Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Consolidated Financial Statements
December 31, 2016 and 2015

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Contents

December 31, 2016 and 2015

Independent Auditors' Report

To the Secretaría de la Función Pública and
Board of Directors of
Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary (the Bank) which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying Bank's consolidated financial statements as at December 31, 2016 and 2015, and for the years then ended, are prepared in all material respects, in accordance with accounting standards applicable to credit institutions issued by Comisión Nacional Bancaria y de Valores (CNBV).

Bases for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Bank in accordance with the Ethics Standards of Mexican Institute of Public accountants together with other requirements applicable to our audits in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 provide a separate opinion on these matters.

pwc

Key audit matter	How our audit addressed the matter

Allowance for loan losses.
 	
As mentioned in Notes 3.h and 9, the allowance for loan losses of Ps.3,730 million pesos is based on an expected loss model for the following twelve months and it is determined as per the Bank's methodology based on rules established by the CNBV for leding institutions for the purpose of classifying and rating loan portfolios, which require identifying the probability of default, the severity of the losses and the exposure to default of each type of loan. In identifying the foregoing, the rules in question establish a method for rating and classifying different types of loan portfolios that include a number of qualitative and quantitative factors, such as: i) in relation to consumer loans (personal loans) the possibility of default, potential losses, credit risk and guarantees received, if any; ii) in relation to housing loans (mortgages), the periods of late payment, the possibility of non-payment and the potential net loss of guarantees received; and iii) in relation to commercial loans, the rules focus on the assessment of the debtor's capacity to repay the loan (including country risk, financial risk, industry risk and payment history), as well as the assessment of the respective guarantees.
 	
Our work mainly focused on this caption due to the significance of the book value of the loan portfolio and the allowance for loan losses, and because the process for determining the allowance for loan losses is complex as it involves different input data on credit risk, as described in the preceding paragraph.
 	
We specifically focused our audit work on: i) the integrity and accuracy of key input used in the models, such as: payment experience, late-payment days, amounts payable, guarantees, credit history, quitclaims, write-offs, reorganizations, and financial information, among others, and ii) compliance with the applicable CNBV rules.
	The following procedures where are applied as part of our audit:
	
	• We evaluated the design and operating effectiveness of the controls over the process for classifying and rating the loan portfolio and determining the allowance for loan losses per type of loan, mainly in relation to the model and accuracy and integrity of key input data used to determine the allowance for loan losses and the transfer of data from the source systems in which the reserve is calculated to the accounting records.
	
	• We compared the model used by the Bank for determining the allowance for loan losses based on the model approved by the CNBV.
	
	• Through selective testing, we evaluated the key input data as follows:
	
	  • The amount payable and late-payment days matched against the portfolio system.
	
	  • Borrower credit history, quitclaims, write-offs and reorganizations in relation to other lending institutions were matched to the credit bureau report.
	
	  • The fair value of the guarantees offered to the Bank by borrowers was matched against the appraisal requested by management, which was prepared by an independent third party.
	
	  • Recent borrower financial information was matched against the financial statements used at the rating date.
	
	  • Quitclaims, write-offs and reorganizations were matched against specific evidence, such as arrangements made with the client establishing the new features of the loan, which were approved by high-raking officers.
	
	  • In preparing a sample of the loan portfolio, our experts reprocessed the respective calculation considering the CNBV rules and the aforementioned input data.

Responsibilities of Management and those charged of the Bank's Governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements in accordance with accounting standards applicable to credit institutions in Mexico issued by CNBV and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

Those charged with Governance are responsible for overseeing the Bank´s financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

As part of audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank and Subsidiary to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank and Subsidiary audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers, S. C.

C.P.C. Nicolás Germán Ramírez
Audit Partner

Mexico City, February 24, 2017

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Periférico Sur 4333, Mexico, City

Consolidated Balance Sheets

(Notes 1, 2, 3, 4, 27, 28, 29, 30 and 31)

Millions of Mexican pesos

Assets	Note	December 31, 2016	December 31, 2015
Cash and cash equivalents	5	Ps. 19,556	Ps. 16,606
Investments in securities:			
Trading securities	6a.	120,293	119,726
Available for sale securities	6b.	60	1,186
Held to maturity securities	6c.	153	149
		120,506	121,061
Debtors under repurchase agreements (debit balance)	7	19,440	24,110
Derivatives:	8		
Trading		207	200
Hedging		771	103
		978	303
Performing loan portfolio:	9		
Commercial loans:			
Business or commercial activities		155,310	131,447
Financial entities		26,166	18,709
Government entities		8,971	980
Consumer loans		10	14
Mortgages loans			
Middle income housing and residential		97	111
Total performing loan portfolio	9a.	190,554	151,261
Non-performing loan portfolio:			
Commercial loans:			
Business or commercial activities		1,993	708
Financial entities		41	75
Consumer loans		4	4
Mortgages loans			
Middle income housing and residential		6	6
Total non-performing loan portfolio	9b.	2,044	793
Total loan portfolio	9d.	192,598	152,054
Allowance for loan losses	9k.	(3,730)	(2,423)
Loan portfolio (net)		188,868	149,631
Other accounts receivable (net)	10	10,737	7,719
Foreclosed assets (net)	11	20	42
Property, furniture and equipment (net)	12	455	417
Permanent investments	13	541	494
Deferred income taxes and employees' statutory profit sharing (net)	17	1,070	610
Other assets:			
Deferred charges, prepayments and intangible assets		123	61
Other current and long-term assets	20	392	3
Total assets		Ps. 362,686	Ps. 321,057

Liabilities and Stockholders' equity	Note	December 31, 2016	December 31, 2015
Deposits:			
Time deposits:			
Money market	14	Ps. 115,549	Ps. 99,448
Debt instruments issued	15	29,015	32,030
		144,564	131,478
Interbank loans and loans from other lending entities:	16		
Payable on demand		4,530	1,529
Short term		37,401	36,622
Long term		7,234	5,179
		49,165	43,330
Repurchase agreements	7	119,930	117,199
Derivatives:	8		
Trading		135	138
Hedging		8,411	5,419
		8,546	5,557
Other accounts payable:			
Income taxes payable	17	56	119
Employees' statutory profit sharing payable		278	228
Settlement accounts		26	346
Collateral received in cash		43	9
Sundry creditors and other accounts payable	18	2,001	1,756
		2,404	2,458
Subordinated debentures outstanding	19	14,274	-
Deferred credits and advance collections		512	566
Total liabilities		339,395	300,588
Stockholders' equity	21		
Contributed capital:			
Capital stock		14,959	14,959
Contributions for future capital stock increases approved by the Bank's governing body		9,250	7,550
Share premium		81	81
		24,290	22,590
Earned capital:			
Capital reserves		141	141
Prior years' results		(2,232)	(3,025)
Result from valuation of securities available for sale		13	(5)
Remeasurement for obligations related to employees' defined benefits		390	-
Result from holding non-monetary assets		(25)	(25)
Net income		714	793
Non-controlling interest		-	-
		(999)	(2,121)
Total stockholders' equity		23,291	20,469
Total liabilities and stockholders' equity		Ps. 362,686	Ps. 321,057

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Periférico Sur 4333, Mexico, City

Consolidated Balance Sheets

(Notes 1, 2, 3, 4, 27, 28, 29, 30 and 31)

		Memorandum accounts	
		2016	2015
Guarantees granted	23	Ps. 1,130	Ps. 1,679
Contingent assets and liabilities	24	12,811	11,311
Loan commitments		127,604	116,956
Goods in trust or under mandate:			
Trusts	25	52,320	47,808
Mandates	25	5,479	4,903
Assets in custody or under administration	26	1,038,577	779,848
Collateral received by the Bank		72,492	27,841
Collateral received and sold or pledged by the Bank		52,737	3,602
Uncollected interest earned on non-performing loan portfolio		703	573
Loan portfolio rating	9	221,602	178,888
Other recording accounts		175,660	165,941

The accompanying thirty-one explanatory notes are an integral part of these consolidated financial statements.

The historical, subscribed capital stock at the date of these financial statements was Ps.14,009 million.

These consolidated balance sheets were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission based on the provisions of Articles 99, 101 and 102 of the Credit Institutions Law, which are general and mandatory and were consistently applied. These balance sheets reflect the Bank's operations as at the dates mentioned above, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated balance sheets were approved by the Board of Directors under the responsibility of the undersigned officers.

The capital ratio for assets subject to credit risk was 22.12 and 14.56%, and for assets subject to total risk it is 19.02 and 12.68% at December 31, 2016 and 2015, respectively, which is the latest information validated by Banco de México.

The Banco Nacional de Comercio Exterior, S. N. C. global network website containing information regarding this statement is: http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estados-e-indicadores-financieros. The National Banking and Securities Commission website in which the financial information of Bancomext can be found is: http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Francisco Nicolás González Díaz
General Director
(As of February 1, 2017)

Emeterio Barrientos Romero
Head of General Administration and Financial Director

Martha Martínez Quiroz
Finance Director

José Alfonso Medina y Medina
Deputy General Director for Internal Audit

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Periférico Sur 4333, Mexico, City
Consolidated Statements of Income
(Notes 1, 2, 3, 17, 22, 27 and 31)

Millions of Mexican pesos

	Note	Year ended December 31, 2016	2015
Interest income		Ps. 16,247	Ps.11,129
Interest expense		(11,428)	(7,183)
Financial margin	22a.	4,819	3,946
Provision for loan losses		(1,145)	(1,015)
Financial margin adjusted for credit risk		3,674	2,931
Commissions and fees collected	22b.	648	726
Commissions and fees paid		(48)	(23)
Intermediation income (loss)	22c.	28	269
Other operating expenses	22d.	(1,330)	(1,207)
Manager and promotional expenses		(1,838)	(1,562)
		(2,540)	(1,797)
Operating income		1,134	1,134
Equity in earnings of non-consolidated subsidiaries and associates		(25)	(53)
Income before income taxes		1,109	1,081
Income taxes payable	17	(775)	(628)
Deferred income tax (net)	17	380	340
		(395)	(288)
Net controlling interest		714	793
Non-controlling interest		-	-
Net income		Ps. 714	Ps. 793

The accompanying thirty-one explanatory notes are an integral part of these consolidated financial statements.

These consolidated statements of income were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission based on the provisions of Articles 99, 101 and 102 of the Credit Institutions Law, which are general and mandatory, and were consistently applied. These statements reflect all income and expenses arising from the Bank's operations as at the dates mentioned above, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of income were approved by the Board of Directors under the responsibility of the undersigned officers.

