBB-	(3,106)
BB+/BB-	(2,049)
B+/B-	(166)
CCC/C	(8)
SC	(1,588)
Total	**(Ps. 7,627)**

2.3. Loan Guarantee

Guaranties represent the second source of loan recovery when its hedging by means of the petitioner's predominant activity is compromised. Guaranties may be real or personal.

The main types of real guaranties are:

- Civil Mortgage
- Industrial Mortgage
- Ordinary Pledge
- Pledge without ownership transfer
- Pledge /Pledge Bond
- Pledge Bond
- Haircut (Repurchase agreement with haircut)
- Securities Pledge
- Management and Payment Trust
- Development Funds

In the case of physical assets given as a guarantee, the Institution has policies and processes in place for follow-ups and regular inspection visits to verify the existence, legitimacy, value and quality of the guaranties that were accepted as an alternate loan backup. On the other hand, when the guaranties are securities, there are policies and processes to follow up their market valuation and demand additional guaranties if necessary.

The following table lists the loan portfolio covered at the close of 2016 by type of guarantee:

Type of Guarantee	2016 Institution
Total loan portfolio	**Ps. 567,083**
Guarantee	
Real Financial Guaranties	19,157
Real Non-Financial Guaranties	292,361
Pari Passu	17,260
First Losses	28,216
Personal Guaranties	17,158
Total Portfolio Covered	**Ps. 374,152**

2.4. Expected Losses

As of December 31, 2016, the total loan portfolio of Banco Mercantil del Norte is Ps. 567.083. The expected loss represents 2% and the unexpected loss represents 4.4% of the total operating portfolio. The average expected loss was 2.2% for the period between September and December 2016.

2.5. Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions. These regulations require that the Banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, the Institution must have the necessary information and documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding **Banco Mercantil del Norte** is provided below:

Basic capital as of September 30, 2016	**Ps. 82,898**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	1
Overall amount	8,561
% in relation to basic capital	10%
Overnight operations	
Number	2
Overall amount	19,574
% in relation to basic capital	24%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 37,022**

3. MARKET RISK

The objectives of Market Risk in GFNorte are:

- Comply with the Desired Risk Profile defined by the Group's Board of Directors.
- Maintain an adequate follow-up of the Market Risk.
- Keep the Senior Management properly informed in a timely manner.
- Quantify the exposure to Market Risk through the use of different methodologies.
- Define the maximum levels of risk that the Institution is prepared to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider those results for decision-making.

The Market Risk policies in GFNorte are:

• New products subject to market risk should be evaluated and approved using the new product guidelines approved by the Risk Policy Committee.
• The Board is the body empowered to approve global limits and metrics for market risk appetite, as well as modifications to the previous ones.
• The Risk Policy Committee is the body authorized to approve specific models, methodologies and limits, as well as modifications to the previous ones.
• Market risk models will be validated by an area independent of the one that develops and manages them.
• Inputs and market risk models will be validated according to a policy duly approved by the Risk Policy Committee.

Market Risk management is done by means of a series of fundamental pillars, such as the use of models and methodologies like Value at Risk (VaR), Backtesting, Sensitivity Analysis and Stress Testing, all of which are used to measure the risk of the products and instrument portfolios that trade in financial markets.

Furthermore, risk management is backed up by a framework of policies and manuals that sets forth the Market Risk limit implementation and follow up, risk metrics reporting, and follow-up of the established limits.

The key risk indicators are made known in monthly reports to the CPR and daily reports to the Institution’s top executives involved in Market Risk position taking.

3.1. Exposure to Market Risk

The Institution's financial instrument portfolio Market Risk exposure is measured using the industry's standard methodology known as Value at Risk (VaR).

The VaR model is based on the horizon of one day and a non-parametric historical simulation with a confidence level of 99% and 500 historical observations of risk factors. Moreover it considers all the financial instrument positions (money market, treasury, capitals, changes, and derivative financial instruments with trading purposes and hedging) recorded as trading and available for sale both on and off of the balance sheet.

The average VaR for 4Q16 is Ps. 71 (Ps. 142 loss than the 3Q16 average VaR). The VaR at the end of 4Q16 corresponds to Ps.101.

The result shown below indicates that the potential loss will be over Ps. 300 on one of every one hundred days.

VAR (million of Mexican pesos)	4Q15	1Q16	2Q16	3Q16	4Q16
VaR Banorte*	300	313	286	213	71
Banorte net capital**	80,509	83,453	90,155	90,264	97,991
VaR / net capital Banorte	**0.37%**	**0.38%**	**0.32%**	**0.24%**	**0.07%**

* Quarterly Average
** Sum of net capital at the close of the quarter)

Also, the average of the VaR per risk factor for the Institution’s portfolio of securities behaved as follows during the fourth quarter of 2016:

Risk factor (million of Mexican pesos)	1Q16	2Q16	3Q16	4Q16
Rates	319.6	284.6	71.1	56.2
FX	188.2	143.4	166.6	25.9
Variable income	1.4	5.2	4.3	7.2
Diversification effect	(196.1)	(147.3)	(28.7)	(18.6)
Banorte's Total VaR	**313.0**	**285.9**	**213.4**	**70.7**

VaR by risk factor is determined by simulating 500 historical scenarios and by grouping instruments by their main risk factor. It is important to note that all positions classified as trading were taken into account.

The concentration per market risk factor without the diversification effect is:

Risk factor (million of Mexican pesos)	1Q16	2Q16	3Q16	4Q16
Rates	62.8%	65.7%	29.4%	62.9%
FX	37.0%	33.1%	68.8%	29.0%
Variable income	0.2%	1.2%	1.8%	8.1%

3.2. Sensitivity Analysis and Tests Under Extreme Conditions (Stress Testing)

As the VaR shows potential losses under normal market conditions, Banorte supplements the risk analysis by applying tests under extreme conditions, also known as Stress Testing. This submitted on a monthly basis to the CPR. Its main purpose is to gauge the impact on the Institution's positions given major risk factor shifts.

3.3. Backtesting

In order to verify the VaR effectiveness and accuracy, a backtesting analysis is submitted monthly to the CPR. This analysis makes it possible to compare the losses and profits observed with respect to the estimated Value at Risk and, if necessary, the relevant adjustments are made.

4. LIQUIDITY RISK

The objectives of Balance and Liquidity Risk in the Institution are:

- Comply with the Desired Risk Profile defined by the Group's Board of Directors.
- Provide an adequate follow-up to the Risk of Balance and Liquidity.
- Quantify the exposure to Balance and Liquidity Risk through the use of different methodologies.
- Measure the Company's vulnerability to extreme market conditions and that these results are considered for decision-making.
- To keep the Senior Management adequately informed in a timely manner of exposure to Balance and Liquidity Risk and any deviations from the limits and the risk profile.
- Monitor the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of Liquid Assets eligible to guarantee the liquidity of the Institution even under stress conditions.

The Liquidity Risk policies in the Institution are:

- Establishment of Global and Specific Balance and Liquidity Risk Management Limits.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to the risk-taking areas, the CPR, the Board of Directors, the Financial Authorities and the Investor Public.

4.1. Methodologies and Exposure to Liquidity Risk

Balance and Liquidity Risk is managed through a series of fundamental pillars, among which we can highlight the use of key indicators, such as the Coverage of Liquidity Coverage (CCL), re-price and liquidity gaps, as well as Stress testing. This is based on a framework of policies and manuals, including a contingency financing plan and a contingency plan for the preservation of solvency and liquidity. It is similarly complemented by the monitoring of limits and levels of Desired Risk Profile on the Balance and Liquidity Risk metrics in question. The disclosure of the referred metrics and indicators and compliance with the limits and the Desired Risk Profile mentioned in this paragraph is done through monthly reports to the CPR, weekly to the capital and liquidity management group and Quarterly to the Board of Directors.

4.2 Financing Profile and Strategy

The bank's funding make-up and evolution during the quarter is shown below:

Source of Funding	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
Demand deposits accounts					
Local currency	Ps. 288,958	Ps. 298,404	Ps. 306,594	Ps. 331,280	14.8%
Foreign Currency	37,227	38,203	42,587	51,179	37.5%
Demand deposits accounts	**Ps. 325,795**	**Ps. 336,607**	**Ps. 349,181**	**Ps. 382,459**	**17.4%**
Time deposits-Retail					
Local currency	Ps. 131,891	Ps. 137,386	Ps. 143,069	Ps. 149,861	13.6%
Foreign Currency	19,398	20,255	16,554	17,792	(8.3%)
Core deposits	**Ps. 477,084**	**Ps. 494,248**	**Ps. 508,804**	**Ps. 550,112**	**15.3%**
Money market					
Mexican pesos (1)	Ps. 62,158	Ps. 60,139	Ps. 35,788	Ps. 24,391	(60.8%)
Banking Sector Total Deposits	**Ps. 539,242**	**Ps. 554,387**	**Ps. 544,592**	**Ps. 574,503**	**6.5%**

1. Money Market and Time Deposits
2. Includes eliminations between subsidiaries
3. Table of Money and Time Deposits

4.3 Liquidity Coverage Ratio

The CCL enables quantifying the Liquidity Risk by means of a ratio between Liquid Assets and Net Cash Outlays in the next 30 days under the assumptions of a regulatory stress scenario.

The CCL is an indicator that should be interpreted as the Institution's liquidity sufficiency to cover its short-term obligations under an extreme scenario using only its highest quality liquid assets.

The following table shows the average development of the CCL components in 4Q16.

	CCL Components (millions of Mexican pesos)	Bank and Sofomes	
		Non-weighted Amount (Average)	Weighted Amount (Average)
	COMPUTABLE LIQUID ASSETS		
1	Total Computable Liquid Assets	Not applicable	Ps. 82,899
	OUTLAYS		
2	Non-guaranteed minor financing	Ps.313,558	Ps.24,725
3	Stable financing	132,607	6,630
4	Less stable financing	180,951	18,095
5	Non-guaranteed major financing	214,641	57,864
6	Operational deposits	168,386	31,747
7	Non-Operational deposits	45,608	25,470
8	Unsecured debt	647	647
9	Guaranteed major financing	257,196	21,279
10	Additional requirements:	703,414	26,062
11	Outlays related to derivative financial instruments and other guarantee requirements	412,073	7,452
12	Outlays related to debt instrument financing losses	-	-
13	Lines of credit and liquidity	291,341	18,611
14	Other contractual financing obligations	-	-
15	Other contingent financing obligations	-	-
16	**TOTAL OUTLAYS**	**No aplica**	**129,931**

CASH INFLOW		
17 Cash inflow from guaranteed transactions	Ps.56,635	Ps.42,953
18 Cash inflow from non-guaranteed transactions	34,486	1,364
19 Other cash inflows	1,818	1,818
20 TOTAL CASH INFLOW	No aplica	Ps.46,135
	Adjusted amount	
21 TOTAL COMPUTABLE LIQUID ASSETS	**Not applicable**	**Ps.82,899**
22 TOTAL NET OUTLAYS	**Not applicable**	**Ps.83,796**
23 LIQUIDITY COVERAGE RATIO	**Not applicable**	**99.55%**

During 4Q16 the average CCL for the Bank and Sofomes was 99.55%, with a CCL at the close of 4Q16 equal to 89.73%, placing it above the Desired Risk Profile and the regulatory minimum set forth in the established regulations in effect. The aforementioned results indicate that Banorte is in a position to meet the entirety of its short-term obligations in a crisis scenario.[1]

4.4 CCL Component Development

CCL Component	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
Liquid assets	Ps.69,680	Ps.81,602	Ps.81,449	Ps.82,074	17.8%
Cash Inflow*	57,406	55,711	34,250	43,883	(23.6%)
Outlays*	116,009	115,432	111,647	135,354	16.7%

*See main causes of the CCL results.

The liquid assets computed for the Bank and Sofomes CCL during 2016 are distributed as follows:

Type of Asset	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q15
Total	**Ps. 69,680**	**Ps. 81,662**	**Ps. 81,449**	**Ps. 82,074**	**17.8%**
Level I	60,619	71,881	71,818	71,795	18.4%
Level II	9,061	9,781	9,631	10,279	13.4%
Level II A	7,957	8,425	8,060	8,238	3.5%
Level II B	1,104	1,356	1,571	2,041	84.8%

Net assets grew by 17.8% between 1Q16 and 4Q16, mainly driven by an increase in liquid assets level I and level II B during 2016

4.5 See Main Causes of the CCL Results

Changes in the Liquidity Coverage Ratio between 3Q16 and 4Q16 are mainly due to the issuance by Banorte in October of subordinated debentures for USD $ 500MM, which had a positive implication on the liquidity of the institution.

4.6 Liquidity Risk in Foreign Exchange

To quantify and follow up on the liquidity risk for its dollar portfolio, the Institution uses the criteria established by Banco de México to determine the Liquidity Ratio.

The liquidity ration in foreign currency should be interpreted as the Institution’s capacity to cover its liquidity mismatches with liquid assets, both in foreign currency.

[1] The Liquidity Coverage Ratio is preliminary and subject to validation by Banco de México.

4.7 Exposure to Derivative Financial Instrument and Possible Margin Calls

The Institution applies the regulatory criterion to determine outlays for derivative financial instruments. During 2016 the net outlays for derivative financial instruments were as follows:

Outlays for Derivative Financial Instruments	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
Net outlay at market value y for potential exposure	Ps.2,383	Ps.2,658	Ps.3,531	Ps.5,164	116.7%
Outlays due to a 3-step drop in the credit rating	Ps.469	Ps.627	-	-	(100.0%)

The above measurement indicates that by 4Q16 the potential outlays for derivative financial instruments may represent a liquidity requirement of up to Ps. 5, 164.