The Banco Nacional de Comercio Exterior, S. N. C. global network website containing information regarding this statement is: http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estados-e-indicadores-financieros. The National Banking and Securities Commission website in which the financial information of Bancomext can be found is: http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Francisco Nicolás González Díaz
General Director
(As of February 1, 2017)

Emeterio Barrientos Romero
Head of General Administration and Financial Director

Martha Martínez Quiroz
Finance Director

José Alfonso Medina y Medina
Deputy General Director for Internal Audit

Banco Nacional de Comercio Exterior, S. N. C.,
Institución de Banca de Desarrollo and Subsidiary

Periférico Sur 4333, Mexico, City

Consolidated Statements of Changes in Stockholders' Equity
(Note 21)

Millions of Mexican pesos

	Contributed capital					Earned Capital				
	Capital stock	Contributions for future capital increases formalized by its governance body	Share premium	Capital reserves	Prior years' results	Result from valuation of securities available for sale	Remeasurement for obligations related to employees' defined benefits	Result of holding non-monetary assets	Net income	Total stockholders' equity
Balances at January 1, 2015	Ps. 14,959	Ps. 5,350	Ps. 81	Ps. 141	(Ps. 4,340)	(Ps. 5)	Ps. -	(Ps. 25)	Ps. 1,315	Ps. 17,476
Movements inherent in owners' decisions:										
Contributions for future capital stock increases	-	2,200	-	-	-	-	-	-	-	2,200
Transfer of net income to prior years' income	-	-	-	-	1,315	-	-	-	(1,315)	-
	-	2,200	-	-	1,315	-	-	-	(1,315)	2,200
Movements inherent to recognition of comprehensive income:										
Net income	-	-	-	-	-	22	-	-	793	815
Result from valuation of securities available for sale	-	-	-	-	-	(22)	-	-	-	(22)
	-	-	-	-	-	-	-	-	793	793
Balances at December 31, 2015	14,959	7,550	81	141	(3,025)	(5)	-	(25)	793	20,469
Movements inherent in owners' decisions:										
Contributions for future capital stock increases	-	1,700	-	-	-	-	-	-	-	1,700
Transfer of net income to prior years' income	-	-	-	-	793	-	-	-	(793)	-
	-	1,700	-	-	793	-	-	-	(793)	1,700
Movements inherent to recognition of comprehensive income:										
Net income	-	-	-	-	-	-	-	-	714	714
Result from valuation of securities available for sale	-	-	-	-	-	18	-	-	-	18
Remeasurement for obligations related to employees' defined benefits	-	-	-	-	-	-	390	-	-	390
	-	-	-	-	-	18	390	-	714	1,122
Balances at December 31, 2016	Ps. 14,959	Ps. 9,250	Ps. 81	Ps. 141	(Ps. 2,232)	Ps. 13	Ps. 390	(Ps.25)	Ps. 714	Ps. 23,291

The accompanying thirty-one explanatory notes are an integral part of these financial statements.

These consolidated statements of changes in stockholders' equity were prepared in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission based on the provisions of Articles 99, 101 and 102 of the Credit Institutions Law, which are general and mandatory and were consistently applied. This statement reflects all movements in stockholders' equity accounts arising from operations conducted by the Bank during the aforementioned periods, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

The Banco Nacional de Comercio Exterior, S. N. C. global network website containing information regarding this statement is: http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estados-e-indicadores-financieros. The National Banking and Securities Commission website in which the financial information of Bancomext can be found is: http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Francisco Nicolás González Díaz
General Director
(As of February 1, 2017)

Emeterio Barrientos Romero
Head of General Administration and Financial Director

Martha Martínez Quiroz
Finance Director

José Alfonso Medina y Medina
Deputy General Director for Internal Audit

Banco Nacional de Comercio Exterior, S. N. C., Institución de Banca de Desarrollo and Subsidiary

Periférico Sur 4333, Mexico, City

Consolidated Statements of Cash Flows

Millions of Mexican pesos

	Year ended on December 31, 2016	2015
Net income	Ps. 714	Ps. 793
Adjustment for items not implying cash flows:		
Impairment losses or effect of impairment reviews related to investment and financing activities		(80)
Provision for loan losses	1,145	1,015
Depreciation	8	6
Amortizations	-	1
Provisions	169	371
Incurred and deferred income tax expense	395	288
Equity in income of non-consolidated subsidiaries and associates	25	53
	1,742	1,654
Operating activities		
Change in investment in securities	546	(14,951)
Change in debtors under repurchase agreements	(44,439)	35,749
Change in derivatives (asset)	2,224	(17,642)
Change in loan portfolio	(40,390)	(37,797)
Change in foreclosed assets	248	(247)
Change in other operating assets	(4,635)	(3,079)
Change in deposits	27,312	35,469
Change in interbank loans and loans from other lending entities	5,836	1,723
Change in creditors under repurchase agreements	2,730	15,887
Change in collateral sold or pledged	49,109	(31,743)
Change in derivatives (liability)	90	18,658
Change in other operating liabilities	537	219
Payment of income taxes	(363)	(235)
Net cash flows from operating activities	(1,195)	2,011
Investing activities		
Payments for acquisition of other permanent investments	(11)	-
Cash dividends received	-	4
Net cash flows generated from investing activities	(11)	4
Financing activities		
Contributions for future capital stock	1,700	2,200
Net cash flows provided from financing activities	1,700	2,200
Net cash increase	2,950	6,662
Cash and cash equivalents at the beginning of year	16,606	9,944
Cash and cash equivalents at end of year	Ps. 19,556	Ps. 16,606

The accompanying thirty-one explanatory notes are an integral part of these financial statements.

These consolidated statements of cash flows were formulated in accordance with the Accounting Criteria for Credit Institutions issued by the National Banking and Securities Commission based on the provisions of Articles 99, 101 and 102 of Credit Institutions Law, which are general and mandatory and were consistently applied. This statement reflects the Bank's cash inflows and outflows arising from operations recorded during the above mentioned periods. Said operations were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the undersigned officers.

The Banco Nacional de Comercio Exterior, S. N. C. global network website containing information regarding this statement is: http://www.bancomext.com/conoce-bancomext/bancomext-en-cifras/estados-e-indicadores-financieros. The National Banking and Securities Commission website in which the financial information of Bancomext can be found is: http://www.cnbv.gob.mx/SECTORES-SUPERVISADOS/BANCA-DE-DESARROLLO/Informacion-Estadistica/Paginas/Banca-de-Desarrollo.aspx.

Francisco Nicolás González Díaz
General Director
(As of February 1, 2017)

Emeterio Barrientos Romero
Head of General Administration and Financial Director

Martha Martínez Quiroz
Finance Director

José Alfonso Medina y Medina
Deputy General Director for Internal Audit

Monetary figures in millions of Mexican pesos, unless otherwise specified

Note 1 - Incorporation, business purpose and events relevant to the Bank's operations:

a. Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo (the "Bank") is an entity of the Federal Public Administration with an independent legal status and own capital, incorporated as a National Credit Corporation under the Credit Institutions Law (LIC for its acronym in Spanish) and its own Organic Law.

   Banco Nacional de Comercio Exterior, S. A. was founded on June 8, 1937. On July 12, 1985, following the Mexican nationalization of banks, the Bank became Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo. On January 20, 1986, Congress issued the "Organic Law of Banco Nacional de Comercio Exterior". Based on the provisions published in the June 24, 2002 Official Gazette (OG), the Department of Finance (SHCP for its acronym in Spanish) amended, added and repealed various provisions thereof, especially aspects regarding the objectives, operations, administration, supervisions and authority of the Board, and the powers of the General Director. On April 2, 1991, the SHCP issued the Organic Regulations of the Bank. On August 25, 2015, the Official Gazette published a new set of amendments to the Law.

b. Under the Organic Law in effect for the Bank, as a development bank, the Bank provides public banking and credit services in accordance with the objectives and priorities of the National Development Plan, and in particular the National Program for Development Financing, to encourage and finance the activities and sectors that are governed by the Organic Law.

   As a Development Banking Institution, the Bank's purpose is to finance Mexico's foreign trade and to participate in promoting that trade.

c. The Bank's main operations are regulated by the Credit Institutions Law and by the Banco de Mexico (Banxico) Law. Those regulations include different restrictions that specify the maximum level of leveraging allowed, and the capitalization requirements that limit the Bank's investments and transactions, and they are supervised by the National Banking and Securities Commission (CNBV for its acronym in Spanish).

d. The accompanying consolidated financial statements at December 31, 2016 and 2015 and for the years then ended include those of the Bank and its subsidiary:

	% of ownership		
Company	Serie A	Serie B	Activity
Desarrollo Inmobiliario Especializado, S. A. de C. V. (DIESA)	99.20	100	Real Estate

   DIESA's business purpose is to acquire, lease, manage, develop, exploit, sell and use properties, and to carry out adaptation, conservation, construction, demolition, maintenance and modification work on those properties, provided that the properties currently or in the future will house the Bank's offices. The Company's total assets comprise .13 and .14% of the Bank's total assets at December 31, 2016 and 2015, respectively.

e. Relevant events

As mentioned in Note 21, on December 16, 2016, the Board of Directors authorized the Bank's management to request a capital contribution of up to Ps.1,700 from the Federal Executive Power through the SHCP. A Ps.1,700 contribution was received on December 30, 2016. In 2015, the Bank requested a capital contribution from the SHCP of up to Ps.2,200, and received a Ps.2,200 contribution on December 28, 2015.

Note 2 - Basis for preparation of the financial statements:

The accompanying consolidated financial statements at December 31, 2016 and 2015 have been prepared in accordance with the "Accounting Criteria" established by the CNBV, which follow the accounting criteria of the Mexican Financial Reporting Standards (MFRS or NIF for its acronym Spanish) issued by the Mexican Financial Reporting Standards Board (CINIF for its acronym in Spanish), except when the CNBV considers it necessary to apply a specific accounting standard or criterion. The aforementioned Accounting Criteria are included in Title Three "Financial Information and Disclosure and Valuation" and in Exhibit 33 of the "General rules applicable to Credit Institutions" (Accounting Criteria), issued by the CNBV and published on December 2, 2005, and the amendments thereto (Sole Bank Circular (CUB from Spanish)). For that purpose, the Bank has prepared its financial statements as per the presentation required by the CNBV, which objective it is to present information on operations conducted by the Bank, as well as other economic events affecting operations that do not necessarily arise from decisions or transactions made by the stockholders in any particular period.

The Sole Bank Circular (CUB), in force as of December 3, 2005, is a legal instrument that centralizes the provisions applicable to credit institutions issued by the CNBV, systematizing their integration and standardizing the terminology used, in order to provide legal certainty as to the regulatory framework to which financial entities must adhere in carrying out their business purpose.

In accordance with the Accounting Criteria, in the absence of a specific accounting criterion issued by the CNBV, supplementary provisions must be applied as established in MFRS A-8, "Supplementation", in the following order: the MFRS, International Accounting Standards issued and approved by the International Accounting Standards Board (IASB), and Accounting Principles Generally Accepted in the United States, from both official and unofficial sources, as established in Topic 105 of the Accounting Standards issued by the Financial Accounting Standards Board (FASB), or any accounting standards forming part of a formal and recognized group of standards.

Additionally, in accordance with the current law, the CNBV may order that the financial statements of institutions be distributed with the amendments deemed necessary in the allotted term.

<u>Recording, functional and reporting currency</u>

According to the provisions of MFRS B-15, the Bank and its subsidiary have identified the Mexican peso as their Recording, Functional and Reporting currency.

Given that the recording, functional and reporting currency of the Bank and its subsidiary is the Mexican peso it was not necessary to convert any of the figures.

There were no changes in these currencies with respect to the prior year.

Inflation effects on the financial information

According to the guidelines of MFRS B-10, "Inflation effects", as of January 1, 2008, the Mexican economy is not inflationary, since accrued inflation for the last three years is less than 26% (maximum limit for an economy to be considered non-inflationary); therefore, as of that date, recognition of the effects of inflation on the financial information is no longer required (disconnection inflationary accounting). Consequently, the figures at December 31, 2016 and 2015 shown in the accompanying financial statements are expressed in historical Mexican pesos, modified by the effects of inflation on the financial information recognized until December 31, 2007.

The following are the percentages (%) of inflation:

	2016	2015
For the year	3.36%	2.13%
Accrued over the past three years	9.57%	10.18%

Accounting criteria in effect in 2016 and 2015

Criterion A-2 "Application of specific standards". The names are updated and MFRS applicable to the Bank are added. The accounting treatment applicable to overdrafts in checking accounts without a credit line is specified, and accounting criteria for credit institutions by investment Societies is uniformly applied for recognition of the participation of entities in a joint operation, except for the restatement of financial statements.