4.8 Liquidity Gaps

As part of the Bank's liquidity analysis, liquidity gaps in the Institution's 30-day asset and liability obligations are analyzed. This scheme is monitored Bank-wise with the following results for 4Q16.

Concept	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
One month accumulated gap	(53,270)	(55,434)	(45,220)	(22,552)	(57.7%)
Liquid assets	69,680	79,355	56,392	59,791	(-14.2%)

The mismatch between the inflow and outlays (gaps) for the next 30 days are covered with liquid assets. It should be noted that during the quarter, the Risk Policy Committee approved a new methodology for calculating the liquidity gap, which involves a model for determining the survival of demand and time deposits. The new methodology is the main reason for the difference against the calculations presented in the previous quarter. In addition, the new methodology allows us to make a more granular breakdown of the liquidity gaps, remaining as follows for 4Q16:

Concept (Millions of pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Brecha Natural	(Ps.1,911)	(Ps.17,363)	(Ps.3,278)	Ps.7,530	(Ps.9,369)	Ps.2,810
Brecha Acumulada	(Ps.1,911)	(Ps.19,274)	(Ps.22,552)	(Ps.15,022)	(Ps.24,392)	(Ps.21,582)

4.9 Liquidity Stress Testing

As part of Liquidity Risk management, the Institution performs tests under extreme internal liquidity scenarios to evaluate its liquidity sufficiency under adverse conditions of the environment and inherent bank conditions. A total of 9 scenarios based on 3 risk sources (systemic, idiosyncratic and combined) each with 3 levels of severity (moderate, medium and severe) are considered for this purpose.

4.10 Contingency Financing Plan

Banorte implemented a contingency financing plan in order to have comprehensive practices in liquidity management and guarantee its operation in adverse liquidity situations. The plan incorporates elements to identify possible liquidity issues and to define available alternate funding sources.

4.11 Interest Rate Risk

The balance sheets structural or interest rate risk is managed using tools such as: domestic, foreign and actual interest shift sensitivity analysis obtaining their impact on the Net Interest Margin. The sensitivity analysis includes assumptions regarding the call deposits based on a stability model.

The Institution has policies and coverage limits for the fixed rate portfolio as part of the interest risk mitigation actions. The above is reported to the CPR on a monthly basis.

The effect on the Net Interest Margin of a 100-base point shift in rates is shown in the following table, which considers Available for Sale, which at the close of 4Q16 corresponded to 153,128 million pesos, and on average during 4Q16 corresponded to 130.480 million pesos.

Millions of Mexican pesos	1Q16	2Q16	3Q16	4Q16	Var vs. 1Q16
Margin Sensitivity	Ps. 854	Ps. 983	Ps. 1,066	Ps. 1,180	38%

5. Operational risk

The Institution established a formal operational risk department denominated "Operational Risk Management Department" that reports to the General Risk Management Office.

The Institution defines operational risk as the potential loss due to failures or deficiencies in internal controls because of errors in operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes Technology and Legal risk).

Operations Risk Management has three objectives: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization’s risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

5.1 Policies, Objectives and Guidelines

The Institution has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Controllership Department, as part of the Internal Control System, performs the following risk mitigating activities: a) internal control validation; b) institutional regulations’ management and control; c) monitoring of operating process’ internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operating Losses Database

To record operating loss events, a system is in place that enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories:

Internal Fraud: Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.

External Fraud: Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.

Labor Relations and Job Safety: Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.

Customers, Products and Business Practices: Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product).

Natural Disasters and Other Events: Losses due to damage or harm to physical assets due to natural disasters or other events.

Business Incidences and System Failures: Losses derived from incidences in the business and system failures.

Process Execution, Delivery and Management: Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Institution in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

5.2.2 Legal and Tax Contingencies Database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Institution's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues determining the risk degree of each issue based on an internal methodology. This makes it possible to create the necessary book reserve within a specific term (based on the duration of the suit) to face such estimated contingencies.

5.3. Risk Management Model

The Institution and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

5.4 Calculating Capital Requirement

Pursuant to the Operational Risk Capitalization Rules, the Institution has adopted a Basic Model, which is calculated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

5.6 Disclosure of Operational Risks

With respect to the disclosure of the Operational Risks to which the institution is exposed, it is reported that the accumulated operating losses in the year (at the close of 4Q16) represent 1.2% of the Net Interest Margin accumulated.

5.6.1. Technology Risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization

To address operational risk associated with data integrity, the Integrity Committee was created. Its objectives include aligning data security and control efforts to a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Institution's assets.

The Institution performs the Technology Risk Management functions set forth by the Commission under the guidelines established by the institutional Regulations and the Integrity Committee.

To address the operating risk caused by high impact external events, the Institution has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operating contingency.

5.7. Legal Risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties regarding the transactions performed by the Institution.

The legal risk must be measured as an inherent part of Operational Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

Note: Additional information regarding Risk Management in compliance with article 88 of the Sole Bank Circular is found in the Risk Management note of Grupo Financiero Banorte's Quarterly Report.

33 - MEMORANDUM ACCOUNTS

	2016	2015
Contingent assets and liabilities (unaudited)	Ps.44	Ps. 19
Credit commitments (unaudited)	285,689	160,530
Assets in trust or mandate (unaudited)	292,173	299,147
Managed assets in custody (unaudited)	294,203	296,801
Collateral received	82,196	141,993
Collateral received and sold or given as a pledge	20,124	85,898
Investment banking transactions on account of third parties (net) (not audited)	93,306	79,643
Interest accrued but not charged of past due loans	439	439
	Ps.1,068,174	**Ps. 1,064,470**

34 - COMMITMENTS

As of December 31, 2016 and 2015, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 285,735 (Ps. 160,548 in 2015), which are recorded in memorandum accounts.

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2016 and 2015, were Ps. 130 and Ps. 110, respectively.

35 – CONTINGENCIES

As of December 31, 2016, there are lawsuits filed against the Institution in civil and labor court cases; however, the Institution's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution's consolidated financial position. As of December 31, 2016, the Institution has recorded a reserve for contentious matters of Ps. 601 (Ps. 308 in 2015).

36 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2016 and 2015, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 2,325 and Ps 2,101, respectively.

37 - NEW ACCOUNTING PRINCIPLES

Improvements to NIF 2017 - The following improvements were issued with effect from January 1, 2017, which generate accounting changes.

The improvements consist in specifying the scope and definitions of these NIF to indicate more clearly their application and accounting treatment.

NIF B-7, Business acquisitions - A modification was made to the prospective adoption of the improvements to NIF 2016, which establishes that acquisitions under common control should not form part of the scope of such NIF.

NIF B-13, Events after the reporting period - If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF C-11, Stockholders' equity - Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already owned by investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.

NIF D-3, Employee benefits - Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term defined benefit obligation should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the *government bond market rate* or *the market rate for high-quality corporate bonds in absolute terms in a deep market*, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– *Application guidance*, B1– *Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market.* Early application is allowed.

Improvements to NIF 2017 - The following improvements were issued that do not generate accounting changes:

NIF C-3, Accounts receivable

Bulletin C-15, Impairment of long-lived assets and their disposition

At the date of issuance of the consolidated financial statements, the Financial Group determined that the effects of these new standards do not affect its financial information.

The following NIF have been issued with effect from January 1, 2018. As of the date of the consolidated financial statements, the Commission does not consider some of these NIF as part of the provision of special rules that refer to criterion A-2 Issued by the same Commission:

NIF B-17, Determination of fair value

NIF C-3, Accounts Receivable

NIF C-9, Provisions, contingencies and commitments

MFRS C-16, Impairment of financial instruments receivable

NIF C-19, Financial instruments to be paid

NIF C-20, Financial instruments to charge principal and interest

NIF D-1, Income from contracts with customers

NIF D-2, Customer contract costs

As of the date of issuance of these consolidated financial statements, the Institution is in the process of determining the effects of these new standards on their financial information, but the effects are not expected to be material.

38 - SUBSEQUENT EVENTS

Sale of INB

On March 31, the Institution, through INB Financial Corporation (a subsidiary of Banorte USA, which is a Subsidiary of Banorte), entered into the sale of all the shares representing capital Social network of Inter National Bank of which it was proprietor, in favor of a group of investors of the United States of America. As result of the sale there was a loss of USD 218 million which was reclassified to income from prior years in accordance with the special criteria issued by the commission.

The mentioned above is in relation to the corporate restructuring program of Institution, the terms of which were published in the financial statements of Institution corresponding to the closing of the 2016 financial year.

The Institution has retrospectively classified the net income from INB in its consolidated income statements as a discontinued operation, wich reflects the effect of such sale retrospectively in to be comparable with the results for 2016.

Dividends paid

At the Stockholders' Ordinary General Meetings held on April 28, 2017 the Institution declared to pay a cash dividend on the amount of Ps.11,000, which was paid on May 24, 2017.

Redemption of Subordinated Notes due 2022

On June 8, 2017, the Institution obtained the authorization from the Mexican Central Bank to redeem the aggregate principal amount outstanding under its Ps.3,200,000,000 Preferred Subordinated Tier 2 Notes due 2022 ("the 2022 notes"). On June 16, 2017, the Institution delivered the relevant notice of redemption to the holders of its 2022 notes, which specified a redemption date of June 30, 2017. As of March 31, 2017, the aggregate principal amount outstanding under the 2022 notes was Ps.3,200,000,000.

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements for the Three-Month Period Ended March 31, 2017, and Independent Auditors' Review Report dated June 16, 2017

Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Independent Auditors' Review Report and Condensed Consolidated Interim Financial Statements for the Three-Month Period Ended March 31, 2017 and as of December 31 2016 (Unaudited)

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Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Lázaro Cárdenas 2321 Pte., PB
Residencial San Agustín
66260 Garza García, N.L.
México

Tel: +52 (81) 8133 7300
Fax: +52 (81) 8133 7383
www.deloitte.com/mx

Independent Accountant's Report to the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the "Institution") as of March 31, 2017 and the related condensed consolidated statements of income and other comprehensive income, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2017, and the condensed explanatory notes for such periods. The Institution is responsible for the preparation and presentation of these financial statements in accordance with the accounting principles prescribed by the Mexican National Banking and Securities Commission (the "Commission") in the Circular A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions" and the Circular A-2, "Application of Particular Accounting Standards" (the accounting criteria), which refer to Mexican Financial Reporting Standards (MFRS) B-9 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 9020, "Review of Interim Financial Information Performed by the Independent Accountant of the Entity" issued by the Mexican Institute of Public Accountants, A.C. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view, in all material respects, of the financial position of the Institution as of March 31, 2017, and of its financial performance and its cash flows for the three-month period then ended in accordance with the accounting criteria as prescribed by the Commission.

Deloitte

Arithmetical translation of the condensed consolidated financial statements from Mexican pesos into United States of America (U.S.) dollars

Our review also included the translation of the Mexican peso amounts into U.S. dollar amounts in conformity with the basis stated in Note 3. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of the user.

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

C.P.C. Daniel Castellanos Cárdenas

Registration in the Federal Tax
Audit Administration Num. 17195

June 16, 2017

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2017 (UNAUDITED) AND DECEMBER 31, 2016
(In millions of Mexican pesos and in millions of U.S. dollars)

ASSETS	March 31, 2017	March 31, 2017	December 31, 2016
CASH AND CASH EQUIVALENTS	**US$ 3,214**	**Ps. 60,405**	**Ps. 65,844**
MARGIN SECURITIES	**102**	**1,909**	**2,185**
INVESTMENT IN SECURITIES (Note 4)			
Trading securities	8,029	150,913	129,477
Securities available for sale	5,687	106,886	153,128
Securities held to maturity	332	6,245	6,258
	14,048	**264,044**	**288,863**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS (Note 5)	**-**	**2**	**-**
DERIVATIVE FINANCIAL INSTRUMENTS (Note 6)			
For trading purposes	1,210	22,738	40,881
For hedging purposes	21	387	742
	1,231	**23,125**	**41,623**
VALUATION ADJUSTMENTS FOR FINANCIAL ASSETS HEDGING	**6**	**110**	**113**
PERFORMING LOAN PORTFOLIO (Note 7)			
Commercial loans			
Business loans	10,596	199,150	201,753
Financial institutions' loans	1,124	21,122	20,240
Government loans	6,926	130,183	133,540
Consumer loans	4,832	90,824	86,632
Mortgage loans			
Medium and residential	6,131	115,226	110,825
Low-income housing	2	36	40
Loans acquired from INFONAVIT or FOVISSSTE	215	4,048	3,942
TOTAL PERFORMING LOAN PORTFOLIO	**29,826**	**560,589**	**556,972**
PAST-DUE LOAN PORTFOLIO (Note 7)			
Commercial loans			
Business loans	302	5,677	5,467
Financial institutions' loans	18	344	344
Consumer loans	159	2,993	3,200
Mortgage loans			
Medium and residential	48	911	952
Low-income housing	-	1	1
Loans acquired from INFONAVIT or FOVISSSTE	6	107	96
TOTAL PAST-DUE LOAN PORTFOLIO	**533**	**10,033**	**10,060**
LOAN PORTFOLIO	**30,359**	**570,622**	**567,032**
(Minus) ALLOWANCE FOR LOAN LOSSES (Note 8)	(734)	(13,805)	(13,941)
LOAN PORTFOLIO, net	**29,625**	**556,817**	**553,091**
ACQUIRED COLLECTION RIGHTS	**79**	**1,476**	**1,400**
TOTAL LOAN PORTFOLIO, net	**29,704**	**558,293**	**554,491**
RECEIVABLES GENERATED BY SECURITIZATIONS	**8**	**151**	**155**
OTHER ACCOUNTS RECEIVABLE, net	**1,936**	**36,363**	**39,989**
FORECLOSED ASSETS, net	**63**	**1,182**	**1,222**
PROPERTY, FURNITURE AND EQUIPMENT, net	**646**	**12,120**	**11,927**
PERMANENT STOCK INVESTMENTS (Note 9)	**11**	**199**	**185**
LONG-TERM ASSETS AVAILABLE FOR SALE	**-**	**-**	**5,299**
DEFERRED TAXES AND PROFIT SHARING, net (Note 10)	**192**	**3,601**	**4,228**
OTHER ASSETS (Note 11)			
Deferred charges, advance payments and intangibles	**573**	**10,775**	**11,214**
Other short-term and long-term assets	**155**	**2,914**	**3,097**
TOTAL ASSETS	**US$ 51,887**	**Ps. 975,193**	**Ps. 1,030,435**

See accompanying notes to these unaudited condensed consolidated interim financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2017	March 31, 2017	December 31, 2016
DEPOSITS (Note 12)			
Demand deposits	US$ 19,497	Ps. 366,454	Ps. 382,409
Time deposits			
General public	11,132	209,212	190,536
Money market	59	1,115	1,459
Global account deposit without movement	75	1,410	1,352
	30,762	**578,191**	**575,756**
INTERBANK AND OTHER LOANS (Note 13)			
Demand loans	60	1,137	4,019
Short-term loans	383	7,204	8,063
Long-term loans	463	8,702	9,178
	906	**17,043**	**21,260**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS(Note 5)	**11,224**	**210,936**	**234,490**
COLLATERAL SOLD OR PLEDGED			
Repurchase or resale agreements (creditor balance)	**-**	**2**	**-**
DERIVATIVE FINANCIAL INSTRUMENTS(Note 6)			
For trading purposes	1,175	22,092	40,403
For hedging purposes	349	6,555	9,372
	1,524	**28,647**	**49,775**
OTHER ACCOUNTS PAYABLE			
Income taxes	79	1,476	1,965
Employee profit sharing	26	495	396
Creditors from settlements of transactions	347	6,516	6,988
Creditors from cash collateral received	318	5,981	10,326
Sundry creditors and other payables	709	13,309	14,444
	1,479	**27,777**	**34,119**
SUBORDINATED DEBENTURES (Note 14)	**934**	**17,551**	**21,917**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**8**	**142**	**331**
TOTAL LIABILITIES	**46,837**	**880,289**	**937,648**
STOCKHOLDERS' EQUITY			
PAID-IN CAPITAL			
Common Stock	963	18,105	18,105
Additional paid-in capital	10	180	72
	973	**18,285**	**18,177**
OTHER CAPITAL			
Capital reserves	612	11,509	11,509
Retained earnings from prior years	3,336	62,685	50,215
Result from valuation of securities available for sale	(61)	(1,139)	(1,645)
Result from valuation of instruments for cash flow hedging	(97)	(1,827)	(2,131)
Cumulative foreign currency translation adjustment	84	1,579	1,985
Remeasurement of employee benefits	(27)	(503)	(377)
Net income	229	4,305	15,044
	5,049	**94,894**	**74,600**
NONCONTROLLING INTEREST	**1**	**10**	**10**
TOTAL STOCKHOLDERS' EQUITY	**5,050**	**94,904**	**92,787**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**US$ 51,887**	**Ps. 975,193**	**Ps.1,030,435**

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In millions of Mexican pesos and in millions of U.S. dollars)

	March 31, 2017	**March 31, 2017**	**March 31, 2016**
Interest income (Note 15)	US$ 1,172	Ps. 22,029	Ps. 15,842
Interest expense	466	8,757	5,074
NET INTEREST INCOME	**706**	**13,272**	**10,768**
Allowance for loan losses	(172)	(3,227)	(3,170)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**534**	**10,045**	**7,598**
Commission and fee income	228	4,282	3,577
Commission and fee expense	(78)	(1,465)	(982)
Intermediation income (Note 15)	37	693	467
Other operating income	30	566	399
Non-interest expense	(428)	(8,043)	(7,212)
	(211)	**(3,967)**	**(3,751)**
OPERATING INCOME	**323**	**6,078**	**3,847**
Equity in earnings of unconsolidated subsidiaries and associated companies	1	14	333
INCOME BEFORE INCOME TAX	**324**	**6,092**	**4,180**
Current income tax	(82)	(1,541)	(1,122)
Deferred income taxes	(17)	(320)	105
	(99)	**(1,861)**	**(1,017)**
RESULT BEFORE DISCONTINUED OPERATIONS	**US$ 225**	**Ps. 4,231**	**Ps. 3,163**
Discontinued operations	4	74	59
NET INCOME	**US$ 229**	**Ps. 4,305**	**Ps. 3,222**

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017, AND 2016
(In millions of Mexican pesos)

	PAID-IN CAPITAL			OTHER CAPITAL		
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2016	**Ps. 20,074**	**Ps. 11,682**	**Ps. 10,157**	**Ps. 48,398**	**(Ps.1,310)**	**(Ps. 936)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	13,518	-	-
Equity-settled share-based payments	-	72	-	-	-	-
Total transactions approved by stockholders	**-**	**72**	**-**	**13,518**	**-**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	86	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(2)	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(771)
Remeasurement of employee defined benefit	-	-	-	(9)	-	-
Total comprehensive income	**-**	**-**	**-**	**(11)**	**86**	**(771)**
Balances, March 31, 2016	**20,074**	**11,754**	**10,157**	**61,905**	**(1,224)**	**(1,707)**
Balances, January 1, 2017	**18,105**	**72**	**11,509**	**50,215**	**(1,645)**	**(2,131)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	-	15,044	-	-
Dividends declared at the General Stockholders' meetings on:						
February 17 2017	-	-	-	(2,200)	-	-
Share-based payments payable in stock options	-	108	-	-	-	-
Accounting effect on the sale of INB	-	-	-	(365)	-	-
Total transactions approved by stockholders	**-**	**108**	**-**	**12,479**	**-**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	506	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	304
Remeasurement of employee benefits	-	-	-	(9)	-	-
Effect of modification to consumer loans rating rules	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**(9)**	**506**	**304**
Balances, March 31, 2017	**Ps. 18,105**	**Ps. 180**	**Ps. 11,509**	**Ps. 62,685**	**(Ps. 1,139)**	**(Ps.1,827)**

See accompanying notes to these unaudited condensed consolidated interim financial statements.

	OTHER CAPITAL					
	Cumulative foreign currency translation adjustment	Remeasurements of employee benefits	Net income	Total majority interest	Minority interest	Total stockholders' equity
Balances, January 1, 2016	**Ps. 990**	**Ps. -**	**Ps. 13,518**	**Ps. 102,573**	**Ps. 10**	**Ps. 102,583**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	(13,518)	-	-	-
Share-based payments payable in stock options	-	-	-	72	-	72
Total transactions approved by stockholders	**-**	**-**	**(13,518)**	**72**	**-**	**72**
COMPREHENSIVE INCOME:						
Net income	-	-	3,222	3,222	-	3,222
Result from valuation of securities available for sale	-	-	-	86	-	86
Effect of subsidiaries, affiliates and mutual funds	-	5	-	3	-	3
Cumulative foreign currency translation adjustment	51	-	-	51	-	51
Result from valuation of instruments for cash flow hedging	-	-	-	(771)	-	(771)
Remeasurement of employee defined benefit	-	(128)	-	(137)	-	(137)
Total comprehensive income	**51**	**(123)**	**3,222**	**2,454**	**-**	**2,454**
Balances, March 31, 2016	**1,041**	**(123)**	**3,222**	**105,099**	**10**	**105,109**
Balances, January 1, 2017	**1,985**	**(377)**	**15,044**	**92,777**	**10**	**92,787**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Transfer of prior year's result	-	-	(15,044)	-	-	-
Dividends declared at the General Stockholders' meetings on:						
February 17 2017	-	-	-	(2,200)	-	(2,200)
Share-based payments payable in stock options	-	-	-	108	-	108
Accounting effect on the sale of INB	-	-	-	(365)	-	(365)
Total transactions approved by stockholders	**-**	**-**	**(15,044)**	**(2,457)**	**-**	**(2,457)**
COMPREHENSIVE INCOME:						
Net income	-	-	4,305	4,305	-	4,305
Result from valuation of securities available for sale	-	-	-	506	-	506
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	-	-
Cumulative foreign currency translation adjustment	(406)	-	-	(406)	-	(406)
Result from valuation of instruments for cash flow hedging	-	-	-	304	-	304
Remeasurement of employee benefits	-	(126)	-	(135)	-	(135)
Effect of modification to consumer loans rating rules	-	-	-	-	-	-
Total comprehensive income	**(406)**	**(126)**	**6,875**	**4,574**	**-**	**4,574**
Balances, March 31, 2017	**Ps. 1,579**	**Ps. (503)**	**Ps. 4,305**	**Ps. 94,894**	**Ps. 10**	**Ps. 94,904**

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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BANCO MERCANTIL DEL NORTE, S.A.,
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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017, AND 2016
(In millions of Mexican pesos and in millions of U.S. dollars)

	March 31, 2017	March 31,2017	March 31, 2016
Net income	**US$ 229**	**Ps. 4,305**	**Ps. 3,222**
Items not requiring (generating) resources:			
Real estate, furniture and equipment depreciations	20	379	272
Provisions	(135)	(2,537)	(1,453)
Current and deferred income tax	99	1,861	1,049
Equity in earnings of unconsolidated subsidiaries and associated companies	(1)	(14)	(333)
Discontinued operations	4	74	-
	216	**4,068**	**2,757**
OPERATING ACTIVITIES:			
Changes in margin accounts	15	277	(178)
Changes in investments in securities	1,347	25,325	(44,693)
Changes in debtor balances under repurchase and resale agreements	-	1	151
Changes in asset position of derivatives	965	18,146	730
Change in loan portfolio	(197)	(3,704)	(14,102)
Changes in acquired collection rights	4	76	67
Changes in receivables generated by securitizations	-	4	36
Change in foreclosed assets	2	40	81
Change in other operating assets	218	4,106	(5,521)
Change in deposits	130	2,436	(2,468)
Change in interbank and other loans	(224)	(4,204)	6,017
Change in creditor balances under repurchase and sale agreements	(1,253)	(23,554)	43,986
Collateral sold or pledged	-	2	(1)
Change in liability position of derivative financial instruments	(974)	(18,311)	(1,111)
Change in subordinated debentures	(210)	(3,941)	90
Change in other operating liabilities	(186)	(3,489)	3,090
Change in hedging instruments related to operations	(115)	(2,158)	364
Income tax paid	(98)	(1,847)	(1,242)
Assets for discontinued operations	-	(3)	-
Net cash flows (used) in operating activities	**(360)**	**(6,730)**	**(11,947)**
INVESTING ACTIVITIES:			
Proceeds on disposal of property, furniture and equipment	2	42	127
Payments for acquisition of property, furniture and equipment	(35)	(649)	(502)
Proceeds on disposal of Subsidiaries and associated companies	170	3,195	-
Payments for disposal of other permanent investments	-	(2)	(2)
Charges for cash dividends	60	1,128	1,100
Net cash flows generated by investing activities	**197**	**3,714**	**723**
FINANCING ACTIVITIES:			
Dividends paid	(117)	(2,200)	-
Net cash flows used in financing activities	**(117)**	**(2,200)**	**-**
Net increase(decrease) in cash and cash equivalents	(286)	(5,370)	(11,224)
Effects from changes in the value of cash and cash equivalents	(4)	(69)	(66)
Cash and cash equivalents at the beginning of the period	3,503	65,844	107,457
Cash and cash equivalents at the end of the period	**US$ 3,214**	**Ps. 60,405**	**Ps. 96,167**

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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1 - ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, SA, Multiple Banking Institution, Grupo Financiero Banorte and Subsidiaries (the Institution), is a multiple banking institution whose main activities are regulated by the Law on Credit Institutions (LIC), as well as Banco de México And by the National Banking and Securities Commission of Mexico (the Commission). Its activities consist of receiving deposits, accepting and granting loans and credits, raising funds from the public, investing in securities, entering into repurchase agreements, entering into derivative financial instruments (futures, swaps, options and forward contracts) and other banking operations In accordance with the SCI. Its subsidiaries are supervised by the Commission.

The main activity of its subsidiaries is the execution of financial operations such as the administration of funds for the withdrawal (until October 17, 2016, date on which the splitting of the Institution took effect), the issuance of credit cards and the provision of multiple banking services in the United States of America.

The main regulatory aspects require the Institution to maintain a minimum capitalization ratio in relation to the market and credit risks of its operations, compliance with certain deposit acceptance limits, obligations and other types of funding that may be denominated in currency as well as the establishment of minimum limits of paid-in capital and capital reserves, with which the Institution satisfactorily complies with as of March 31, 2017.

The Institution is 98.22% owned subsidiary of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

Within the facilities that correspond to the Commission in its capacity as regulator of Credit Institutions, is to carry out revisions to the financial information of the Institution and to require modifications to it.

The Institution carries out its activities in Mexico and the United States of America.

Seasonality

Because the business model of the Institution operates according to financing projects that do not necessarily occur in defined periods, the operating results of the Institution are not subject to significant fluctuations. However, the results of operations for a period of three months are not necessarily indicative of the operating results of a full year, and historical operating results are not necessarily indicative of future operating results, mainly due to the amount of financing projects that occur in each period.

2 - SIGNIFICANT EVENTS

Sale of INB

On March 31, 2017 the Institution, through INB Financial Corporation (a subsidiary of Banorte USA, which is a Subsidiary of Banorte), entered into the sale of all the shares representing capital Social network of Inter National Bank of which it was proprietor, in favor of a group of investors of the United States of America. As result of the sale there was a loss of USD 218 million which was reclassified to income from prior years in accordance with the special criteria issued by the commission.