Criterion B-6 "Loan portfolio". The definition of different items is provided. It specifies situations where "sustained payment of the loan" is considered for restructuring of different types of loans, and different changes are made to the concepts of restructuring and renewals. Specifies recognition in income of commissions collected other than for granting the loan, on the date on which they accrue. Establishes different considerations for the transfer of overdue portfolio in the case of loans made for housing remodeling or improvement and loans made under a revolving credit line, as well as the treatment of restructuring and renewals when loans made by the Bank are consolidated. Explains additional disclosures pertaining to housing loans supported by the housing subaccount, consolidated loans resulting from a restructuring or renewal and restructured loans not transferred to the overdue portfolio.

Criterion C-3 "Related parties": the concepts of "Agreement with joint control", "Control", "Joint control", "Controlling company", "Significant Influence" and "Subsidiary" are modified in order to align them with applicable MFRS.

Criterion D-1 "Balance sheet": Classifications are added to the category of "Mortgages", "Deposits" and "Memorandum accounts".

Criterion D-2 "Statement of income": "Subsidies" is added as part of operating results, for those received by development banks from the Federal Government. Additionally, the concept of "Equity in the results of non-consolidated subsidiaries and associates and joint businesses" is aligned to the applicable MFRS.

MFRS, MFRS Improvements and Interpretations of MFRS (IMFRS or INIF for its acronym in Spanish).

The following MFRS, MFRS Improvements and IMFRS came into force in 2016 and 2015 with no significant effects on the financial information:

2016

MFRS D-3 "Employee benefits". Establishes valuation, reporting and disclosure standards for initial and subsequent recognition of current and long-term liabilities arising from termination and post-employment benefits. Establishes the concept of re-measurement of assets or liabilities from defined benefits and eliminates the possibility of deferring recognition of actuarial profits and losses directly to income, based on accrual. As a result, actuarial gains and losses must be recorded immediately in Other comprehensive income (OCI), and must be subsequently be recycled to net profit or loss.

Transitory articles Three, Four and Five of the "Resolution amending the General Provisions applicable to lending institutions" published in the December 31, 2015 Official Gazette establish that the lending institutions referred to in article 2, Section II of the Credit Institutions Law may progressively recognize the changes due to restatement referred to in MFRS D-3 no later than 2021 by recognizing 20% of the balances as of their initial application and an additional 20% in each subsequent year, until reaching 100% of the balance in a maximum period of 5 years.

The Bank opted to recognize 20% of remeasured accumulated actuarial gains or losses as of 2021, in a maximum period of 5 years. Those balances must be recognized at the end of each period, after providing timely notice of that option to the National Banking and Securities Commission.

IMFRS 21 "Recognition of employee severance pay".

IMFRS 21 was issued to explain the accounting treatment applicable to the severance pay established in MFRS D-3 "Employee benefits".

2016 MFRS Improvements:

MFRS B-7, "Business acquisitions". The contradiction existing between points b) and d) of paragraph 5 of this MFRS is eliminated, which specifies that entities under common control do not fall under the scope of this MFRS, regardless of how the amount of the transaction is determined.

MFRS C-1 "Cash and cash equivalents". Establishes that initial and subsequent recognition of cash must be valued at fair value; indicates that cash equivalents are held to comply with short-term obligations and modifies the term "Investments available for sale" to be replaced by "highly-liquid financial instruments", which may not exceed three months and must be valued by applying the respective financial instrument MFRS.

MFRS C-3 "Accounts receivable". Establishes the valuation, presentation and disclosure standards for initial and subsequent recognition of trade accounts receivable and other accounts receivable in the financial statements of an economic entity. This standard specifies that contract-based accounts receivable represent a financial instrument. Early application is allowed as of January 1, 2016, provided that it is applied jointly with MFRS C-20 "Financing instruments receivable".

MFRS C-9 "Provisions, contingencies and commitments". Establishes standards for valuation, presentation and disclosure of liabilities, provisions and commitments, reducing their scope and relocating the matter of financial liabilities in MFRS C-19. The definition of "liability" has been modified to eliminate the concept of "virtually unavoidable" and include the term "likely." Early application is allowed as of January 1, 2016, provided that it is applied jointly with MFRS C-19 "Financial instruments payable".

MFRS C-19 "Financial instruments payable". Establishes rules for valuation, presentation and disclosure for initial and subsequent recognition of accounts payable, loans and other financial liabilities in an entity's financial statements. This MFRS introduces the concepts of amortized cost for valuing financial liabilities and the effective interest method, based on the effective interest rate, for the purpose of said valuation. Both discounts and costs of issuance of a financial liability are deducted from the liability. Early application is allowed as from January 1, 2016, provided it is applied jointly with MFRS C-3 "Accounts Receivable", MFRS C-9 "Provisions, contingencies and commitments" and NFRS C-20 "Financial instruments receivable".

MFRS C-20 "Financial instruments receivable". Establishes the standards for valuation, presentation and disclosure for initial and subsequent recognition of financial instruments receivable in the financial statements of an economic entity engaged in conducting financing activities. It eliminates the concept of intent of acquisition and holding thereof for the purpose of determining instrument classification. Adopts the management business model concept. Earlier adoption is permitted as of January 1, 2016, only if is applied in conjunction with the MFRS C-3 "Accounts receivable".

Statement C-2, "Financial instruments, adjustment document". Eliminates the concept of financial assets available for sale and incorporates the concept of financial instrument available for sale. Incorporates the features required in order for a financial instrument to classify as held to maturity. The concept and definition of "transaction costs" are included. Indicates that adjustments for fair value pertaining to financial instruments must be recognized by affecting the net profit or loss for the period, or recognizing an item within OCI.

Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments". Incorporates the concept of "transaction costs" and establishes that those are the costs incurred in order to generate a financial asset or to assume a financial liability, which would not have been incurred had said financial asset or liability not been recognized.

Statement B-10 "Effects of Inflation". Explains that the effect of valuing certain financial items is recorded in OCI rather than in the result of monetary position.

MFRS C-7 "Investments in associated companies, joint businesses and other permanent investments". Specifies that contributions in kind made by a holding company or joint business must be recorded at fair value, unless they arise from the capitalization of debt.

Statement C-10, "Derivative Financial Instruments and hedging operations". Specifies valuation periods for the effectiveness of a hedge operation. Establishes exceptions concerning primary positions in fair value coverages. Establishes the method for determining the fair value of an implicit derivative when there is no reliable source, and establishes guidelines for valuing implicit derivatives when they are separate from the host contract.

2015

MFRS Improvements

MFRS B-8 "Consolidated or combined financial statements". Incorporates the definition of an investment entity and the means of identifying it. Also establishes the requirement to conduct an analysis in order to determine whether or not those entities exercise control over the entities in which they hold an interest. When there is no control, the type of investment in question must be identified and the respective MFRS must be applied for accounting recognition.

MFRS C-9: "Liabilities, provisions, contingent assets and liabilities and commitments". Establishes that client advances in foreign currency must be recorded at the exchange rate in effect on the date of the transaction, that is to say, at the historical exchange rate, and that figure should not be modified for any subsequent exchange fluctuations.

Financial statement authorization

The accompanying consolidated financial statements and their notes at December 31, 2016 and 2015 were authorized by the Board of Directors at the February 24, 2017 and February 24, 2016 meetings, respectively.

Note 3 - Summary of significant accounting policies:

The following is a summary of significant accounting policies, which have been consistently applied in the years presented, unless otherwise specified.

The MFRS require the use of certain accounting estimates in preparing a set of financial statements. They also require management to exercise its judgment to determine the accounting policies to be applied by the Bank. The items involving a greater degree of judgment and assumptions and estimates that are significant to the consolidated financial statements are the allowance for loan losses, income taxes and labor liabilities.

a. Consolidation

   Subsidiary

   A subsidiary is an entity over which the Bank has control to direct the relevant activities, has rights (and is exposed) to variable returns from its investment and has the ability to affect those returns through its power over the entity. When determining whether the Bank controls another entity, the existence and effects of potential voting rights currently exercisable or convertible are considered. The existence of control is also evaluated in cases where less than 50% of the voting shares are held, but where the Bank can direct a company's relevant operations.

   A subsidiary is consolidated as from the date on which the Bank acquires control, and consolidation ceases when that control is lost.

Transactions, balances and unrealized profits or losses arising from operations among consolidating companies have been eliminated. The accounting policies applied by the subsidiary are consistent with the accounting policies applied by the Bank where necessary.

The consolidated financial statements include subsidiary DIESA. The following is the condensed financial position of DIESA at December 31, 2016 and 2015 and the condensed results of its operations for the periods then ended.

	2016	2015
Statements of financial position		
Assets:		
Cash and cash equivalents	Ps. 45	Ps. 71
Properties and other assets	435	396
	480	467
Liabilities and stockholders' investment:		
Other liabilities	90	88
Stockholders' investment	390	379
	480	467
Statement of income		
Income	56	55
Costs and other income (expenses)	(41)	33
Operating income	15	88
Income taxes	(4)	(3)
Net income	Ps. 11	Ps. 85

DIESA was audited in 2015 by independent public accountants which are not the Bank's auditors.

Associates

Associates are all entities over which the Bank has significant influence but not control, due to voting power; representation on the Board of Directors or an equivalent body of the associated company; participation in establishing the financial and operating policies of the associate company; or participation in decisions to declare dividends and other movements.

When determining whether the Bank has significant influence over a company, the existence and effects of potential voting rights currently exercisable or convertible were considered. The existence of significant influence is also evaluated in cases where less than 25% of the voting shares are held, but where the Bank can direct a company's relevant operations.

Investments in associates initially recorded at cost are valued by the equity method. Recognition of the equity method begins on the date on which significant influence over an associated company is obtained and ceases when said influence is lost.

The Bank's interest in the net profit or loss of associates, subsequent to their acquisition, is recognized in the statement of income. Movements subsequent to the acquisition are accumulated and adjusted to the carrying value of the investment. When the Bank's interest in the losses of an associate exceeds the carrying value of its investment, including any accounts receivable not guaranteed recorded in the associate, the Bank does not recognize said excess losses, except where there is the legal or assumed obligation to make payments on behalf of the associate.

The gains and losses resulting from a reduction in the shareholding percentage of the holding that do not involve the loss of significant influence over the associates are recognized in the statement of income for the period in which they occur.

Any increases in the shareholding percentage of the holding company over the associate that do not result from new acquisitions or contributions because they are the result of movements by other shareholders are not recognized by the holding.

b. Transactions in foreign currency - Foreign currency transactions are recorded in the currency of origin. Transactions involving the purchase and sale of currencies are carried out at the exchange rate in effect at transaction date. Assets and liabilities expressed in a foreign currency are valued to local currency at the rate of exchange published by Banxico at financial statement date. Exchange fluctuations are recorded in income for the period.

   The currencies used by the Bank are the US dollar, Pound sterling, Japanese yen and Euro.

c. Cash and cash equivalents - These items are recorded and valued at their nominal value; coined precious metals are valued at fair value. Yields arising from cash and cash equivalents are recorded in income as they accrue.

   Cash and cash equivalents in a foreign currency and commitments to purchase and sell currencies are valued at the exchange rate published by Banxico at financial statement date.

   Restricted cash and cash equivalents pertain to the Monetary Regulation Deposit in Banxico (Central Bank) and bear interest at the bank funding rate.

   This item also includes the amount of short-term interbank loans (call money granted), when the term does not exceed three business days, as well as acquired foreign currency whose settlement is due on a date after the transaction date. Both are recognized as restricted cash and cash equivalents.

d. Investments in securities - Investments in securities include debt and equity securities, which are classified on the basis of the intended use assigned by Bank's management at the time they are acquired as "for trading", "available for sale" or "to be held to maturity". They are initially recorded at fair value, which includes any discount or surcharge. The costs of transactions involving the acquisition of trading securities are recognized in the statement of income for the period, and those related to securities available for sale or held to maturity are recognized as part of the investment. Interest is recorded in the statement of income as it is earned.