The mentioned above is in relation to the corporate restructuring program of Institution, the terms of which were published in the consolidated financial statements of the Institution corresponding to the closing of the 2016 financial year.

The Institution has retrospectively classified the net income from INB in its consolidated income statements as a discontinued operation, which reflects the effect of such sale retrospectively in to be comparable with the results for 2016.

EARLY AMORTIZATION OF SUBORDINATED OBLIGATIONS Q BANORTE 08

On January 3, 2017, the Institution carried out the early amortization of the non-preferred subordinated debentures not subject to Q Banorte 08 shares, issued on March 11, 2008, with maturity on February 27, 2018 for an amount of Ps. 3.

3 - BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements

The unaudited condensed consolidated interim financial statements and the corresponding explanatory notes as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 include balances and transactions in Mexican pesos and purchasing power of such dates.

Consolidation of financial statements

The accompanying unaudited condensed consolidated interim financial statements include those of the Institution and its subsidiaries mentioned below, and all significant consolidated intercompany balances and transactions have been eliminated.

As of March 31, 2017 and December 31, 2016, the Institution's consolidated subsidiaries and its equity ownership are as follows:

	March 31, 2017	December 31, 2016
Derivados Banorte, S.A. de C.V.	51.00%	51.00%
Banorte USA Corporation	100.00%	100.00%
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.60%
Fideicomiso BONY 469	100.00%	100.00%

Explanation for translation into English

The accompanying unaudited condensed consolidated interim financial statements have been translated from Spanish into English for the convenience of users. These unaudited condensed consolidated interim financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to Mexican Financial Reporting Standards ("NIF´s") or other accounting principles generally accepted outside of Mexico.

The unaudited condensed consolidated interim financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US$") are included solely for the convenience of the readers and have been made at the rate of Ps. 18.7955 per one U.S. dollar according to the closing exchange rate of March 31, 2017, as issued by Banco de México. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.

Accounting policies

The significant accounting policies of the Institution are the same as those used in the annual consolidated financial statements as of and for the year ended December 31, 2016 which are in conformity with the practices prescribed by the Commission which are included in the "General Provisions applicable to Credit Institutions" (the "Provisions"), in their circulars, and in specific and general trades issued for such purpose, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Similarly, the principles applied in preparing the unaudited condensed consolidated interim financial statements are consistent with those applied in the aforementioned annual consolidated financial statements.

Pursuant to accounting Circular A-1, “Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (MFRS), defined by the Mexican Board of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or criterion, considering the fact that banking institutions perform specialized operations.

According to management´s opinion, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2015. The results of operations for the interim periods presented are not necessarily indicative of the annual results of the Institution’s operations.

For purposes of these unaudited condensed consolidated interim financial statements, certain information and disclosures normally included in annual financial statements prepared in accordance with MFRS or the Commission’s specific accounting standards or circulars, have been condensed or omitted.

Changes in the NIF D3 "Employee Benefits".

On December 31, 2015, the Commission issued a resolution amending the provisions relating to the application of the "NIF D-3, Employee Benefits" This resolution provides transition provisions to financial institutions related to the modifications established in MFRS D-3.

The Institution utilized the third transition provision electing to prospectively recognize in stockholders' equity the impact of the amendments referred to in subparagraphs a) and b) of paragraph 81.2 of NIF D-3 "Employee Benefits "issued by the CINIF, which became effective on January 1, 2016. The Institution began to recognize the impact of these changes with 20% of the effects recognized in 2016 and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years:

I. The balance of unrecognized plan amendments impacted by these amendments is as follows:

Discount rate	Total outstanding balance	Annual 20%	Gradual recognition as of and for the three months ended March 31, 2017
Corporate bonds	Ps. 183.	Ps. 37	Ps. 46

II. The balance of actuarial gains impacted by these amendments is as follows:

Discount rate	Total outstanding balance	Annual 20%	Gradual recognition as of and for the three months ended March 31, 2017
Corporate bonds	Ps. 2,729	Ps. 546	Ps. 682

The 20% annual amortization expense of these items is recognized on a monthly straight-line basis.

Critical accounting judgements and estimates

Management of the Institution uses certain assumptions and estimates based on historical experience and other factors that are considered to be relevant for the preparation of the condensed consolidated financial statements. Critical accounting judgements and estimates of the Institution are the same with those used in the annual consolidated financial statements as of and for the year ended December 31, 2016.

The assumptions and estimates are continuously reviewed. Amendments to accounting estimates are recognized in the period in which the amendment is performed and in future periods if the amendment affects both current and subsequent periods.

4 - INVESTMENT IN SECURITIES

a. Trading securities

As of March 31, 2017 and December 31, 2016, trading securities are as follows:

	March 31, 2017				December 2016
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. 10
Bonds	795	9	7	811	68
Development Bonds	14,685	41	3	14,729	12,699
Saving Protection Bonds (BPAS)	109,610	627	71	110,308	92,037
Udibonos	197	-	-	197	9
Bank securities	10,784	10	-	10,794	9,476
Exchange listed debt certificates	13,594	39	(15)	13,618	14,641
Other securities	354	-	97	451	537
	Ps. 150,024	**Ps. 726**	**Ps. 163**	**Ps. 150,913**	**Ps. 129,477**

b. Securities available for sale

As of March 31, 2017 and December 31, 2016, securities available for sale are as follows:

	March 31, 2017				December 31, 2016
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	98	-	-	98	109
Bonds	8,155	18	(33)	8,140	8,120
Development Bonds	100	-	-	100	100
Saving Protection Bond (BPAS)	47,887	414	(148)	48,153	95,113
Bank securities	1,263	-	(114)	1,149	4,748
Shares	5,099	-	(1,348)	3,751	3,700
EUROBONDS	36,167	468	(61)	36,574	-
CBIC	-	-	-	-	32,327
Securitization certificates	9,308	36	(423)	8,921	8,911
	Ps. 108,078	**Ps. 936**	**(Ps. 2,127)**	**Ps. 106,886**	**Ps. 153,128**

c. Securities held to maturity

As of March 31, 2017 and December 31, 2016, securities held to maturity are as follows:

Medium and long-term debt instruments:

	March 31, 2017			December 31, 2016
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Government bonds- support program for Special Federal Treasury Certificates	Ps. 959	Ps. -	Ps. 959	Ps. 951
Securitization certificates	5,265	21	5,286	5,307
	Ps. 6,224	**Ps. 21**	**Ps. 6,245**	**Ps. 6,258**

5 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of March 31, 2017 and December 31, 2016, the debtor and creditor balances in repurchase transactions consist of:

Acting as seller of securities

Instrument	March 31, 2017	December 31, 2016
CETES	Ps. 99	Ps 10
Development Bonds	14,726	13,150
Bonds IPAB	8,774	7,141
Quarterly IPAB bonds	104,953	132,816
Semi-annual IPAB bonds	44,373	47,206
10-year bonds	815	69
UDIBONOS	8	9
Government securities	**173,748**	**200,401**
Promissory Notes	3,258	2,457
CEDES	7,536	7,017
CEBUR Bank	9,695	10,845
Bank securities	**20,489**	**20,319**
Short-term CEBUR	13,850	13,744
Mortgage certificates	20	26
Eurobonds	2,829	0
Private securities	**16,699**	**13,770**
	Ps. 210,936	**Ps 234,490**

With the Institution acting as the vendor, accrued premiums were charged to the results of operations for the three months ended March 31, 2017 and 2016 for Ps. 3,816 and Ps. 2,096, respectively, and recorded under “interest expenses”.

During 2016, the period of repurchase transactions carried out by the Institution in its capacity as vendor ranged from 1 to 364 days.

Acting as securities purchaser

Instrument	March 31, 2017 Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	December 31, 2016 Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
Development Bonds	Ps. 500	Ps. 500	-	-	Ps. -	-	-	-
Bonds IPAB	3,809	3,809	-	-	-	-	-	-
Quarterly IPAB bonds	30,269	30,268	1	-	13,004	13,004	-	-
Semi-annual IPAB bonds	12,092	12,091	1	-	1,080	1,080	-	-
M bonds	24,004	24,005	-	1	-	-	-	-
Bondes	21,884	21,884	-	-	-	-	-	-
Cetes	-	-	-	-	101	101	-	-
CEBUR in UDIS	990	990	-	-	1,701	1,701	-	-
Government securities	**92,558**	**92,557**	**1**	**1**	**15,886**	**15,886**	**-**	**-**
CEDES	-	-	-	-	-	-	-	-
Bank bonds	531	531	-	-	-	-	-	-
Securitized bank certificates	-	-	-	-	916	916	-	-
Bank securities	**531**	**531**	**-**	**-**	**916**	**916**	**-**	**-**
Short-term CEBUR	1,120	1,121	-	1	3,322	3,322	-	-
Debentures	-	-	-	-				
Private securities	**1,120**	**1,121**	**-**	**1**	**3,322**	**3,322**	**-**	**-**
	Ps. 94,209	**Ps. 94,209**	**Ps. 2**	**Ps. 2**	**Ps. 20,124**	**Ps. 20,124**	**-**	**-**

With the Institution in its capacity as purchaser, accrued interest was charged to the results of operations for the three months ended March 31, 2017 and 2016 for Ps. 689 and Ps. 443, respectively, and reported under “interest income”.

During 2016, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 to 364 days.

6 - DERIVATIVE FINANCIAL INSTRUMENTS

The transactions carried out by the Institution involving derivative financial instruments correspond mainly to futures, swaps and options contracts. These transactions are entered into in order to hedge various financial risks as well as for trading purposes.

As of March 31, 2017 and December 31, 2016, the Institution has evaluated the effectiveness of derivative transactions for hedging purposes and has concluded that they are highly effective.

As of March 31, 2017 and December 31, 2016, the Institution's derivatives positions held for trading purposes are as follows:

Asset position	March 31, 2017	December 31, 2016
Forwards		
Foreign currency forwards	Ps. 63	Ps. 9
Options		
Interest rate options	869	1,059
Stock options	5	2
Fx Options	-	4
Swaps		
Interest rate swaps	17,967	34,570
Exchange rate swaps	3,835	5,237
Total trading	**22,739**	**40,881**
Swaps		
Interest rate swaps	359	696
Exchange rate swaps	-	-

Options		
Interest rate options	28	46
Total hedging	**387**	**742**
Total position	**Ps. 23,125**	**Ps. 41,623**

Liability position	March 31, 2017	December 31, 2016
Forwards		
Foreign currency forwards	Ps. 75	Ps. 28
Options		
Interest rate options	866	1,112
Fx options	-	1
Swaps		
Interest rate swaps	16,255	32,937
Exchange rate swaps	4,896	6,325
Total trading	**22,092**	**40,403**
Swaps		
Interest rate swaps	480	168
Exchange rate swaps	6,075	9,204
Total hedging	**6,555**	**9,372**
Total position	**Ps. 28,647**	**Ps. 49,775**

The following are notional bonds in different currencies, depending on the type of product, by March 31, 2017:

Trading instruments

Instrument	MXN	US$	EUR
Foreign currency forwards	Ps. 2,902	Ps. 141	Ps. 3
Interest rate options	129,208	724	-
Stock options	3	-	-
Foreign currency swaps (receiving leg)	33,646	1,815	-
Foreign currency swaps (paying leg)	39,767	1,543	-
Interest rate swaps (receiving leg)	1,373,740	24,240	-
Interest rate swaps (paying leg)	1,373,740	24,240	-

Hedging instruments

Instrument	MXN	US$	EUR	GBP
Interest rate options	Ps. 7,900	-	-	-
Foreign currency swaps (receiving leg)	12,704	0	-	-
Foreign currency swaps (paying leg)	0	161	462	106
Interest rate swaps (receiving leg)	67,709	-	-	-
Interest rate swaps (paying leg)	67,709	-	-	-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
	LIBOR	LIBOR	Euribor
			UDI

Transactions carried out for hedging purposes have maturities from 2017 to 2031 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of March 31, 2017 is US$ 558,231 thousand, and Ps. 11,300 thousand, while as of December 31, 2016 it was US$ 776,059 thousand and Ps.8,700

As of March 31, 2017 and December 31, 2016, the collateral given was comprised mainly of cash, PEMEX bonds, and short-term government bonds restricted under the categories of trading securities and securities available for sale. The restriction maturity date for this collateral is from 2016 to 2027.

As of March 31, 2017 and December 31, 2016, the main positions hedged by the Institution and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate caps and swaps
- Recorded assets in foreign currency using cross currency swaps
- Recorded liabilities in foreign currency using cross currency swaps

As of March 31, 2017, there are 98 hedge files related to hedging transactions. Their effectiveness ranges between 91% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of March 31, 2017 and December 31, 2016, there are no ineffective portions that are recorded at the market value that the Institution has to record in earnings.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty’s solvency and the nature of the transaction.

7 - LOAN PORTFOLIO

As of March 31, 2017 and December 31, 2016, the loan portfolio by loan type is as follows:

	Performing Loan Portfolio		Past-due loan portfolio		Total	
	March 2017	**2016**	**March 2017**	**2016**	**March 2017**	**2016**
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 158,576	Ps. 154,500	Ps. 4,735	Ps. 5,076	Ps. 163,311	Ps. 159,576
Rediscounted portfolio	7,529	7,561	878	264	8,407	7,825
Denominated in USD						
Commercial	29,307	35,307	64	128	29,371	35,435
Rediscounted portfolio	3,738	4,384	-	-	3,738	4,384
Loans to financial institutions	21,122	20,240	344	344	21,466	20,584
Consumer loans	-	-			-	-
Credit card	29,516	28,445	1,660	1,623	31,176	30,068
Other consumer loans	61,308	58,187	1,333	1,576	62,641	59,763
Mortgage loans						
Denominated in domestic currency	119,127	114,619	1,005	1,034	120,132	115,653
Denominated in USD			-	-		
Denominated in UDIS	183	189	14	15	197	204
Government loans	130,183	133,540	-	-	130,183	133,540
Total loan portfolio	**Ps. 560,589**	**Ps. 556,972**	**Ps. 10,033**	**Ps. 10,060**	**Ps. 570,622**	**Ps. 567,032**

As of March 31, 2017 and December 31, 2016, the balance of deferred loan origination fees was Ps. 2,467 and Ps. 2,455, respectively and the amount recorded in results for the three months ended March 31, 2017 and December 31, 2016 was Ps. 282 and Ps. 1,199, respectively. Furthermore, the deferred balance of costs and expenses associated with initial loan grant is Ps. 2,439 and Ps. 2,251 as of March 31, 2017 and December 31, 2016, respectively and the amount recorded in results for the periods was Ps. 143 and Ps. 485, respectively. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of Deferred Loans and Advance Collections within the consolidated statements of financial positions as well as in interest income and interest expenses, respectively, in the consolidated statements of comprehensive income.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

As of March 31, 2017 and 2016, the balance of fully reserved past-due loans that were written off was Ps. 3,947 and Ps. 10,776 respectively.

During the three months ended March 31, 2017 and 2016, revenues from recoveries of previously written-off loan portfolios were Ps. 1,507 and Ps.1,531, respectively.

8 - ALLOWANCE FOR LOAN LOSSES

The Institution’s portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	March 31, 2017						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps. 451,581	Ps. 829	Ps. 492	Ps. 80	Ps. 642	Ps. 171	Ps. 2,215
Risk A2	47,483	206	62	21	550	43	882
Risk B1	23,016	110	29	3	533	22	698
Risk B2	22,419	55	17	3	797	33	905
Risk B3	12,717	117	15	8	481	11	631
Risk C1	6,457	85	15	2	407	36	544
Risk C2	5,062	61	-	-	664	56	781
Risk D	10,438	2,102	-	155	1,488	234	3,979
Risk E	4,569	860	-	-	2,063	54	2,977
Unclassified	(23)	-	-	-	-	-	-
	Ps. 583,719	**Ps. 4,425**	**Ps. 630**	**Ps. 272**	**Ps. 7,625**	**Ps. 660**	**Ps. 13,612**
Less: Recorded allowance							**13,805**
Reserve supplement*							**Ps. 193**

	December 31, 2016						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps. 440,096	Ps. 820	Ps. 518	Ps. 87	Ps. 599	Ps. 163	Ps. 2,187
Risk A2	49,381	233	46	9	532	50	870
Risk B1	24,130	128	33	3	522	23	709
Risk B2	24,088	60	57	1	781	35	934
Risk B3	13,375	140	58	2	419	10	629
Risk C1	6,877	87	16	2	416	46	567
Risk C2	5,331	52	-	-	672	75	799
Risk D	10,540	2,045	-	155	1,521	283	4,004
Risk E	4,652	856	-	2	2,132	62	3,052
Unclassified	(31)	-	-	-	-	-	-
	Ps. 578,439	**Ps. 4,421**	**Ps. 728**	**Ps. 261**	**Ps. 7,594**	**Ps. 747**	**Ps. 13,751**
Less: Recorded allowance							**13,941**
Reserve supplement*							**Ps. 189**

*The recorded reserves supplement conforms to the provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau.

As of March 31, 2017 and December 31, 2016, the amount of the rating base for loan portfolios includes Ps. 13,069 and Ps. 11,357, respectively, for granted guarantors and Ioan acquisitions, which were recorded in memorandum accounts. Ps. - and Ps. 52, respectively, were also added for loans to related parties.

As of March 31, 2017 and December 31, 2016, the estimated allowance for loan losses is determined based on portfolio balances at those dates and represents 138% and 139%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of March 31, 2017 and December 31, 2016.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	March 31, 2017	**December 31, 2016**
Balance at the beginning of the year	Ps.13,941	Ps. 13,334
Increase charged to results	3,039	12,727
Discounts and write-offs	(3,175)	(12,669)
Rebates granted to housing debtors	-	(8)
Recognized against results of previous years	-	672
Reclassification INB	-	(197)
Others	-	82
Year-end balance	**Ps.13,805**	**Ps. 13,941**

9 - PERMANENT STOCK INVESTMENTS

Investments in associated companies are valued according to the equity method, as detailed below:

	Share %	**March 31, 2017**	**December 31, 2016**
Controladora PROSA, S. A. de C. V.	19.73%	Ps.109	Ps. 101
Trans Unión de México S.A. SIC	4.81%	33	28
Sociedades de Inversión	Varios	15	-
Dun & Bradstreet S.A. SIC	4.80%	11	10
Fondo Chiapas, S.A. de C.V.	8.96%	-	15
Otras	Varios	31	31
		Ps. 199	**Ps. 185**

The Institution exercises significant influence over its affiliates valued under the equity method through its representation in each of their board of directors or equivalent management body, as well as through significant intercompany transactions.

10 - DEFERRED TAXES, NET

The tax reported by the Institution is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Institution has recognized a recoverable net deferred tax asset of Ps. 3,601 and Ps. 4,228, respectively, as of March, 31, 2017 and December 31, 2016 as detailed below:

	March 31, 2017		December 31, 2016	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Assets				
Tax losses in foreclosure sales	Ps.-	Ps.-	Ps. -	Ps. -
Allowance for loan losses	13,805	$4,141	1	-
Surplus preventive allowances for credit risks over the net tax limit	-	-	13,941	4,182
Excess of tax over book value of foreclosed and fixed assets	2,912	871	2,647	791
PTU	478	144	380	114
Fees collected in advance	2,566	770	2,571	771
Accounting provisions	2,789	837	3,043	913
Financial instruments valuation	3,153	946	4,306	1,292
Other assets	2	1	2	1
Total deferred assets	**Ps. 25,705**	**Ps. 7,710**	**Ps. 26,891**	**Ps. 8,064**
Temporary Differences - Liabilities				
Advance contributions to pension fund	Ps. 3,168	Ps. 950	Ps. 3,254	Ps. 976
Portfolios acquired	585	176	606	182
Capitalizable projects' expenses	9,865	2,960	8,882	2,665
Intangible assets	-	-	74	20
Effect from other items	74	23	(19)	(7)
Total deferred liabilities	**13,692**	**4,109**	**12,797**	**3,836**
Net accumulated effect	**Ps. 12,013**	**Ps. 3,601**	**Ps. 14,094**	**Ps. 4,228**
Deferred tax, net		**Ps. 3,601**		**Ps. 4,228**

As explained in Note 16, for March 31, 2017 and December 31, 2016 the applicable ISR rate is 30%.

11 - OTHER ASSETS

This item is made up as follows:

	March 31, 2017	December 31, 2016
Net asset forecast from labor obligations and savings fund	Ps.2,708	Ps. 2,851
Payments to amortize	11,430	11,763
Accumulated payment amortization	(1,819)	(1,709)
Goodwill	1,370	1,406
	Ps.13,689	**Ps. 14,311**

Goodwill has not been amortized since 2007 and is subject to annual impairment tests. No impairment to goodwill value was detected as of March 31 2017 and December 31, 2016.

12 - DEPOSITS

The liabilities derived from core deposits are made up as follows:

	March, 31, 2017	December 31, 2016
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 194,772	Ps. 210,850
Checking accounts in US dollars for individual residents on the Mexican border	2,472	2,621
Demand deposits accounts	15,541	16,572
Interest Bearing Checking accounts:		
Other bank checking deposit	84,826	80,433
Savings accounts	-	-
Checking accounts in US dollars for individual residents on the Mexican border	1,873	2,110
Demand deposits accounts	66,970	69,823
	366,454	**382,409**
Time deposits		
General public:		
Fixed-term deposits	16,709	18,938
Retail time deposits	35,251	169,687
Promissory note with interest payable at maturity PRLV primary market for individuals	156,426	1,248
Foreign residents deposits	13	14
Provision for interest	813	649
	209,212	**190,536**
Money market:		
Over the counter promissory notes	1,115	1,458
Provision for interest	-	1
	1,115	**1,459**
	210,327	**191,995**
Global account deposit without movement	**1,410**	**1,352**
	Ps. 578,191	**Ps. 575,756**

The funding rates that the Institution uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

13 - INTERBANK AND OTHER LOANS

The loans received from other banks as of March 31, 2017 and December 31, 2016 are as follows:

	Mexican pesos		Denominated in US$		Total	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Immediately due:						
Domestic banks (Call money)	Ps.1,137	Ps. 4,019	Ps.-	Ps. -	$1,137	Ps. 4,019
Short-term:						
Commercial banking	-	-	92	15	92	15
Development banking	225	315	479	520	704	835
Public trusts	5,896	6,336	504	857	6,400	7,193
Provision for interest	8	14	-	6	8	20
	6,129	**6,665**	**1,075**	**1,398**	**7,204**	**8,063**
Long-term:						
Commercial banking	-	-	2,258	2,567	2,258	2,567
Development banking	-	-	2,506	2,751	2,506	2,751
Public trusts	3,638	3,537	300	323	3,938	3,860
	3,638	**3,537**	**5,064**	**5,641**	**8,702**	**9,178**
	Ps.10,904	**Ps. 14,221**	**Ps.6,139**	**Ps. 7,039**	**$17,043**	**Ps. 21,260**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

14 - SUBORDINATED DEBENTURES

As of March 31, 2017 and December 31, 2016, the subordinated debentures in circulation are as follows:

	March 31, 2017	December 31, 2016
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	Ps. 3,200	Ps. 3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	-	3,000
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	2,559	2,487
Nonpreferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	2,255	2,472
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	-	212
Preferred subordinated debentures not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semi-annually and amortizing capital at maturity.	9,398	10,310
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	-	212
Accrued interest	139	24
	Ps. 17,551	**Ps. 21,917**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results is Ps. 5 and Ps. 10 for the three months ended in March 31, 2017 and 2016, respectively.

15 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the statements of financial position and the statements of comprehensive income are comprised as follows:

a. Interest and fees income is made up as follows:

	March 31, 2017					
	Interest		Fees		Total	
	MXP	Foreign Exchange	MXP	Foreign Exchange	MXP	Foreign Exchange
Cash and cash equivalents	Ps. 478	Ps. 6	Ps. -	Ps. -	Ps. 478	Ps. 6
Margin securities	41	-	-	-	41	-
Investment in securities	4,305	-	-	-	4,305	-
Securities repurchasing and loans	689	-	-	-	689	-
Hedging transactions	1,001	36	-	-	1,001	36
Commercial loans	7,067	-	108	-	7,175	-
Mortgage loans	2,867	-	123	-	2,990	-
Consumer loans	5,257	-	51	-	5,308	-
Others	-	-	-	-	-	-
	Ps. 21,705	**Ps. 42**	**Ps. 282**	**Ps. -**	**Ps. 21,987**	**Ps. 42**

	March 31, 2016					
	Interest		Fees		Total	
	MXP	Foreign Exchange	MXP	Foreign Exchange	MXP	Foreign Exchange
Cash and cash equivalents	Ps. 357	Ps. 15	Ps. -	Ps. -	Ps. 357	Ps. 15
Margin securities	7	-	-	-	7	-
Investment in securities	2,162	158	-	-	2,162	158
Securities repurchasing and loans	394	49	-	-	394	49
Hedging transactions	665	-	-	-	665	-
Commercial loans	4,771	-	133	-	4,904	-
Mortgage loans	2,507	-	111	-	2,618	-
Consumer loans	4,453	-	61	-	4,513	-
Others	-	-	-	-	-	-
	Ps. 15,315	**Ps. 222**	**Ps. 305**	**Ps. -**	**Ps. 15,620**	**Ps. 222**

b. The composition of interest expense, segmented by type of deposit, is as follows:

	March 31, 2017			March 31, 2016		
	MXP	Foreign Exchange	Total	MXP	Foreign Exchange	Total
Immediately Due and Payable Deposits:						
Checking accounts	Ps. 337	Ps. -	Ps. 337	Ps. 255	Ps. -	Ps. 255
Savings accounts	73	-	73	98	-	98
	410	-	410	353	-	353
Time Deposits:						
General public	2,447	6	2,453	1,247	11	1,258
Money market	15	-	15	28	-	28
	2,462	6	2,468	1,275	11	1,286
Total	**Ps. 2,872**	**Ps. 6**	**Ps. 2,878**	**Ps. 1,628**	**Ps. 11**	**Ps. 1,639**

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	March 31, 2017			March 31, 2016		
	MXP	Foreign Exchange	Total	MXP	Foreign Exchange	Total
Call money	Ps. 11	Ps. -	Ps. 11	Ps. 15	Ps. -	Ps. 15
Banco de México	-	-	-	2	-	2
Commercial banks	127	10	137	-	6	6
Development banking	177	-	177	115	-	115
Other agencies	4	-	4	5	-	5
Total	**Ps. 319**	**Ps. 10**	**Ps. 329**	**Ps. 137**	**Ps. 6**	**Ps. 143**

d. The trading results for the Three months ended March 31, 2017 and 2016, are as follows:

	March 31, 2017	March 31, 2016
Valuation results		
Trading Securities	Ps. 49	Ps.96
Decrease in securities	(112)	(3)
Derivative financial instruments	16	80
Total valuation results	**(47)**	**173**
Securities purchase-sales result, net		
Trading Securities	58	(23)
Securities available for sale	6	54
Derivative financial instruments	281	3
Total securities' trading results	**345**	**34**

Spot foreign currency	506	252
Foreign currency valuation	(124)	2
Minted metals trading	13	2
Minted metals valuation	-	4
Total foreign currency trading results	**395**	**260**
Total trading results	**740**	**294**
Total trading results	**Ps. 693**	**Ps. 467**

16 - INCOME TAXES

The Institution is subject to Income Tax (ISR). Pursuant to the new 2014 ISR Law the rate for March 31, 2017 and December 31, 2016 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the accounting and income tax results

The principal items affecting the determination of the current tax expense of the Institution were the annual adjustment for inflation, deduction of loan write-offs, and the valuation of financial instruments.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the profit before ISR is:

	March 31, 2017	December 31, 2016
Legal rate	30%	30%
Tax inflation	(2%)	(3%)
Non-tax accounting items	2%	3%
Other	1%	(1%)
Effective rate	**31%**	**27%**

17 - STOCKHOLDERS’ EQUITY

The Institution’s shareholders' common stock as of March 31, 2017 and December 31, 2016 is comprised as follows:

	Number of shares with a nominal value of Ps. 10	
	March 31, 2017	December 31, 2016
	Paid-in Capital	Paid-in Capital
“O” Series	137,303,109,559	137,303,109,559

	Historical Amounts	
	March 31, 2017	December 31, 2016
“O” Series	Ps. 13,730	Ps. 13,730
Restatement in Mexican pesos through December 2007	4,375	4,375
	Ps. 18,105	Ps. 18,105

Restrictions on profits

The distribution of stockholders’ equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Institution at the effective rate. Any tax paid on such distribution may be credited against that year’s income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year’s tax and the provisional payments made.