Trading securities

This includes securities held by management to operate on the market that are recorded at fair value at acquisition date. Those securities are subsequently valued at a fair value provided by price vendors authorized by the CNBV based on the market value, and any valuation adjustments are recorded in income for the period.

At the date of sale of those securities, the difference between the net realizable value and the carrying value is recorded in income.

Available for sale securities

This category includes debt securities and shares acquired for a purpose other than that of securities held for trading or held to maturity, and are recorded upon acquisition at their fair value. Those securities are subsequently valued at the fair value provided by price vendors authorized by the CNBV based on the market value, and any valuation adjustments are recorded in stockholders' equity.

Equity securities are valued at fair value using prices supplied by authorized price vendors, and if it is not possible to obtain those values, they are valued by the equity method as established in MFRS C-7 "Investments in associated companies and other permanent investments".

Held to maturity securities

These are debt securities with determinable payments acquired to be held to maturity. Held to maturity securities are valued at their amortized cost, i.e., the fair value affected by interest accrued, that includes amortization of the premium or discount and any transaction costs that may have been recorded. At the date of sale of those securities, the difference between the net realizable value and the carrying value is recorded in income.

At December 31, 2016 and 2015, the Bank evaluated whether or not there was objective evidence that a security had been impaired by considering the following matters, among others: significant financial difficulties of the issuer of the security; the likelihood of the issuer filing for bankruptcy or undergoing another type of financial reorganization; breach of the contractual clauses; the disappearance of an active market for that specific security due to financial difficulties, or the existence of a measurable decrease in estimated future cash flows. Based on the aforementioned evaluation, the Bank observed no objective evidence of impairment of the securities.

In 2016 and 2015, the Bank made no transfers from the held to maturity securities category to the securities available for sale category.

e. Repurchase agreements - Repurchase agreements are a form of financing with collateral that involves providing cash as financing in exchange for financial assets, which are used as protection in the event of noncompliance.

With the Bank as seller, the Bank's own financial assets are recorded as restricted assets; financial assets received as a result of repurchase agreements are recorded in memorandum accounts of collateral guarantees received and sold. In the case of restricted financial assets and collateral guarantees received, the Bank follows the same recording, presentation and disclosure guidelines established in the Accounting Criteria for Credit Institutions.

Accounts payable that represent an obligation to repay cash to the buyer are valued at amortized cost.

With the Bank as the buyer, the account receivable representing the right to recover cash given is valued at amortized cost. Financial assets received as collateral are recorded in memorandum accounts of collateral guarantees received, and they are valued following the standards for custodial operations established in the applicable criterion.

The result of valuation of repurchase agreements is recognized in income for the period.

For presentation purposes, the asset caption of the balance sheet shows restricted financial assets in accordance with the applicable presentation standards depending on the type of asset in question. When the Bank in turn offers financial assets received from repurchase agreements as guarantee, the account receivable to which it is entitled as the buyer is compensated against the account payable for which it is liable as the seller. If the result is a debit balance, it is recorded in assets under Accounts receivable from repurchase agreements, and when it is a credit balance it is presented in liabilities under Collateral guarantees sold or pledged.

Accounts payable which the Bank is required to settle as the seller of financial assets owned by the Bank are shown in liabilities as part of creditors under repurchase agreements.

In addition, when selling the collateral or using it as a guarantee, the Bank recognizes in an account payable as "collateral sold or pledged", the obligation to reimburse the collateral to the seller of the securities at the agreed price, and subsequently values it at fair value, or at its amortized cost if pledged, in another repurchase operation. Additionally, control of collateral is recorded in memorandum accounts under "collateral received and sold or pledged", valued at fair value.

f. Derivative financial instruments (DFI) - The Bank carries out operations with DFI held for trading, in order to earn profits in accordance with the policies and limits established by the Comprehensive Risk Management Committee (CAIR for its acronym in Spanish), and for hedge purposes in order to compensate market risks arising from fluctuations in exchange and interest rates, as well as from counterparty risk.

In accordance with criterion B-5 "Derivative instruments and hedge operations" issued by the CNBV, hedge operations are classified as fair value, cash flows and foreign currency operations; the operations carried out by the Bank were classified as fair value.

All DFI for trading or hedging are recognized in the balance sheet as assets and liabilities, depending on the rights and/or obligations specified in the confirmation of the terms agreed between the parties involved.

DIFs are initially recorded at fair value, which is the price agreed for the operation, and are classified on the basis of their intended use, as established by the Bank's management. They are subsequently valued at their fair value. Transaction costs directly attributable to the acquisition of such derivatives are applied directly to income under "Intermediation result".

The risk management area developed the "Effectiveness model", which allows measuring changes in fair value or cash flows of hedge instruments based on a hedge factor or ratio that fluctuates between 80% and 125% of the inverse correlation.

Futures and forwards contracts

As a participant of the futures market, the Bank has the policy of hedging risk positions associated to USD assets and liabilities, and for purchase-sale of Mexican pesos vs. The US dollar, or of the US dollar vs. other currencies.

Operations carried out in futures markets for trading purposes are referred to in Mexican pesos vs. the US dollar and they are offered to borrowers as part of credit support for programs financing foreign trade operations.

Operations carried out in the futures market are performed with banks who have investment ratings issued by authorized risk rating agencies, which considerably mitigates the related credit and legal risks.

Operations carried out by the Bank in futures markets are for trading purposes. The fair value of rights and obligations of those operations is the theoretical price determined as per formal valuation techniques. That balance represents the difference between the fair value of the operation and the stipulated forward price. The results of those instruments are shown as intermediation income.

At December 31, 2016 and 2015, the Bank had no operations in futures markets or forwards contracts.

Swaps operations

Operations contracted by the Bank with this type of instruments are considered fair value hedges, since their purpose is to hedge open risk positions of interest rates and currencies.

Swap operations are carried out to hedge interest rate or exchange rate risks depending on the conditions of the funds attracted and the placement of resources with borrowers. The foregoing makes it possible to exchange similar flows of fixed interest rates for variable interest rates, or otherwise flows of different currencies vs. the US dollar, in conditions opposite to those that give rise to an open risk position.

Swap operations are contracted with financial entities that have been issued an investment rating by accepted risk rating agencies, which limits the credit and legal risks inherent in this type of operations is limited.

The Bank measures the effectiveness of hedges with swaps derivatives through a model determined by the risk management area.

Options contracts

Options are agreements establishing the right, yet not the obligation, for the buyer to purchase or sell a financial or underlying asset at a determined price called an exercise price, on an established date or at a determined period. Option agreements involve two parties, where the buyer of the option pays a premium on the acquisition thereof, and in turn obtains a right, yet not an obligation, and the party issuing or selling the option receives a premium and in turn acquires an obligation, yet not a right.

g. Loan portfolio - Loans given are recorded as assets from the date of disposal of the respective funds. The amount given to borrowers is supplemented with the accrued interest based on the loan payment arrangement.

Loans are made after analyzing the financial position of the borrower, the economic feasibility of investment projects and other general factors established in the regulations, as well as the provisions of the Bank's internal manuals and policies.

Interest accrued on current loan operations is recognized and applied to income as it is incurred.

Interest collected in advance is recognized as advance collections under deferred loans and are amortized over the life of the loan by the straight-line method against income for the period.

Commissions collected upon initial awarding of credit lines, including commissions for loan reorganization, are recorded as a deferred credit, which is amortized against income for the year by the straight-line method over the life of the loan. Commissions known after the loan is granted are recorded on the date they are generated against income for the period.

The following items are considered to qualify as non-performing loan portfolio:

- Loans payable in a single amortization of capital and interest at maturity that are not covered in a period of 30 or more calendar days past due.

- Loans payable in a single amortization of capital at maturity and periodic interest payments, when interest is 90 or more calendar days past due or capital is 30 or more days past due.

- Loans payable in installments towards capital and interest after 90 calendar days past due.

- Revolving loans, when invoices are behind two periods or 60 or more calendar days past due.

- A borrower is known to have filed for bankruptcy in accordance with the BL and such borrower continues making payments in the terms of the BL. That borrower is transferred to the non-performing loan portfolio if the originally agreed terms have not been settled in full.

Interest accrued in the period in which the loan is considered to be overdue is recorded as income when collected and interest accrued at the date on which it is no longer accumulated is reserved 100%.

Restructured and renewed loans - Restructured loans remain in the non-performing loan portfolio and the level of the allowance for loan losses is maintained until there is evidence of sustained payment.

Renewed loans where the borrower does not pay interest accrued and 25% of the original amount of the loan on a timely basis are considered past due until there is evidence of sustained payment.

The renewed or restructured current loans differing from those described in the preceding paragraph continue to be performing loans in the following terms:

a. If the restructuring or renewal is carried out before at least 80% of the original term of the loan has elapsed, and if all accrued interest has been paid, along with the principal of the original loan that should have been covered at the date of the reorganization or renewal.

b. If the restructuring or renewal is carried out in the last 20% of the original term of the loan and if all accrued interest has been paid, along with the principal of the original amount of the loan that should have been covered at the date of the reorganization or renewal, and 60% of the original amount of the loan.

Restructuring of a loan is not considered to occur when the total amount of principal and interest payable have been covered at the realization date and said payment modifies one or several of the following original loan conditions: i. Guarantees: only when they imply the extension or replacement of guarantees for others of a better quality; ii. Interest rate: when the agreed interest rate is improved; iii. Currency: provided the rate of the new currency is applied, and iv. Payment date: only when the change does not result in exceeding or modifying the frequency of the payments. In no case may the change in payment date allow the omission of payment in any period.

Problem loans - Problem commercial loans are considered to be current and past due loans with regard to which it is determined, based on current information and facts and on a review process, that they will most likely not be recovered in full, either the principal or the interest, in the originally agreed terms and conditions.

Suspension of interest accrual - Interest incurred on loan operations stops being accrued when the unpaid balance of the loan is considered to be overdue.

As long as a loan is classified as part of the past due portfolio, control over interest accrued is kept in memorandum accounts. If past due interest is collected, it is recognized directly in income for the year.

Loans are transferred to the performing loan portfolio when past-due balances are settled in full (principal and interest, among others) or, in the case of restructured or renewed loans, when there is evidence of sustained payment on the loan, as per the Accounting Criteria.

h. Allowance for loan losses - The commercial loan portfolio was rated on December 31, 2016 and 2015 in adherence to loan portfolio Provisions issued by the CNBV on June 24, 2013 and its subsequent amendments. That rating is based on an expected loss model that considers the likelihood of default, the severity of the loss and the exposure to default, while the consumer loan and mortgage portfolio was rated as per the methodology for rating non-revolving consumer loan and mortgage portfolios referred to in Point A of Sections One and Two of Chapter V, Title Two, of the General Provisions applicable to Credit Institutions published in the amending resolution of October 25, 2010 and subsequent amendment.

The Bank's commercial loan portfolio was rated based on the general methodology using an expected loan loss model.

The amount of the preventive reserve for each loan is the result of applying the following formula:

$R_i = PI_i \text{ X } SP_i \text{ X } EI_i$

Where:

R_i	Amount of allowance for loan losses to be set up
PI_i	Probability of default on the loan
SP_i	Severity of loss
EI_i	Exposure to default on the loan

EI_i must be calculated monthly, and PI_i and SP_i at least quarterly

The commercial loan loss reserve is classified depending on the degree of risk and the percentages shown in the following table:

Risk levels	Percentage ranges	
A-1	0.00%	0.90%
A-2	0.901%	1.50%
B-1	1.501%	2.00%
B-2	2.001%	2.50%
B-3	2.501%	5.00%
C-1	5.001%	10.00%
C-2	10.001%	15.50%
D	15.501%	45.00%
E	Above 45.00%	

In rating the commercial loan portfolio based on the expected loss model, we took the following into consideration:

1. The commercial loan portfolio was classified in accordance with the Provisions applicable to the Bank, based on the following:

   I. Federal and municipal entities (Not applicable to the Bank).

   II. Projects with own source of payment (Exhibit 19).

   III. Trustees acting under a trust, not included in the above section, and loan arrangements commonly referred to as "structured" (Not applicable to the Bank).

   IV. Financial Entities (Exhibit 20)

V. Business entities not included in the above sections and individuals engaged in business operations:

- Net income or net annual sales ≥ 14 million UDI's (Exhibit 22).

  - ✓ Small corporations: 14 million UDI's ≥ Annual net sales < 54 million UDI's.
  - ✓ Corporations: 54 million UDI's ≥ Annual net sales < 216 million UDI's.
  - ✓ Large corporations: Annual net sales ≥ 216 million UDI's.

- Net income or net annual sales < 14 million UDI's (Exhibit 21).

  - ✓ "Borrowers with no late payments" in the last 12 months.
  - ✓ "Borrowers with late payments" of at least one day in the last 12 months.

Methodology for rating consumer and housing loan portfolios

Rating of the non-revolving consumer loan and mortgage portfolios is determined based on the estimated result of the effects of the probability of default or the severity of the loss associated to the value and nature of loan guarantees. Those portfolios originate from loans made to employees, who after concluding their employment relationship with the Bank, form part of the loan portfolio in accordance with the regulations established by the CNBV.

The Bank calculates the amount of the allowance for loan losses based on the foregoing, which is then recorded in income for the period in question, and it periodically evaluates whether a past due loan must remain in the balance sheet, or instead be written off or eliminated, which is done by canceling the unpaid balance of the loan against the allowance for loan losses.

The Ps.3,730 and Ps.2,423 of the allowance for loan losses at December 31, 2016 and 2015 is comprised of the rating requirement at those dates of Ps.3,648 and Ps.2,423, respectively, which includes Ps.13 and Ps.2, respectively, to reserve 100% of interest accrued but not collected on the past due portfolio, in order to comply with paragraph 68 of criterion B-6, which establishes that a reserve must be set up for an amount equivalent to such loss. In 2016 and 2015, the Bank recorded Ps.82 and Ps.0 of additional reserves, respectively.

In determining additional reserves to be reported to the CNBV that the Bank was required to set up in 2016, consideration was given to the Bank's interest in strategic sectors that cause greater exposure to Commercial Banks as regards terms, amounts and intended uses. Additionally, a comparison was made between the Bank's current non-performing loan portfolio and the average non-performing loan portfolio of Commercial Banks, assuming that the Bank's non-performing loan portfolio average would tend to the bank median and reach a percentage similar to that of Commercial Banks in the short term. In 2015, the Bank's management decided not to set up additional reserves.

Recovery of loans previously written off or eliminated is recognized in income for the period.

The surplus in the allowance for loan losses is canceled against income for the period, affecting the items from which it originated, i.e., the loan loss reserve. If the amount to be canceled exceeds the recorded estimate, it is recorded as other operating income (expenses).

The Bank periodically evaluates whether a past due loan must remain in the balance sheet or instead be written off. If applicable, the balance is written off by canceling the unpaid balance of the loan against the allowance for loan losses. If the balance of the loan that is to be written off exceeds the amount of the related reserve, the allowance is increased up to the amount of the difference. In 2016, the Bank applied two loans against the allowance for loan losses for a total of Ps.61. In 2015, the Bank applied five loans against the allowance for loan losses in the amount of Ps.496.

The additional reserves recognized by the Commission are those set up to cover risks that were not considered in the different methodologies for rating loan portfolios, and whose origin, methodology for determination thereof, amount and term were all reported to the Commission prior to their creation. At December 31, 2016 and 2015, the Bank has additional allowance for loan losses of Ps.82 and Ps.0, respectively.

Pardons, quitclaims, rebates and discounts, whether partial or total, are recorded with a charge to the allowance for loan losses. If the amount exceeds the balance of the reserve associated to the loan, estimates are first created up to the amount of the difference.

i. Other accounts receivable - Accounts receivable other than the Bank's loan portfolio and collection rights comprise, among others, loans made to officers and employees, favorable tax balances, transaction settlement accounts, collateral given in cash for derivative financial instrument operations and items directly related to the loan portfolio.

   Loans made to officers and employees are collected through the payroll.

   Accounts receivable from identified debtors whose maturity is agreed from the start at a term of more than 90 calendar days requires setting up a reserve that reflects the extent of their irrecoverability.

   No such allowances are set up for favorable tax balances and transaction settlement accounts.

j. Foreclosed items or items received as payment in kind - These items are recorded at the lower of cost or fair value, less costs and expenses strictly indispensable incurred in the respective distribution.

   If the carrying value of the asset giving rise to the distribution of the goods or the payment in kind is lower than the value of the foreclosed item, the value of the item is adjusted to the carrying value of the asset.

   Assets acquired as a result of a foreclosure are recorded on the date on which the court sentence approving the foreclosure becomes final and conclusive. Assets received as payment in kind are recorded on the date on which the payment-in-kind deed is signed or the asset ownership transfer is formalized.

   Foreclosed items are considered non-monetary items.

   On the basis of the Second Title "Prudential Provisions", Chapter V "Portfolio rating", Section VI, "Reserves for holding foreclosed items or items received as payment in kind" of the Sole Circular issued by the CNBV, the Bank creates additional provisions for potential loss in the value of items foreclosed judicially or extra-judicially, be they movable property or real property, as well as collection rights and investments in securities.

The Bank prudentially adopted the policy of reserving 100% of foreclosed items or items received as payment in kind, in order to recognize recovery of the respective loan when the related items are sold.

In the case of items held for sale, the base distribution value used to determine the reserve is the carrying value less collections received to cover those items. Said value is applied reserve percentages in accordance with the tables shown in Section E of the Provisions in question.

i. Collection rights or movable property

Time elapsed as of foreclosure or payment in kind of assets (months)	Percentage of reserve %
Up to 6	0
More than 6 and up to 12	10
More than 12 and up to 18	20
More than 18 and up to 24	45
More than 24 and up to 30	60
More than 30	100

ii. Real property

Time elapsed as of foreclosure or payment in kind of assets (months)	Percentage of reserve %
Up to 12	0
More than 12 and up to 24	10
More than 24 and up to 30	15
More than 30 and up to 36	25
More than 36 and up to 42	30
More than 42 and up to 48	35
More than 48 and up to 54	40
More than 54 and up to 60	50
More than 60	100

At the time of sale, the difference between the selling price and the book value of the foreclosed goods in question is applied to income for the period under "Other operating income (expenses)".

k. Property, furniture and equipment - This item is expressed as follows: i) acquisitions made as from January 1, 2008 at acquisition cost and ii) acquisitions made until December 31, 2007, valued by applying Investment Unit (UDI) factors up to December 31, 2007 to their acquisition costs. Until December 31, 1996, real property was valued to its net replacement value based on appraisals performed by independent experts and quarterly factors communicated by the CNBV.

Depreciation of property is calculated by the straight-line method based on the remaining useful lives of assets determined by independent experts.

Depreciation of furniture and equipment is calculated by life expectancy method considering their acquisition cost less their residual value (straight-line method) over restated values.

Property, furniture and equipment are subject to annual impairment testing, only when signs of impairment are identified. Consequently, they are expressed at modified historical cost, less accumulated depreciation and, when applicable, impairment loss.

l. Impairment in the value of long-lived assets and their disposal - At December 31, 2016 and 2015, there were no signs of impairment in dined- life long-lived assets, due to which annual impairment testing of their recoverable values was not required.

m. Permanent investments in associates are initially recorded based on the amounts invested, contributed or the acquisition value, and are subsequently valued by the equity method, which consists of adjusting the value of the investment, contribution or the acquisition value of the shares, by the proportional amount of comprehensive income or losses and the distribution of profits or capital reimbursements subsequent to the acquisition date. Losses in associated companies not arising from reductions in the percentage of equity are recognized proportionally in permanent investments.

The Bank's equity in the results of associates is shown separately in the statement of income.

Other permanent investments over which there is no significant influence for decision making purposes are valued at acquisition cost. Dividends arising from such investments are recognized in the statement of income for the period in which they are received, except when they relate to profits of years prior to the acquisition of the investment, in which case they are deducted from permanent investments.

n. Prepayments - Prepayments comprise expenses incurred by the Bank where the risks and benefits inherent in the goods to be acquired and services to be received have not been transferred yet. Prepayments are recorded at cost and are shown in the balance sheet under deferred charges, prepayments and intangible assets. Once the goods and/or services for which prepayments made are received, they are recorded as an asset or an expense in the statement of income for the period, respectively.

Expenses incurred for issuing liabilities are amortized by the straight-line method considering the term of the security from which they arose.

o. Deposits - Liabilities incurred for fund attraction through certificates of deposit, fixed term deposits, banker's acceptances and promissory notes with yields payable at maturity are recorded based on the contractual value of the liability. Interest accrued is recognized in income for the period as an interest expense.

When securities are placed at a price other than their nominal value, in addition to the matter mentioned in the paragraph above, a deferred charge or credit is recorded, as applicable, on the difference between the nominal value of the securities and the cash received therefrom. That deferred credit or debit is amortized by the straight-line method against income for the period during the term of the securities from which it arises.

Securities placed at a discount and not bearing interest are initially recorded based on the cash received. The difference between the nominal value of the securities and the amount of cash mentioned above is recorded in income for the period using the effective interest method.

p. Interbank loans and loans from other lending entities - Liabilities arising from interbank loans are recorded based on the contractual value of the obligation; interest accrued is recognized directly in the Bank's income as an interest expense.

q. Provisions - Preparation of financial statements in accordance with accepted accounting practices requires the Bank to prepare estimations that affect the figures reported in the financial statements and the accompanying disclosures. Estimates are based on management's best estimation of current facts.

   The Bank sets up reserves for contingent liabilities resulting from lawsuits, as per the legal risk policies and procedures authorized by the Comprehensive Risk Management Committee (CAIR for its acronym in Spanish).

r. Sundry creditors and other accounts payable - This caption includes transaction settlement accounts, accounts receivable from margin accounts, accounts receivable from collateral guarantees received in cash, sundry creditors and other accounts payable, the latter which includes the negative balance of cash and cash equivalents that in accordance with the provisions of criterion B-1 "Cash and cash equivalents" must be shown as a liability.

s. Income Tax (IT) payable and deferred. - Payable and deferred tax is applied to income for the period as an expense, except when arising from a transaction or event recognized outside income for the period as other comprehensive income or an item recognized directly in stockholders' equity.

   Deferred IT is recorded based on the comprehensive method of assets and liabilities, which consists of recognizing deferred tax for all temporary differences between the book and tax values of assets and liabilities expected to materialize in the future, at the rates set forth in the tax provisions in effect at the financial statement date. The Bank recognized deferred income tax, as the financial and tax projections indicate that the Bank will essentially pay income tax in the future.

   Deferred income tax related to other comprehensive items that have not been identified as realized continues to be presented under equity and is to be reclassified to income for the year as it is realized.

t. Deferred employees' statutory profit-sharing (ESPS) - Deferred ESPS is recorded on the basis of the comprehensive method of assets and liabilities, which consists of recognizing deferred ESPS on all temporary differences between the book and tax values of assets and liabilities for which payment or recovery thereof is expected. Deferred ESPS related to other comprehensive items not identified as realized is presented under stockholders' equity and is to be reclassified to income for the year, as those items are realized.