The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of March 31, 2017 and December 31, 2016, the legal reserve is Ps. 11,344 and Ps. 11,509, respectively, and represents 63.00% and 63.00% of paid-in capital, respectively.

Share-based payments

During 2017 and 2016, the Institution recorded Ps. 108 and Ps. 408, respectively in administration expenses as compensation for share-based payments against paid-in capital.

As of March 31, 2017 and December 31, 2016, the Institution has 13,493,005 shares of the Financial Group granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. 101.06.

During 2017 and 2016, 4,967,656 and 5,015,798 shares were granted, respectively.

Capitalization ratio

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk. The information for March 31, 2017 sent to Banco de México to review is shown below.

- The Institution's capitalization ratio as of March 31, 2017 was 16.59% of total risk (market, credit and operational), and 21.53% of credit risk, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Net capital as of March 31, 2017	
Tier 1 common equity prior to regulatory adjustments.	Ps. 93,237
Goodwill (net of applicable deferred profit taxes)	986
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	6,302
Result from valuation of instruments for cash flow hedging	1,906
Benefits on the remainder in securitization transactions	151
Defined benefit Pension Plan	116
Investments in its own shares	601
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Institution owns over 10% of the capital stock issued (amount over the 10% threshold)	-
National regulatory adjustments	1,579
Total regulatory adjustments to Tier 1 common equity	**8,156**
Tier 1 common equity (CET1)	**85,080**
Additional Tier 1 equity (AT1)	2,255
Tier 1 Equity (T1 = CET1 + AT1)	**87,336**
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	15,157
Reserves	651
Tier 2 equity (T2)	**15,808**
Total capital (TC = T1 + T2)	**Ps. 103,143**

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities transactions in Mexican pesos	Ps. 34,966	Ps. 2,797
Floating rate securities transactions in Mexican pesos	8,703	696
Real interest rate or UDI denominated securities transactions in Mexican pesos	2,284	183
UDIS or inflation indexed (INPC) securities transactions	10	1
Nominal interest rate foreign exchange denominated securities transaction in Mexican pesos	8,612	689
Positions in foreign exchange or exchange rate indexed securities transactions	772	62
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,408	113
Total	**Ps. 56,755**	**Ps. 4,541**

Assets subject to credit risk

Concepto	Activos ponderados por riesgo	Requerimiento de capital
Grupo I_B (weighted al 20%)	Ps.0	Ps.0
Grupo III (weighted al 20%)	12,714	1,017
Grupo III (weighted al 50%)	2,940	235
Grupo III (weighted al 100%)	9,477	758
Grupo IV (weighted al 20%)	10,223	818
Grupo V (weighted al 20%)	17,847	1,428
Grupo V (weighted al 50%)	4,674	374
Grupo V (weighted al 115%)	-	-
Grupo V (weighted al 150%)	3,294	264
Grupo VI (weighted al 50%)	22,081	1,766
Grupo VI (weighted al 75%)	7,091	567
Grupo VI (weighted al 100%)	151,612	12,129
Grupo VII_A (weighted al 20%)	7,954	636
Grupo VII_A (weighted al 50%)	5,068	405
Grupo VII_A (weighted al 100%)	145,224	11,618
Grupo VII_A (weighted al 115%)	-	-
Grupo VII_A (weighted al 150%)	1,392	111
Grupo VII_B (weighted al 20%)	-	-
Grupo VIII (weighted al 115%)	4,136	331
Grupo VIII (weighted al 150%)	936	75
Grupo IX (weighted al 10%)	-	-
Grupo IX (weighted al 50%)	-	-
Grupo IX (weighted al 100%)	27,460	2,197
Securitizations with a Risk Degree of 1 (weighted al 20%)	1,120	90
Securitizations with a Risk Degree of 2 (weighted al 50%)	1,825	146
Securitizations with a Risk Degree of 3 (weighted al 100%)	52	4
Sum	**Ps. 437,120**	**Ps. 34,969**
For permanent, movable and immovable shares, and prepaid and deferred charges	**$28,663**	**$2,293**
Total	**$465,783**	**$37,262**

Assets subject to operational risk:

	Risk Weighted Assets	Capital requirement
Standard method	**Ps. 85,788**	**Ps. 6,863**

	Average of market and credit risk of the last 36 months	Average of positive net annual income of the last 36 months
Total	**Ps. 36,125**	**Ps. 43,548**

Institution of Local Systemic Importance

During 2016, Banorte was designated an Institution of Local Systemic Importance, so it must maintain a capital preservation supplement of 0.90 pp, to be constituted progressively in a maximum term of four years and beginning in December 2016. With the above, Banorte's minimum Capitalization Index amounts to 10.73% at the end of 2016, corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted.

Management

Pursuant to the regulations in effect and the requirements of the CNBV, Banorte is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

In order to manage capital, a weekly follow-up analysis is conducted on the requirements based off of the risk position, supported by strategy or transaction simulations of the various areas of business operation in order to determine their consumption.
For more information, see Appendix 1-O, Supplementary information for the first quarter of 2017, in compliance with the Obligation to disclose information on the Capitalization Index, which can be found on the website www.banorte.com/relacionconinversionistas

18 - FOREIGN CURRENCY POSITION

As of March 31, 2017 and December 31, 2016, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 18.7955 and Ps. 20.6194 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	March 31, 2017	**December 31, 2016**
Assets	5,780,809	6,997,632
Liabilities	5,748,297	6,916,344
Net asset position in US dollars	**32,512**	**81,288**
Net asset position in Mexican pesos	**Ps. 611**	**Ps. 1,676**

19 - POSITION IN UDIS

As of March 31, 2017 and December 31, 2016, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.723135 and Ps. 5.562883, per UDI, respectively, as shown below:

	Thousands of UDIS	
	March 31, 2017	**December 31, 2016**
Assets	259,072	230,900
Liabilities	449,916	455,638
Net asset (liability) position in UDIS	**(190,844)**	**(224,738)**
Net asset (liability) position in Mexican pesos	**(Ps.1,092)**	**(Ps. 1,250)**

20 - EARNINGS PER SHARE

Earnings per share is the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share for the three months ended March 31, 2017 and 2016 are shown below:

	March 31, 2017			December 31, 2016
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
EPS continuous operations	Ps. 4,231	137,303,109,559	Ps. 0.0308	Ps. 0.1078
EPS discontinued operations	Ps. 74	137,303,109,559	Ps. 0.0006	Ps. 0.0018
Net income per share	Ps. 4,305	137,303,109,559	Ps. 0.0314	Ps. 0.1096

21 - COMPREHENSIVE RISK MANAGEMENT

The Institution's Risk Management's function is to determine and execute the Institution's strategic planning. Furthermore the Institution's Risk management and policies comply with the regulations and the best market practices.

1. RISK MANAGEMENT'S OBJECTIVES, SCOPE AND FUNCTION

The main objectives of the Institution's Risk Management are to:

- Provide the different business areas with clear rules that help minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on preventive risk-taking within the Institution and are backed up by sound systems and processes.
- Verify adherence to the Desired Risk Profile.
- Protect the Institution's capital against unexpected losses from market movements, credit losses and operating risks.
- Implement valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

Furthermore, the Institution has sound methodologies in place to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk, and Counterparty Risk.

<u>Credit Risk:</u> volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterparty.

Market Risk: volatility of revenues due to changes in the market, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, rate spreads, exchange rates, price indexes, etc.

Liquidity Risk: potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Institution, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operational Risk: Loss resulting from lack of adaptation or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk groups includes all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Institution.

Concentration Risk: potential loss attributed to the high and disproportionate exposure to specific risk factors within a single category or among different risk categories.

On the other hand, regarding Non-Quantifiable Risk, the Institution's objectives are set forth in the Risk Management Manual for:

Reputational Risk: potential loss in the development of the Institution's activity caused by a deteriorate perception of the various internal and external stakeholders' perception regarding its solvency and viability.

1.1. Risk Management Structure and Corporate Governance

Regarding the structure and organization for Comprehensive Risk Management, it is the responsibility of the Board of Directors to approve the general policies and strategies, such as:

- The Desired Risk Profile for the Institution
- The framework for Comprehensive Risk Management
- The Risk Exposure Limits, Risk Tolerance Levels, and the corrective action mechanisms.

The Board of Directors has designated the CPR as the responsible body to manage the risks to which the Institution is exposed as well as to verify that transactions are in keeping with the objectives, policies and procedures for Risk Management.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular and replacement members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

Moreover the Assets and Liabilities Committee (ALCO -Spanish acronym) and the Capital and Liquidity Group analyze, monitor, and make decisions regarding the risk rates in the balance sheet, the net interest margin, liquidity and net capital of the Institution.

The Comprehensive Risk Management Unit (UAIR - Spanish acronym) is in charge of the Office of Risk Management (DGAR). Its functions are to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures of the Institution.

The DGAR reports to the CPR pursuant to the regulations regarding the DGAR's independence from the business units.

1.2. Scope and Nature of the Institution's Risk Management

Risk Management extends to all the Institution's subsidiaries. Depending on each one's line of business, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

To accomplish this, the DGAR relies on several information and risk measuring systems which comply with the regulatory standards and are aligned with the best international practices in Risk Management. The information contained in the risk systems as well as the reports they generate are continuously backed up as per the institutional data security procedures. Furthermore the risk systems contain operations subject to Credit, Market, Liquidity and Operational Risk. Such systems are processed and subject to different valid models and methodologies, periodically generating reports for each one of said risks.

The Institution has policies and processes in place, which are contained in the Risk Management models, methodologies and procedures, for hedging and mitigation strategies and compensation for each type of risk in and out of balance. This policies and processes include: the features, pension funds afore, legal aspects, instrumentation and hedging degree that should be considered for hedging when compensating for or mitigating the risk. Such policies and processes also contemplate the execution of guaranties as a risk compensation mechanism each time there is a case of un-remedied default by the debtors. As part of the strategies and processes to monitor the continual efficiency of the hedgings or mitigations of the different risks, there limits for each type of Risk (Credit, Market, Liquidity and Operational) which are monitored constantly. There are also procedures in place so that the surpluses and their causes are documented, and the relevant corrective actions are taken to return to acceptable risk levels.

2. CREDIT RISK

It refers to the risk that clients, issuers or counterparties default on their payments. Therefore the proper administration of such risk is essential to maintain the portfolio's credit quality.

The Institution credit risk management objectives are as follows:

- Fulfill the Desired Risk Profile defined by the Institution's Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.
- Measure the Institution's vulnerability to extreme conditions, and consider such results for decision-making.

The Institution Credit Risk Management's policies apply to:

- Granting and managing consumer loans according to the best practices in the market through parametric models that make it possible to identify the risk, minimize the losses and increase quality loan placement.
- Granting and managing loans to companies and other entities in keeping with the best market practices by means of a loan strategy that includes Target Markets and Risk Acceptance Criteria, identifying and managing the risk through Loan Rating and Early Warning methodologies.
- Follow up and quality control of the loans by means of a Loan Rating System that indicates the treatment and general actions derived from specific situations as well as the areas or officers responsible for such actions.
- .Oversight and control of Credit Risk by Global and Specific Limits, loan rating policies and Credit Risk models for the portfolio by which to identify the expected and unexpected loss in a given trust level.
- Reporting and disclosure of the Credit Risk to the risk-taking areas, the CPR, Board of Directors, Financial Authorities and the investors.
- Definition of the powers in Credit Risk taking for the Institution.

In order to meet the objectives and comply with the policies, a series of strategies and procedures have been defined and which cover the origination, analysis, approval, management, follow-up, recovery and collection.

2.1. Credit Risk Scope and Methodologies

2.1.1. Individual credit risk

The Institution divides Credit Risk into two large groups: Minor and Major.

Individual credit risk for the consumer (Minor) portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the pymes and consumer products (mortgage, automotive, payroll credit, personal and credit card).

Individual risk for the corporate (Major) portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria, Early Warnings and the Banorte Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Institution and support the estimate of the credit risk level.

The target markets are categories of economic activities for each region in which the Institution is interested in placing loans. Its definition is backed up by economic studies and loan behavior analysis as well as by expert opinions.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Institution in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

CIR Banorte is a debtor rating methodology that evaluates quantitative and qualitative criteria to determine their credit quality. It is applied to commercial loans equal to or over an amount equivalent in Mexican pesos to four million investment units (UDIs) on the rating date.