   ESPS payable and deferred is charged to income and represents the liability payable in a term of under one year. ESPS incurred is presented under administration and promotion expenses.

u. Employee benefits - The Federal Labor Law establishes the obligation to make certain payments to employees who cease to work under certain conditions or who comply with certain requirements, as well as to pay the obligations established in the respective labor agreements.

New MFRS D-3 "Employee benefits" came into force as of January 1, 2016, which establishes the concept of re-measurement of assets or liabilities from defined benefits and eliminates the possibility of deferring recognition of actuarial profits and losses directly in income, based on accrual. Therefore, said actuarial profits and losses must be immediately recorded in Other Comprehensive Income (OCI), and must be subsequently recycled to net profit or loss.

The Bank opted to recognize 20% of remeasured accumulated actuarial gains or losses as of 2021, in a maximum period of 5 years. Those balances must be recognized at the end of each period, after providing timely notice of that option to the National Banking and Securities Commission.

MFRS D- 3 in effect until December 31, 2015 contemplates shorter periods for amortizing unamortized items, and it even provides the option to recognize actuarial gains or losses directly in income. The accounting policy adopted by the Bank after the enactment of that standard in 2008 and until 2015 consists of amortizing actuarial gains or losses not contributed over the remaining average labor life of active personnel.

The Bank has plans in place for payment of pensions, seniority premiums and retirement benefits to its personnel in addition to those established in the Law.

Retirement benefit obligations are quantified under the projected unit-credit method, determined by an actuarial calculation performed by independent experts. At December 31, 2016 and 2015, the calculation was prepared and adjusted to the actual figure in the same period.

Employee benefits offered by the Bank to its employees, including defined benefit plans (or defined contributions), are as follows:

Direct benefits (salaries, overtime, vacations, holidays and paid absences, etc.) are recognized in income as they accrue and the respective liabilities are expressed at nominal value given their short-term nature. Absences paid in conformity with legal or contractual provisions are non-cumulative.

Retirement benefits (pensions, seniority premiums and indemnities, etc.) are recorded based on actuarial studies performed by independent experts by the projected unit-credit method.

The net cost for the period based on actuarial calculations over projected salaries is recognized as an expense in income for the period. Indemnities and direct labor costs are charged to income in the year in which they are paid.

In 2016, the net cost for the period includes recycling of remeasured accumulated actuarial losses at December 31, 2015, in accordance with the average remaining labor life.

The Bank has a defined contribution plan in place for newly hired personnel who upon reaching 60 years of age and 30 years of service are entitled to a retirement pension for life that is equivalent to the total fund accumulated in his/her individual account.

v. Stockholders' Equity

The capital stock, premium on sale of shares, legal reserve, contributions for future capital stock and retained earnings are expressed as follows: i) movements made as from January 1, 2008 at historical cost, and ii) movements made before January 1, 2008 at restated values determined by applying UDI factors until December 31, 2007 to their historical values. Consequently, the different equity items are expressed at their modified cost.

The net premium on sale of Capital Contribution Certificates (CAPs for its acronym in Spanish) represents the surplus between the payment of subscribed CAPs and the face value thereof.

The Bank's future capital increase contributions are recognized in a caption separate from contributed capital when certain requirements are met. Those requirements include the existence of a formal agreement in place to the effect that shares have no fixed yield until they are capitalized and that they are not reimbursable. Future capital increase contributions that fail to meet the aforementioned requirements are recorded as liabilities.

w. Comprehensive income - The amount of comprehensive income shown in the statement of changes in stockholders' equity is the result of the Bank's performance in the period and it is comprised of the net income plus items that in accordance with specific provisions were directly recorded in stockholders' equity and do not constitute capital contributions, reductions or distributions. The comprehensive income for 2016 and 2015 is expressed in historical pesos.

Also presented is the increase or decrease in equity resulting from two types of movements: those inherent in owner decisions and those resulting from recognition of comprehensive income.

x. Trust operations - The Bank records the equity of the trusts that it manages in the memorandum accounts caption, in light of the responsibility involved in realizing or complying with the business purpose of those trusts. In some cases, the above responsibility is limited to accounting for the trust's assets, while in other cases it includes recording assets and liabilities generated from the respective operations.

The trust's equity recognized in memorandum accounts is valued as per the Accounting Criteria.

Income from management of trusts is recorded in income for the period as it accrues.

y. Custody and administration operations. Administration operations include those conducted by the Bank on behalf of third parties, such as the purchase and sale of securities and derivative financial institutions, repurchase agreements and securities lending.

Given that said goods are not owned by the Bank they do not form part of the balance sheet. However, the estimated amount for which the Bank would be liable in the event of a future contingency is recorded in memorandum accounts, with the exception of cash received for payment of services on behalf of third parties.

The estimated amount of goods in custody or under administration is determined on the basis of the related operation.

In the event the Bank is liable to the depositing party for damages or loss of the goods in custody or under administration, the respective liability is applied to income for the period. Said entry is recorded when the liability becomes known, irrespective of any legal action taken by the depositing party towards repairing the loss or damage.

Income from custody or administration services is applied to income for the period as it is earned.

In the event the goods in custody are also held under administration, they are controlled separately.

z. Income recognition - The yields generated by cash and cash equivalents and investments in securities and repurchase agreements are applied to income as they arise.

Interest on the loan portfolio is recognized as it accrues, except for interest on the non-performing loan portfolio, which is recorded when the respective amounts are actually collected. Commissions collected on initial credit lines are recorded as deferred credit, which is amortized against income for the year by the straight-line method over the life of the loan.

aa. Information by segments - First tier loan operations refer to loans made directly to companies; second tier interbank loans channel resources through banking financial intermediaries and other non-bank intermediaries and financial markets, and fund attraction relates to obtaining the necessary funds to meet the Annual Financial Program authorized by the Department of Finance, cover the Bank's liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

The Accounting Criteria do not require disclosure per each geographic area where the Bank operates at which identified segments generate income or hold production assets.

ab. Related parties - The Bank conducted transactions with related parties during the regular course of operations. Operations with related parties are understood to be those in which the Bank is owed money in connection with deposits or other cash and cash equivalent operations and loans, credits or discounts, revocable or irrevocable, documented by means of credit memoranda or agreements, as well as loan restructuring, renewal or modification operations, including net positions favoring the Bank arising from derivative operations and investments in securities other than shares.

Related parties are defined as either individuals or corporations holding direct or indirect control of 2% or more of the shares representing the Bank's capital, as well as the members of the Bank's Board of Directors.

Also considered as related parties are business entities, as well as the advisors and officers thereof, in which the Bank has direct or indirect control over 10% or more their capital.

The total sum of operations with related parties does not exceed 50% of the basic portion of the Bank's net capital, as set forth in article 50 of the Law.

Note 4 - Foreign currency operations:

The Bank complies with the following standards and limits issued by Banxico for foreign currency operations:

a. The position, either long or short, in dollars must be equivalent to a maximum of 15% of the Bank's core capital.

b. The foreign currency position must not exceed 2% of net capital, except as concerns the dollar or currencies referred to the USD, which can reach up to 15%.

c. Liabilities assumed in a foreign currency must not exceed 183% of the Bank's core capital.

d. The investment regime for foreign currency operations requires maintaining a minimum level of liquid assets, as per the calculation procedure established by Banxico, according to the term to maturity of foreign currency operations.

At December 31, 2016 and 2015, foreign currency operations carried out in the currencies used by the Bank and the position of currencies are as follows:

2016					
	(In thousands)				
	Asset	Liability	Position in source currency	Mexican peso exchange rate	Mexican Pesos
Currencies	Source currency				
US dollar	7,798,468	7,795,508	2,960	Ps. 20.61940	Ps. 61
Pound sterling	156	-	156	25.48145	4
Japanese yen	11,245	-	11,245	0.17681	2
Euro	2,730	2,543	187	21.75347	4
					Ps. 71

2015					
	(In thousands)				
	Asset	Liability	Position in source currency	Mexican peso exchange rate	Mexican Pesos
Currencies	Source currency				
US dollar	7,402,876	7,404,068	(1,192)	Ps. 17.24870	(Ps. 21)
Pound sterling	184	-	184	25.43666	5
Japanese yen	11,490	-	11,490	0.14346	2
Euro	5,787	3,443	2,344	18.74934	44
					Ps. 30

The exchange risk position, as a whole and per currency, does not exceed the limit equivalent to 15% of the Bank's core capital, which totals USD169,083 thousand and USD166,077 thousand at December 31, 2016 and 2015, respectively.

The exchange risk position at December 31, 2016 and 2015 is as follows:

	Currencies valued to USD (thousands)	
	2016	2015
US dollar	Ps. 44,759	Ps. 32,344
Pound sterling	193	272
Japanese yen	96	96
Euro	202	2,538
Total	Ps. 45,250	Ps. 35,250

In determining the exchange risk position, the following exchange rates were used (Currency - US dollar):

	Exchange rates	
Currency	2016	2015
US dollar	Ps. 1.000000	Ps. 1.000000
Pound sterling	0.809193	0.678104
Japanese yen	116.618970	120.233515
Euro	0.947867	0.919963

At December 31, 2016 and 2015, the exchange rates used to convert figures to Mexican pesos are as follows:

	Exchange rates	
Currency	2016	2015
US dollar	Ps. 20.619400	Ps. 17.248700
Pound sterling	25.481450	25.436660
Japanese yen	0.176810	0.143460
Euro	21.753470	18.749340

At February 23, 2017, the exchange rates used to convert figures to Mexican pesos are as follows:

Currency	Exchange rates
US dollar	Ps.20.448900
Pound sterling	25.559080
Japanese yen	0.1814615
Euro	21.641085

Note 5 - Cash and cash equivalents:

At December 31, 2016 and 2015, cash and cash equivalents are made up as follows:

	2016	2015
Domestic bank deposits	Ps. 3,393	Ps. 3,389
Deposits in foreign banks	599	412
Demand deposits	7,547	4,987
Call Money	5,114	6,918
Time deposits	2,887	862
Purchase of spot currencies	26	346
Other	(10)	(308)
	Ps. 19,556	Ps. 16,606

Domestic bank deposits:

	2016		2015	
	Thousands of USD	Mexican peso	Thousands of USD	Mexican peso
Banco de México F.C.	182	Ps. 4	394	Ps. 7
Banco de México MXP	-	3,279	-	3,279
Other banks F.C.	3,504	72	5,645	97
Other banks MXP	-	38	-	6
	3,686	Ps. 3,393	6,039	Ps. 3,389

Deposits in foreign banks:

	2016		2015	
	Source currency thousands	Mexican peso	Source currency thousands	Mexican peso
Mexican peso	Ps. 135	Ps. -	Ps. 135	Ps. -
US dollar	25,061	517	17,510	302
Pound	156	4	184	5
Yen	11,245	2	11,490	1
Euro	3,514	76	5,535	104
		Ps. 599		Ps. 412

Demand deposits:

	2016				2015			
Source currency	Rate	Term days	Source currency thousands	Mexican peso	Rate	Term days	Source currency thousands	Mexican peso
USD	0.54% to 0.70%	4	366,000	Ps. 7,547	0.17% to 0.37%	4	289,100	Ps. 4,987

Call Money:

	2016				2015			
Source currency	Rate	Term days	Source currency thousands	Mexican peso	Rate	Term days	Source currency thousands	Mexican peso
Domestic banks								
MXP			Ps. -	Ps. -	2.90% to 3.53%	4	Ps.222,000	Ps. 222
FC	0.70% to 0.80%	4	248,000	5,114	0.54%	4	388,220	6,696
				Ps. 5,114				Ps. 6,918

Time deposits:

	2016				2015				
Source currency	Rate	Term days	Source currency thousands	Mexican pesos	Source currency	Rate	Term days	Source currency thousands	Mexican pesos
USD	0.85%	7	140,000	Ps. 2,887	USD	0.75%	7 to 21	50,000	Ps. 862

Currency purchases (Spot):

	2016			2015		
	Source currency	Source currency thousands	Mexican Peso	Source currency	Source currency thousands	Mexican Peso
Foreign banks	USD	1,282	Ps. 26	USD	20,071	Ps.346

Other:

	2016	2015
Petty cash	Ps. 3	Ps. 2
Foreign bills and coins	8	8
Sales of spot currencies	(21)	(318)
	(Ps. 10)	(Ps. 308)

Note 6 - Investments in securities:

Investments in securities are subject to different types of risk that are basically associated to the market in which they operate, the interest rates associated to the term, the exchange rates and the inherent credit and market liquidity risks.

Risk management policies, and the analysis of risk to which the Bank is exposed, are described in Note 29.

At December 31, 2016 and 2015, investments in securities are comprised as follows:

a. Trading securities:

	2016	2015
Unrestricted government bonds	Ps. 270	Ps. 2
Unrestricted bank bonds	-	2,500
Repurchase operation securities	119,936	117,201
Guarantee government bonds	87	23
	Ps. 120,293	Ps. 119,726

- Unrestricted government bonds

Unrestricted government bonds at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Carrying value	Fair value	Appreciation (deficit)	Carrying value	Fair value	Appreciation (deficit)
Unrestricted government bonds	Ps.270	Ps.270	Ps. -	Ps. 2	Ps. 2	Ps.-

- Unrestricted bank bonds

Unrestricted bank bonds at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Carrying value	Fair value	Appreciation (deficit)	Carrying value	Fair value	Appreciation (deficit)
Debt instruments	Ps. -	Ps. -	Ps. -	Ps. 2,500	Ps. 2,500	Ps. -

- Repurchase operation securities

Repurchase operation securities at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Carrying value	Fair value	Appreciation	Carrying value	Fair value	Appreciation
Government securities in repurchase agreements	Ps.119,930	Ps.119,933	Ps. 3	Ps.117,199	Ps.117,201	Ps. 2

- Guaranteed government bonds

Guaranteed government bonds at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Carrying value	Fair value	Appreciation	Carrying value	Fair value	Appreciation
Guaranteed government bonds	Ps.87	Ps. 87	Ps. -	Ps. 23	Ps.23	Ps. -

b. Available for sale securities:

	2016	2015
Obligations and other USD securities	Ps. -	Ps. 1,314
Securities representing guarantee	-	104
Shares MXP	35	24
Shares USD	25	19
Valuation of hedging swaps (net)	-	(275)
	Ps. 60	Ps. 1,186

- Obligations and other securities

Obligations and other securities at December 31, 2016 and 2015 are made up as follows:

	2016			2015		
	Carrying value	Fair value	Deficit	Carrying value	Fair value	Deficit
Debt Certificates	Ps. 71	Ps. -	(Ps. 71)	Ps. 1,368	Ps. 1,314	(Ps. 54)

- Securities representing guarantee

Guarantee securities used in DFI operations at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Carrying value	Fair value	Appreciation (deficit)	Carrying value	Fair value	Appreciation (deficit)
Debt instruments	Ps. -	Ps.-	Ps. -	Ps. 102	Ps. 104	Ps. 2

- Shares in Mexican pesos

Shares in Mexican pesos at December 31, 2016 and 2015 are made up as follows:

	2016			2015		
	Acquisition cost	Fair value	Unrealized loss	Acquisition costs	Fair value	Unrealized loss
Unlisted	Ps. 97	Ps. 35	(Ps. 62)	Ps. 97	Ps. 24	(Ps. 73)

- Shares in foreign currency - valued to pesos

Shares in foreign currency at December 31, 2016 and 2015 are made up as follows:

	2016			2015		
	Acquisition cost	Fair value	Unrealized gain	Acquisition costs	Fair value	Unrealized gain
Unlisted in USD	Ps. 8	Ps. 25	Ps. 17	Ps. 7	Ps. 19	Ps. 12

Dividends collected from shares available for sale in 2016 and 2015 total Ps.1 and Ps.1. The valuation result recognized in other comprehensive income items under stockholders' equity in 2016 and 2015 is Ps.18 and Ps.0, respectively.

c. Held to maturity securities:

	2016	2015
Government bonds	Ps. 153	Ps. 149

Government bonds at December 31, 2016 and 2015 are comprised as follows:

	2016			2015		
	Amount	Interest provision	Total	Amount	Interest provision	Total
Government bonds	Ps. 151	Ps. 2	Ps. 153	Ps.148	Ps.1	Ps. 149

d. Interest income, results of valuation and results of purchase and sale of securities in 2016 and 2015 are as follows:

	2016	2015
Income from purchase and sale of securities	Ps. -	Ps. 200
Interest income	7,219	4,406
Result of valuation	2	(4)

Note 7 - Repurchase agreements:

Repurchase agreements carried out at December 31, 2016 and 2015 were mainly for Savings Protection Bonds, Development Bonds, Fixed Rate Bonds, Cetes, Udibonds and stock exchange certificates; repurchase operation terms fluctuate from 1 to 28 days.

a. Seller

- Debtors under repurchase agreements

	2016	2015
Government bonds	Ps. 71,391	Ps. 27,411
Inventories	757	299
Total	72,148	27,710
Securities received as collateral for repurchase agreements:		
Government bonds	52,708	3,600
Total debtors for repurchase agreements	Ps. 19,440	Ps. 24,110

- Collateral received by the Bank (Memorandum accounts)

	2016	2015
Government bonds	Ps. 71,431	Ps. 27,446
Inventories	1,061	395
Total	Ps. 72,492	Ps. 27,841

- Collateral received and sold or pledged as guarantee by the Bank (Memorandum accounts)

Government bonds	Ps. 52,737	Ps. 3,602

b. Buyer

- Creditors for repurchase agreements

Titles owned by the Bank[1]:		
Government bonds	Ps.119,930	Ps.117,199

[1] Repurchased securities are recorded under securities held for trading.

In 2016 and 2015, premiums obtained for repurchase agreements amounted to Ps.1,759 and Ps.1,360, respectively, and premiums paid for repurchase agreements totaled Ps.6,455 and Ps.4,122.

Note 8 - DFI operations:

DFIs at December 31, 2016 and 2015 are made up of CAP's held for trading and fair value and hedging swaps. To manage balance mainly risk of long-term operations, the Bank contracts interest rate and/or currency swaps that cover exposure to asset or liability operations.

The position between purchase-sale of DFIs amounts to Ps.7,568 and Ps.5,254 in 2016 and 2015, respectively.

	2016		2015	
	Asset	Liability	Asset	Liability
For trading:				
SWAPS	Ps.200	Ps. 128	Ps. 175	Ps. 113
Options	7	7	25	25
	207	135	200	138
For hedging:				
SWAPS	771	8,411	103	5,419
	978	8,546	303	5,557
Net position		Ps.7,568		Ps.5,254

At December 31, 2016 and 2015, the Bank has contracted swaps for an equivalent of USD4,649 million and USD5,012 million, respectively, and purchase-sale options for trading of USD23.9 million and USD48.2 million, respectively, as follows:

Swaps

	2016		2015	
	Purchase	Sale	Purchase	Sale
Hedge swaps:				
To hedge the portfolio	Ps.29,267	Ps.29,584	Ps.21,416	Ps.21,668
To hedge securities or security assets	-	-	1,035	1,125
To hedge securities or security liabilities	62,491	69,814	56,876	61,851
	Ps.91,758	Ps.99,398	Ps.79,327	Ps.84,644
For trading	1,848	1,776	1,618	1,556
Options	7	7	25	25
Net position		Ps. 7,568		Ps. 5,254

Swaps:

To hedge the loan portfolio:

	Type of swap	Source currency	Thousands in source currency: Principal	Interest	Total	Mexican pesos: 2016	2015
Purchase	Rate	USD	717,474	-	717,474	Ps. 14,794	Ps. 10,850
Purchase	Rate	MXP	14,446,484	26,714	14,473,198	14,473	10,566
						Ps. 29,267	Ps. 21,416
Sale	Rate	USD	717,474	524	717,998	Ps. 14,805	Ps. 10,862
Sale	Rate	MXP	14,962,723	36,311	14,999,034	14,999	10,574
						29,804	21,436
Valuation	Rate	USD	-	-	1,565	32	200
Valuation	Rate	MXP	-	-	(252,150)	(252)	32
						Ps. 29,584	Ps. 21,668

To hedge security or bond assets:

	Type of swap	Source currency	Thousands in source currency: Principal	Interest	Total	Mexican pesos: 2016	2015
Purchase	Rate	USD	-	-	-	Ps. -	Ps. 1,035
Sale	Rate	USD	-	-	-	Ps. -	Ps. 1,062
Surcharge	Rate	USD	-	-	-	-	339
Valuation	Rate	USD	-	-	-	-	(276)
						Ps. -	Ps. 1,125

To hedge security or bond liabilities:

	Type of swap	Source currency	Thousands in source currency: Principal	Interest	Total	Mexican pesos: 2016	2015
Purchase	Currency	MXP	24,746,868	257,910	25,004,778	Ps. 25,005	Ps. 31,456
Valuation	Currency	MXP	-	-	(636,029)	(636)	(83)
						24,369	31,373
Sale	Currency	USD	1,485,621	3,444	1,489,065	30,704	36,062
Valuation	Currency	USD	-	-	23,776	490	188
						Ps. 31,194	Ps. 36,250

	Type of Swap	Source currency	Thousands in source currency: Principal	Interest	Total	Mexican pesos: 2016	2015
Purchase	Rate	USD	1,412,000	9,832	1,421,832	Ps.29,317	Ps.18,438
Valuation	Rate	USD	-	-	427,048	8,805	7,065
						38,122	25,503
Sale	Rate	USD	1,412,000	4,331	1,416,331	29,204	18,378
Valuation	Rate	USD	-	-	456,683	9,416	7,223
						Ps.38,620	Ps.25,601

For trading:

	Type of Swap	Source currency	Thousands in source currency: Principal	Interest	Total	Mexican pesos: 2016	2015
Purchase	Rate	USD	-	1,536	1,536	Ps. 32	Ps. 5
Valuation	Rate	USD	-	-	88,080	1,816	1,613
						1,848	1,618
Sale	Rate	USD	-	1,383	1,383	28	4
Valuation	Rate	USD	-	-	84,761	1,748	1,552
						Ps.1,776	Ps.1,556

At December 31, 2016 and 2015, the results of valuation of fair value hedge securities are as follows:

	2016		2015	
	Derivative	Primary position	Derivative	Primary position
Swaps	Ps.2,734	(Ps.2,357)	Ps. 24	(Ps. 22)

Options

			Thousands	Amount Mexican pesos	
	Underlying	Source currency	Source currency	2016	2015
Purchase	Rate	MXP	6,883	Ps. 7	Ps. 12
Purchase	Rate	USD	573	12	10
Valuation	Rate		-	(12)	3
				Ps. 7	Ps. 25

			Thousands	Amount Mexican pesos	
	Underlying	Source currency	Source currency	2016	2015
Sale	Rate	MXP	8,083	Ps. 8	Ps. 14
Sale	Rate	USD	573	12	10
Valuation	Rate		-	(13)	1
				Ps. 7	Ps. 25

At December 31, 2016 and 2015, the Bank made loans with protected rates, whose principal of USD 2.7 million and USD4 million and fair value of USD 4 and USD 10 thousand, respectively, has been recorded in memorandum accounts.