2.1.2. Portfolio Credit Risk

The Institution has designed a portfolio credit risk methodology which, while also including international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Institution, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. As exposure is sensitive to market changes, a sensitivity estimate can be made for different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Institution in the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Institution calculates according to the migration of borrowers to different risk classification levels. The recovery rate is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, it has been determined, that the borrower's "credit health" depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Institution is 99.5%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the Institution's strategy. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

2.1.3. Credit Risk of Financial Instruments

Financial Instrument Credit Risk Management is done through a series of fundamental cornerstones among which there is robust framework of Origination, Analysis, Approval and Management policies.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparts. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterparty, financial instrument, destination of the transaction within the Institution and market information.

The Credit Committee is the body that authorizes operation lines with financial instruments for customers and counterparties according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee. Nevertheless, the UAIR has the power to approve counterparty lines (financial intermediaries, mainly) that meet certain criteria, using a parametric methodology approved by the CPR.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counter-party or issuer depending on the rating and type of transaction. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%. The higher the rating (or the lower the differential of the instrument's rate vs. that of an equivalent government bond), the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the operation's total in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Institution has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

2.2. Exposure to Credit Risk

As of March 31, 2017, the total amount of gross exposures subject to the Standard Method for calculating the Capital Index is as follows:

Gross Exposures subject to Standard Method	Banorte
Commercial	Ps.157,508
Revenues or annual sales < 14 million UDIS	64,308
Revenues or annual sales >= 14 million UDIS	93,200
States or Municipalities	88,131
Decentralized Government Agencies and State-controlled companies	42,051
Projects with their own source of payment	47,691
Financial institutions	21,122
Mortgage	120,329
Consumer	93,817
Credit card	31,176
Non-revolving	62,641
Total portfolio subject to Standard Method	**Ps.570,649**

For transactions subject to credit risk, the Institution only uses external ratings issued by S&P, Moody's, Fitch, HR Ratings and Verum. Ratings are not assigned based on comparable assets.

2.2.1. Exposure with Financial Instruments

As of March 31, 2017, the credit risk exposure of the investments in securities was Ps. 262,053, of which 99.3% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade; the three main issuers other than the federal government, semi-private agencies and domestic financial institutions represent 11% of the basic capital as of December 2016. Additionally, the investment exposure with the same issuer other than the federal government that represents a concentration greater than or equal to 5% of the net capital as of December 2016 has a rating of AAA(mex) and is comprised of (*term in weighted average, amount in million pesos and interest rate*): stock certificates and Pemex bonds at 5 years and 9 months for Ps. 15,173 at a rate of 5.1%; stock certificates of Banco Inbursa at 1 year and 4 months for Ps. 5,588 at a rate of 6.9%.

Regarding transactions with derivative financial instruments, the 3 main counterparties other than the federal government, semi-private agencies and domestic financial institutions represent 1% of the basic capital as of December 2016.

The counterparty's risk exposure for transactions with derivative financial instruments for the Institution, and the compensation effect (netting) and exposure mitigation based on adding guaranties for executed transactions as of June 30, 2016 is shown below:

Position	c1Q17	Average 1Q17
Forwards	(Ps. 11)	(Ps. 7)
Options	33	17
Interest rate swaps (IRS)	2,759	2,784
Cross currency interest rate swaps (CCIRS)	(7,131)	(8,371)
Total	**(Ps. 4,350)**	**(Ps. 5,577)**
Positive Fair Value *(Positive Market Value)*	8,325	10,663
Netting effect*	12,673	16,240
Guaranties Given (-) / Received (+)		
Cash	(Ps. 4,699)	(Ps. 5,679)
Securities	8	8
Total	**(Ps. 4,691)**	**(Ps. 5,671)**

*The difference between the portfolio's positive market value (not considering position netting) and the market value.

The following table shows the levels of current exposure and potential future exposure at the end of the quarter and on average during the quarter respectively.

(Million of pesos)	Potential Risk		Current Risk	
Financial Counterparties	1Q17	Average 1Q17	1Q17	Average 1Q17
Forwards	Ps. 57	Ps. 23	(Ps.40)	(Ps.21)
Options	1,009	1,136	762	881
Interest rate swaps	10,972	13,040	3,679	4,654
Cross currency interest rate swaps	619	585	(7,125)	(8,359)
Total	**Ps.12,657**	**Ps.14,738**	**(Ps.2,724)**	**(Ps.2,845)**
Clients (Non Financial)	1Q17	Average 1Q17	1Q17	Average 1Q17
Forwards	Ps.43	Ps.34	(Ps. 29)	(Ps.14)
Options	7	7	(729)	(864)
Interest rate swaps	509	362	(919)	(1,870)
Cross currency interest rate swaps	17	11	(6)	13
Total	**Ps.576**	**Ps.414**	**(Ps.1,683)**	**(Ps.2,735)**

Based on the conditions set forth in the derivative financial instrument contracts, the exposure tolerance levels are considered in terms of the rating that the entities involved in the transaction have. The following table lists the amount of guaranties to give in the event of impairment due to a drop in the Institution's rating as of March 31, 2017:

Net Cash Outlays	Balance
Outlays with 1-step downgrade	Ps. -
Outlays with 2-step downgrade	-
Outlays with 3-step downgrade	-

The market value according to rating ranges for the counterparties of the performed derivative financial instruments is shown below as of March 31, 2017:

Range (Mill. pesos)	1Q17	Average 1Q17
AAA/AA-	Ps. -	Ps.-
A+/A-	(1,450)	(940)
BBB+/BBB-	(1,293)	(1,933)
BB+/BB-	(826)	(1,439)
B+/B-	(60)	(115)
CCC/C	(7)	(8)
SC	(713)	(1,142)
Total	**(Ps.4,349)**	**(Ps.5,577)**

2.3. Loan Guarantee

Guaranties represent the second source of loan recovery when its hedging by means of the borrower's predominant activity is compromised. Guaranties may be real or personal.

The main types of real guaranties are:

- Civil mortgage
- Industrial mortgage
- Ordinary pledge
- Pledge without ownership transfer
- Pledge / pledge bond
- Pledge bond
- Haircut (Repurchase agreement with haircut)
- Securities pledge
- Management and payment trust
- Development funds

In the case of physical assets given as a guarantee, the Institution has policies and processes in place for follow-ups and regular inspection visits to verify the existence, legitimacy, value and quality of the guaranties that were accepted as an alternate loan backup. On the other hand, when the guaranties are securities, there are policies and processes to follow up their market valuation and demand additional guaranties if necessary.

The portfolio of credit covered by type of guarantee is as follows:

Type of Guarantee	Banorte 1Q17
Total portfolio	**Ps. 570,651**
Guarantee	
Real Financial Guaranties	19,026
Real Non-Financial Guaranties	300,457
Pari Passu	18,758
First Losses	31,809
Personal Guaranties	16,222
Total Portfolio Covered	**Ps. 386,272**

2.4. Expected Losses

As of March 31, 2017, the total loan portfolio of the Institution, is Ps. 570,651. The expected loss represents 2.0% and the unexpected loss represents 4.1% of the total operating portfolio. The average expected loss was 2.0% for the period between January and March 2017.

2.5. Risk Diversification

In December 2005, the CNBV issued the "General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions." These regulations require that banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their "Common Risk". Also, the Institution must have the necessary information and documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Institution is provided below:

Basic capital as of December 31, 2016	**Ps. 81,348**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	1
Overall amount	8,531
% in relation to basic capital	10%
Overnight transactions	
Number	2
Overall amount	17,943
% in relation to basic capital	22%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 39,688**

3. MARKET RISK

The objectives of Market Risk in GFNorte are:

• Comply with the Desired Risk Profile defined by the Group's Board of Directors.
• Maintain an adequate monitoring of the Market Risk.
• Keep the Senior Management properly informed in a timely manner.
• Quantify the exposure to Market Risk through the use of various methodologies.
• Define the maximum levels of risk that the Institution is prepared to maintain.
• Measure the Institution's vulnerability to extreme market conditions and consider those results for decision-making.

The Market Risk policies in GFNorte are:

• New products subject to market risk should be evaluated and approved using the new product guidelines approved by the Risk Policy Committee.
• The Board is the body empowered to approve global limits and metrics for market risk appetite, as well as modifications to the previous ones.
• The Risk Policy Committee is the body authorized to approve specific models, methodologies and limits, as well as modifications to the previous ones.
• Market risk models will be validated by an area independent of the one that develops and manages them.
• Inputs and market risk models will be validated according to a policy duly approved by the Risk Policy Committee.

3.1 Market Risk Methodologies

Market risk management is done by means of a series of fundamental pillars, such as the use of models and methodologies like value at risk (VaR), Backtesting, sensitivity analysis and stress testing, all of which are used to measure the risk of the products and instrument portfolios that trade in financial markets.

Furthermore, risk management is backed up by a framework of policies and manuals that sets forth the market risk limit implementation and follow up, risk metrics reporting, and follow-up of the established limits.

The key risk indicators are made known in monthly reports to the CPR and daily reports to the Institution’s top executives involved in market risk position.

3.2. Exposure to Market Risk

The Institution's financial instrument portfolio market risk exposure is measured using the industry's standard methodology known as VaR.

The VaR model is based on the horizon of one day and a non-parametric historical simulation with a confidence level of 99% and 500 historical observations of risk factors. Moreover it considers all the financial instrument positions (money market, treasury, capitals, changes, and derivative financial instruments with trading purposes and hedging) recorded as trading and available for sale both on and off balance sheet.

The average VaR as of March 31, 2017 is Ps. 57 (Ps. 14 lowest than the average as of the previous quarter.).

The result shown below indicates that the potential loss will be over Ps. 57 on one of every hundred days.

VaR (Million of pesos)	Average 1T17
VaR Banorte	Ps.57
Capital neto Banorte	103,143
VaR / Capital neto Banorte	**0.06%**

VaR by risk factor of the portfolio of instruments described for Banco Banorte behaved during the first quarter of 2017 as follows:

Factor of Risk (Million of pesos)	1Q17	Average 1Q17
Tasas	Ps.50.8	Ps.57.3
FX	15.1	13.0
Renta Variable	7.8	7.5
Efecto Diversificación VaR	(23.2)	(21.0)
VaR Total del Banco	**Ps.50**	**Ps.57**

The VaR at the end of 1Q17 corresponds to Ps. 50 .

VaR by risk factor is determined by simulating 500 historical scenarios and by grouping instruments by their main risk factor. It is important to note that all positions classified as trading, excluding the held-to-maturity position and available for sale, were taken into account.

The concentration by market risk factor without considering diversification effect is:

Factor of Risk	1Q17
Rates	69%
FX	21%
Variable income	11%

3.3. Sensitivity Analysis and Tests under Extreme Conditions (Stress Testing)

As the VaR shows potential losses under normal market conditions, the Institution supplements the risk analysis by applying tests under extreme conditions, also known as stress testing. This is submitted on a monthly basis to the CPR. Its main purpose is to gauge the impact on the Institution's positions given major risk factor shifts.

3.4. Backtesting

In order to verify the VaR effectiveness and accuracy, a backtesting analysis is submitted monthly to the CPR. This analysis makes it possible to compare the losses and profits observed with respect to the estimated value at risk and, if necessary, the relevant adjustments are made.

4. LIQUIDITY RISK

The objectives of Balance and Liquidity Risk in GFNorte are:

• Comply with the Desired Risk Profile defined by the Group's Board of Directors.
• Provide an adequate follow-up to the Risk of Balance and Liquidity.
• Quantify the exposure to Balance and Liquidity Risk through the use of various methodologies.
• Measure the Institution's vulnerability to extreme market conditions and that these results are considered for decision-making.
• To keep the Senior Management adequately informed in a timely manner of exposure to Balance and Liquidity Risk and any deviations from the limits and the risk profile.
• Follow up on the institution's coverage policy and review it at least annually.
• Maintain a sufficient level of Liquid Assets eligible to guarantee the liquidity of the Institution even under stress conditions.

The Liquidity Risk policies in GFNorte are:

• Establishment of Global and Specific Balance and Liquidity Risk Management Limits.
• Measurement and monitoring of Balance and Liquidity Risk.
• Information and disclosure of Liquidity Risk to the risk-taking areas, the CPR, the Board of Directors, the Financial Authorities and the Investor Public.

4.1. Financing Profile and Strategy

Balance and Liquidity Risk is managed through a series of fundamental pillars, among which we can highlight the use of key indicators, such as the Coverage of Liquidity Coverage (CCL), re-price and liquidity gaps, as well as Stress testing. This is based on a framework of policies and manuals, including a contingency financing plan and a contingency plan for the preservation of solvency and liquidity. It is similarly complemented by the monitoring of limits and levels of Desired Risk Profile on the Balance and Liquidity Risk metrics in question. The disclosure of the metrics and indicators referred to and compliance with the limits and the Desired Risk Profile established is done through monthly reports to the CPR, weekly to the capital and liquidity management group and quarterly to the Board of Directors .

4.2. Financing Profile and Strategy

The bank's funding make-up and evolution during the year is shown below:

Source of Funding	4Q16	1Q17	Var Vs. 4Q, 2016
Demand deposits accounts			
Mexican pesos(1)	Ps. 331,280	Ps. 316,759	(4.4%)
Foreign currency(1)	51,179	51,168	0.0%
Demand deposits accounts	**Ps. 382,459**	**Ps. 367,927**	**(3.8%)**
Retail time deposits			
Mexican pesos (2)	Ps. 149,861	Ps. 137,386	6.4%
Foreign currency	17,792	20,255	(18.5%)
Retail deposits	**Ps. 550,112**	**Ps. 527,568**	**(1.5%)**
Money market			
Mexican pesos (3)	Ps. 24,391	Ps. 36,449	49.4%
Banking sector total deposits	**Ps. 574,502**	**Ps. 530,697**	**0.7%**

(1) Money market and time deposits
(2) Includes eliminations between subsidiaries
(3) Table of Money and Time Deposits

4.3. Liquidity Coverage Ratio

The CCL enables the quantification of liquidity risk by means of a ratio between liquid assets and net cash outflows in the subsequent 30 days under the assumptions of a regulatory stress scenario.

The CCL is an indicator that should be interpreted as the Institution's liquidity sufficiency to cover its short-term obligations under an extreme scenario using only its highest quality liquid assets.

The following table shows the average development of the CCL components as 1Q17.

CCL Components		Bank and Sofomes	
		Non-weighted amount (average)	Weighted amount (average)
COMPUTABLE LIQUID ASSETS			
1	Total computable liquid assets	Not applicable	Ps. 82,432
OUTLAYS			
2	Non-guaranteed minor financing	Ps. 346,171	Ps. 23,894
3	Stable financing	214,470	10,723
4	Less stable financing	131,701	13,170
5	Non-guaranteed major financing	189,577	65,275
6	Operational deposits	106,541	23,035
7	Non-operational deposits	81,896	41,100
8	Unsecured debt	1,140	1,140
9	Guaranteed major financing	255,798	21,869
10	Additional requirements:	408,444	23,889
11	Outlays related to derivative financial instruments and other guarantee requirements	117,896	6,277
12	Outlays related to debt instrument financing losses	-	--
13	Lines of credit and liquidity	290,548	17,612
14	Other contractual financing obligations	-	-
15	Other contingent financing obligations	-	-
16	**TOTAL OUTLAYS**	**No applicable**	**134,927**
CASH INFLOW			
17	Cash inflow from guaranteed transactions	56,522	43,497
18	Cash inflow from non-guaranteed transactions	45,973	493
19	Other cash inflows	2,685	2,685
20	**TOTAL CASH INFLOW**	**No applicable**	**46,675**
		Adjusted amount	
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**Not applicable**	**82,432**
22	**TOTAL NET OUTFLOW**	**Not applicable**	**88,252**
23	**LIQUIDITY COVERAGE RATIO**	**Not applicable**	**93.20%**

During 1Q17, an average CCL of 90 days of the quarter was observed for Banco and Sofomes of 93.20%, with CCL at the end of 1Q17 of 101.01%, standing above the Desired Risk Profile and the regulatory minimum established in the current regulations. The above results indicate that Banorte is in a position to meet all of its short-term obligations in the face of a crisis scenario.

4.4. CCL Component Development

The evolution of the components of the Coverage Ratio between the closure of 4Q16 and the closure of 1Q17 is presented in the following table.

CCL Component	4Q16	1Q17	Var Vs. 4Q, 2016
Liquid assets	82,074	79,695	(2.9%)
Cash inflows*	43,883	42,281	(3.7%)
Cash outflows *	135,354	121,179	(10.5%)

*See main causes of the CCL results.

The Net Assets that computed for the CCL of the Bank and Sofomes between the closing of 4Q16 and the closing of 1Q17 are as follows:

Type of Asset	4Q16	1Q17	Var Vs. 4Q, 2016
Total	**Ps. 82,074**	**Ps. 79,695**	**(2.9%)**
Level I	71,795	71,449	(0.5%)
Level II	10,279	8,246	(19.8%)
Level II A	8,238	6,909	(16.1%)
Level II B	2,041	1,337	(34.5%)

Net assets decrease when comparing the closing of 4Q16 and the closing of 1Q17. It reflects a decrease in Level II Assets guided by the delivery of paper as collateral to support a long-term repurchase transaction.

4.5. See Main Causes of the CCL Results

The changes in the Liquidity Coverage Ratio between 4Q16 and 1Q17 are mainly due to the decrease in outflows in collateralized funding.

4.6. Liquidity Risk in Foreign Exchange

To quantify and follow up on the liquidity risk for its U.S. dollar portfolio, the Institution uses the criteria established by Banco de Mexico to determine the Liquidity Ratio.

The liquidity ratio in foreign currency should be interpreted as the Institution's capacity to meet its liquidity mismatches with liquid assets, both in foreign currency.

4.7. Exposure to Derivative Financial Instrument and Possible Margin Calls

The Institution applies the regulatory criterion to determine cash outflows for derivative financial instruments. At the close of 1Q17, net outflows from derivatives were as follows:

Outlays for Derivative Financial Instruments	4Q, 2016	1Q17	Var vs. 4Q, 16
Net outlay at market value y for potential exposure	5,164	5,164	0%
Outlays due to a 3-step drop in the credit rating	0	0	0%

The previous measurement indicates that potential outflows in derivatives could represent a liquidity requirement of up to $ 5,164 million, stable against 4Q16.

4.8. Liquidity Gaps

As part of the Institution's liquidity analysis, liquidity gaps in the Institution's 30-day asset and liability obligations are analyzed. This scheme is monitored Bank-wise with the following results for as of 1Q, 2017.

Concept	4Q 2016	1Q 2017	Var vs. 4Q16
One month accumulated gap	(22,552)	(35,186)	56.0%
Liquid assets	59,791	62,128	3.9%

The mismatch between the cash inflows and outflows (gaps) for the subsequent 30 days are covered with liquid assets.

Concept (Million of pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Brecha Natural	(39)	(18,067)	(.17,080)	(976)	(6,954)	1,631
Brecha Acumulada	(39)	(18,106)	(35,186)	(36,162)	(43,116)	(41,485)

4.9 Tests under extreme liquidity conditions

As part of the management of Liquidity Risk management, Banorte conducts tests under extreme liquidity conditions with internal scenarios to assess the adequacy of the bank's liquidity under adverse conditions of both the environment and the intrinsic conditions of the bank. For these effects, a total of 9 scenarios were considered, based on 3 risk sources (systemic, idiosyncratic and combined) with 3 levels of severity each (moderate, medium and severe).

As part of its liquidity risk management, the Institution performs tests under extreme internal liquidity scenarios to evaluate its liquidity sufficiency under adverse conditions of the environment and inherent bank conditions. A total of 9 scenarios based on 3 risk sources (systemic, idiosyncratic and combined) each with 3 levels of severity (moderate, medium and severe) are considered for this purpose.

4.10 Contingency Financing Plan

The Institution implemented a contingency financing plan in order to have comprehensive practices in liquidity management and guarantee its operation in adverse liquidity situations. The plan incorporates elements to identify possible liquidity issues and to define available alternate funding sources.

4.11. Balance Risk

The consolidated balance sheets' structural or interest rate risk is managed using tools such as: domestic, foreign and actual interest shift sensitivity analysis and their impact on the net interest margin. The sensitivity analysis includes assumptions regarding the call deposits based on a stability model.

The Institution has policies and coverage limits for the fixed rate portfolio as part of the interest risk mitigation actions. The above is reported to the CPR on a monthly basis.

The effect on the net interest margin of a 100-basis point shift in rates is shown in the following table.

	4Q16	1Q17	Var vs. 4Q16
Margin sensitivity	Ps. 1,180	Ps. 755	(36.1%)

5.1 OPERATIONAL RISK

The Institution established a formal operational risk department denominated "Operational Risk Management Department" that reports to the General Risk Management Office.

The Institution defines operational risk as the potential loss due to failures or deficiencies in internal controls because of errors in operational processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technology and legal risk).

Operational risk management has three objectives: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

5.1.1 Policies, Objectives and Guidelines

The Institution has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Controllership Department, as part of the Internal Control System, performs the following risk mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operating Losses Database

To record operating loss events, a system is in place that enables the information supplier areas to directly record such transactions online, which are classified by type of event in accordance with the following categories:

Internal Fraud: Losses derived from actions intended to defraud, illegally seize ownership or evade regulations, laws or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.

External Fraud: Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.

Labor Relations and Job Safety: Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.

Customers, Products and Business Practices: Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product).

Natural Disasters and Other Events: Losses due to damage or harm to physical assets due to natural disasters or other events.

Business Incidences and System Failures: Losses derived from incidences in the business and system failures.

Process Execution, Delivery and Management: Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Institution in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

5.2.2 Legal and Tax Contingencies Database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and online, which are then classified by company, sector and legal issue, among others.

As part of the Institution's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues determining the risk degree of each issue based on an internal methodology. This makes it possible to create the necessary book reserve within a specific term (based on the duration of the suit) to face such estimated contingencies.

5.3. Risk Management Model

The Institution and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

5.4 Calculating Capital Requirement

Pursuant to the Operational Risk Capitalization Rules, the Institution has adopted a Basic Model, which is calculated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

5.6 Disclosure of Operational Risks

With respect to the disclosure of the Operational Risks to which the institution is exposed, it is reported that the accumulated operational losses in the year (at the end of 1Q17) represent 1.2% of the accumulated Net Interest Margin.

5.7 Technology Risk

Technological Risk is defined as the potential loss for damages, interruption, alteration, or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other channel of information distribution in the provision of banking services with customers. This risk is an inherent part of the Operational Risk, so its management is carried out jointly with the whole organization.

In order to address the Operational Risk related to information integrity, the Integrity Committee has been created, whose objectives are to align security and information control efforts under the prevention approach, define new strategies, policies, processes or procedures and seek to give Solution to computer security problems that affect or may affect the Institutional heritage.

The functions established by the CNBV in the matter of Technology Risk Management are carried out by the Institution under the guidelines established by the institutional regulations and the Integrity Committee.

In order to face the Operational Risk caused by high impact external events, there is a Business Continuity Plan (BCP) and a Disaster Recovery Plan (DRP) based on an outline Of synchronous data replication, in an alternate computing center. With the above, the support and recovery of the main critical applications of the institution is covered, in case of any relevant operational event.

5.8. Legal Risk

Legal Risk is defined as the potential loss due to non-compliance with applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the institution.

It is fundamental to measure Legal Risk as an inherent part of Operational Risk to understand and estimate its impact. Due to the above, legal issues that result in actual operating losses of the SMARL system are subsequently recorded in the operational event database, according to a predefined taxonomy.

Based on statistics of ongoing legal issues and actual loss events, it is possible to identify specific legal or operational risks, which are analyzed in order to eliminate or mitigate them, seeking to reduce or limit their future occurrence or impact.

22 - MEMORANDUM ACCOUNTS

	March 31, 2017	December 31, 2016
Contingent assets and liabilities	Ps. 63	Ps.44
Credit commitments	287,187	285,689
Assets in trust or mandate	273,856	292,173
Managed assets in custody	321,987	294,203
Collateral received	158,596	82,196
Collateral received and sold or given as a pledge	94,204	20,124
Investment banking transactions on account of third parties (net)	90,367	93,306
Interest accrued but not charged of past due loans	436	439
	Ps. 1,226,695	**Ps.1,068,174**

23 - CONTINGENCIES

As of March 31, 2017, there are lawsuits filed against the Institution in civil and labor court cases; however, the Institution’s attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution's consolidated financial position. As of March 31, 2017, the Institution has recorded a reserve for contentious matters of Ps. 519.

24 - SUBSEQUENT EVENTS

Dividends paid

At the Stockholders’ Ordinary General Meetings held on April 28, 2017 the Institution declared to pay a cash dividend on the amount of Ps.11, 000, which was paid on May 24, 2017.

Redemption of Subordinated Notes due 2022

On June 8, 2017, the Institution obtained the authorization from the Mexican Central Bank to redeem the aggregate principal amount outstanding under its Ps.3,200,000,000.00 Preferred Subordinated Tier 2 Notes due 2022 (“the 2022 notes”). On June 16, 2017, the Institution delivered the relevant notice of redemption to the holders of its 2022 notes, which specified a redemption date of June 30, 2017. As of March 31, 2017, the aggregate principal amount outstanding under the 2022 notes was Ps.3,200,000,000.00.

ISSUER
Banco Mercantil del Norte, S.A., Institución de Banca Múltiple,
Grupo Financiero Banorte, acting through its Cayman Islands Branch
Principal Office
Avenida Revolución 3000 Sur
Colonia Primavera
C.P. 64830
Monterrey, N.L., México

LEGAL ADVISORS
To the Issuer

As to Mexican law:
White & Case, S.C.
Torre del Bosque, P.H.
Blvd. Manuel Ávila Camacho No. 24
Col. Lomas de Chapultepec
11000 Ciudad de México
México

As to U.S. federal and New York law:
White & Case LLP
1221 Avenue of the Americas
New York, New York 10020-1095
United States of America

As to Cayman Islands law:
Maples and Calder
P.O. Box 309
Ugland House
Cayman Islands KY1-1104,
Cayman Islands

To the Initial Purchasers

As to Mexican law:
Ritch, Mueller, Heather y Nicolau, S.C.
Torre Virreyes
Av. Pedregal 24
Piso 10
Col. Molino del Rey
11040 Ciudad de México
México

As to U.S. federal and New York law:
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006-1470
United States of America

AUDITOR
Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu
Lázaro Cárdenas 2321 Poniente, PB
Residencial San Agustín
66260 San Pedro Garza García, Nuevo León
México

TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR
The Bank of New York Mellon
101 Barclay Street, Floor 7 East
New York, New York
10286

U.S.$350,000,000 6.875% NC5 Notes

U.S.$550,000,000 7.625% NC10 Notes

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte,

acting through its Cayman Islands Branch

6.875% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

7.625% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

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OFFERING MEMORANDUM

Global Coordinator

Morgan Stanley

Joint Book-Running Managers

Morgan Stanley **UBS Investment Bank**

Co-Managers

MUFG **Wells Fargo**

June 29, 2017