Note 9 - Loan portfolio:

Policies and procedures for making, controlling and recovering loans

The loans manual contains the guidelines of the Credit Process (PDC from Spanish), which start with the definition of the target market and end with the recovery of a loan.

Specific policies for each phase of the PDC process mentioned below are set forth in the operating manuals and are an integral part of the Bank's credit policy framework.

- Business development
  1. Development and/or updating of programs and products
  2. Promotion management - first tier
  3. Promotion management - second tier
  4. First tier credit files management
     - Addendum No. 1 (April 22, 2016)
  5. Second tier credit files management
- Analysis and decisions
  1. Borrower Evaluation. Credit analysis - first tier
     - First tier financial program matrices
  2. Borrower Evaluation. Credit analysis - second tier
     - Financial Program Matrixes - second tier
  3. Borrower analysis. Legal report and/or Personality report.
  4. Authorization
- Instrumentation and disbursement
  1. Contracting - first tier
  2. Contracting - second tier
  3. Registration and release of credit lines, authorization of disposal and letters of credit - first tier
  4. Registration and release of credit lines, authorization of disposal and letters of credit - second tier
     - Addendum No. 1 (December 1, 2016).

5. Safeguarding of securities documentation - first tier
   - Addendum No. 1 (March 31, 2016)
   - Addendum No. 2 (July 6, 2016)
6. Safeguarding of securities documentation - second tier
   - Addendum No. 1 (March 30, 2016)
   - Addendum No. 2 (July 6, 2016)

- Follow-up
  1. Portfolio management and control - first tier
  2. Portfolio management and control - second tier
  3. Supervision and follow up on borrowers and intermediaries
  4. Portfolio rating
- Recovery
  1. Specialized Collections Function (FEC from Spanish)
  2. Collections management - first tier
     - Addendum No.1 (April 13, 2016)
  3. Collection management - second tier
  4. Application of allowance for loan losses and loan write-offs
- Support processes
  1. Credit regulations
  2. Borrower investigations
     - Addendum No. 1 (September 10, 2015)
  3. Preparation of General Reports of the Credit Process (PDC from Spanish)
  4. Receipt, management, promotion and sale of movable property and real property awarded by a court and given as payment in kind.
  5. Prices and rates system
- Other loan programs
  1. Former employee portfolio management
  2. Financing of foreign trade inventories
     - Addendum No. 1 (September 7, 2016)

Following are management's policies and procedures for determining risk concentrations:

Further to point a) of section II of article 80 of the General Provisions Applicable to Credit Institutions issued by the CNBV, specifically as concerns credit portfolio risk, the Bank measures, evaluates and follows up on its concentration per type of financing, rating, economic sector, geographic area and borrower. Concentrations are reported monthly to the CAIR through the Report on Operations and Credit Position.

The Bank's Risk Management department issues Risk Regulation Circulars that contain an internal policy to determine the maximum financing amounts allowed for Common Risks per type of borrower, which are below the regulatory risks established by the CNBV, in order to control concentration per borrower or group of borrowers that pose Common Risks.

Concentration risk

Following are management's policies and procedures for determining risk concentrations:

Per borrower:

For the purpose of carrying out Asset Operations, article 54 of the General Provisions Applicable to Credit Institutions of the CNBV establishes that banks must establish maximum financing limits for a single person or groups of persons who, given the Common Risk that they pose, are considered to qualify as one person.

In accordance with article 57 of those Provisions, the regulatory limits applicable to the Bank in the fourth quarter of 2016 were determined considering the 12.43% capital ratio and core capital of Ps.21,350.61 at June 2016. Regulatory limits are 30% of the core capital (Ps.6,405.1, equivalent to USD310.6 million at the Ps.20.6194 exchange rate in effect on December 30, 2016) per private sector borrower and 100% of the core capital (Ps.21,350.6, equivalent to USD1,035.4 million) for other types of borrowers.

The Comprehensive Management Regulations Manual establishes the prudential measure of observing 85% of the regulatory limits to avoid breakage in the event of high depreciation in the peso/dollar exchange rate or in case of reductions in the core capital.

Prudential limits applicable to the Bank in the quarter in question are Ps.5,444.4 (equivalent to USD264.0 million) per borrower of the private sector and Ps.18,148.0 (equivalent to USD880.1 million) for other types of borrowers.

However, the Bank determines financing amounts below the prudential limits as part of its internal measures to prevent concentrations and supervening facts to the granting of loans. The internal financing policy established by management per borrower or group of borrowers of the private sector who pose Common Risks is of Ps.170 million dollars, the equivalent of Ps.3,505.3, which comprises 16.4% of the core capital.

Per economic sector:

In order to manage the soundness of the main loan portfolios during economic crises, there is a maximum prudential limit in place of 30% of the balance of each portfolio per geographic area or city, economic sector and loan beneficiary, in order to avoid concentration and shorten and diversify risk.

a. At December 31, 2016 and 2015, the portfolio is comprised as follows:

Portfolio in foreign currency valued to Mexican pesos:

	2016			2015		
Type of loan	Performing	Non-performing	Total	Performing	Non-Performing	Total
Commercial loans	Ps. 113,626	Ps. 1,500	Ps. 115,126	Ps. 93,670	Ps. 172	Ps. 93,842
Loans made to financial entities	9,609	5	9,614	7,333	8	7,341
Loans made to government entities	5,664	-	5,664	980	-	980
Subtotal	Ps. 128,899	Ps. 1,505	Ps. 130,404	Ps. 101,983	Ps. 180	Ps. 102,163

Portfolio in Mexican pesos:

	2016			2015		
Type of loan	Performing	Non-performing	Total	Performing	Non-Performing	Total
Commercial loans	Ps. 41,684	Ps. 493	Ps. 42,177	Ps. 37,777	Ps. 536	Ps. 38,313
Loans made to financial entities	16,557	36	16,594	11,376	67	11,443
Loans made to government entities	3,307	-	3,307	-	-	-
Consumer loans	10	4	14	14	4	18
Mortgages loans	97	6	102	111	6	117
Subtotal	61,655	539	62,194	49,278	613	49,891
Total	Ps. 190,554	Ps. 2,044	Ps. 192,598	Ps. 151,261	Ps. 793	Ps. 152,054

b. Non-performing loan portfolio at December 31, 2016 and 2015:

	2016		2015	
Term	Amount	%	Amount	%
From 1 to 180 days	Ps. 69	3	Ps. 725	91
From 181 to 365 days	1,250	61	1	-
From 1 to 2 years	725	36	67	9
Total	Ps. 2,044	100	Ps. 793	100

c. Main movements in non-performing loan portfolio:

	2016	2015
Opening balance of non-performing loan portfolio	Ps. 793	Ps. 708
Difference per exchange rate from opening balance	172	7
Payments	(57)	(52)
Eliminations	(1,512)	(496)
Allocations to current portfolio	(92)	(4)
Cancellations due to restructurings	(61)	(422)
Loan opening due to restructurings	176	436
Allocations to past due portfolio	2,611	609
Capitalization	11	-
Others	3	7
Ending balance of non-performing loan portfolio	Ps. 2,044	Ps. 793

At December 31, 2016 and 2015, the non-performing loan portfolio balance is made up of 2 and 15 former employees, and of twelve and ten companies, respectively. Nine companies are involved in a judicial or extrajudicial collection process and three are under sustained payment.

d. Breakdown of the portfolio per economic sector at December 31, 2016 and 2015:

	2016		2015	
Sector per economic activity	Amount	%	Amount	%
Tourism	Ps. 32,605	16.93	Ps. 24,515	16.12
Real property and lease services	26,277	13.64	23,633	15.54
Metal products, machinery and equipment	20,775	10.79	21,009	13.82
Transportation and communication	16,446	8.54	14,201	9.34
Electricity, gas and water	14,907	7.74	12,084	7.95
Chemical substances and plastic or rubber items	13,917	7.23	10,431	6.86
Non-metal mineral products	7,892	4.10	7,183	4.72
Trade	7,119	3.70	4,312	2.84
Food, beverages and tobacco	4,501	2.34	2,986	1.96
Metal industry	3,563	1.85	3,175	2.09
Mining	2,920	1.52	2,377	1.56
Paper, print shops and publishing houses	2,020	1.05	2,158	1.42
Professional, personal and social services	1,709	0.89	1,800	1.18
Lumber and wood products industry	645	0.33	194	0.13
Construction industry	440	0.23	644	0.42
Textiles, clothing and leather industry	433	0.22	414	0.27
Agricultural industry	129	0.07	351	0.23
Unclassified services	1,307	0.68	559	0.37
Individuals	116	0.06	135	0.10
(Valuation of primary position portfolio at risk)	(301)	(0.17)	129	0.09
Private sector	157,420	81.74	132,290	87.01
Government sector	8,971	4.66	980	0.64
Financial sector	26,207	13.60	18,784	12.35
Total	Ps. 192,598	100.00	Ps. 152,054	100.00

e. Loans restructured and renewed in:

	2016 Portfolio			2015 Portfolio		
Type of loan	Current	Non-Performing	Total	Current	Non-Performing	Total
Commercial loans:						
Restructured	Ps. 18,237	Ps. 547	Ps. 18,784	Ps. 18,543	Ps. 489	Ps. 19,032
Renewed	1,583	-	1,583	317	9	326
Mortgages loans:						
Restructured	18	3	21	21	3	24
Consumer loans:						
Restructured	2	-	2	2	-	2
Total	Ps. 19,840	Ps. 550	Ps. 20,390	Ps. 18,883	Ps. 501	Ps. 19,384

On October 31, 2013, a Debt Recognition, Interest Capitalization and Reorganization Agreement was formalized with a Foreign Financial Entity, whereby it was agreed to recover a total of USD146.3 million and which is recognized in memorandum accounts. According to said agreement, the amount in question will be recovered in a term of 15 years through quarterly payments. At December 31, 2016 and 2015, the equity balance is USD 111 million and USD121 million, respectively.

f. Additional guarantees and concessions issued for restructured loans.

In 2016, additional guarantees and concessions were issued for restructured loans in the amount of Ps.649.6 (Ps.621.2 in 2015).

g. Interest and commissions:

	2016			2015		
Type of loan	Interest collected	Commissions collected	Total	Interest collected	Commissions collected	Total
Commercial loans	Ps. 6,754	Ps. 446	Ps. 7,200	Ps. 5,048	Ps.136	Ps. 5,184
Loans made to financial entities	1,181	16	1,197	825	-	825
Loans made to government entities	356	36	392	65	-	65
Consumer loans	1	-	1	1	-	1
Mortgages loans	4	-	4	4	-	4
Total	Ps. 8,296	Ps. 498	Ps. 8,794	Ps. 5,943	Ps.136	Ps. 6,079

h. Commissions on initial granting of loans

Commissions collected upon initial granting of loans not yet deferred at December 31, 2016 and 2015 total Ps.465 and Ps.484, respectively, and are offset against income for the year as interest income by the straight line method over the life of the loan. The weighted term for amortizing commissions at December 31, 2016 and 2015 is 3.65 years and 3.85 years, respectively.

i. Rediscounts

Rediscounts in 2016 and 2015 totaled Ps.26 and Ps.18, respectively.

j. Breakdown of problem loans and non-problem loans

Following is the breakdown of total loans, classified as problem and non-problem, performing and non-performing:

	2016		
	Portfolio		
	Performing	Non-performing	Total
Non-problem portfolio	Ps. 218,702	Ps. -	Ps. 218,702
Problem portfolio	676	2,022	2,698
Past-due interest	-	12	12
Total rated portfolio	Ps. 219,378	Ps. 2,034	Ps. 221,412

	2015		
	Portfolio		
	Performing	Non-performing	Total
Non-problem portfolio	Ps. 176,371	Ps. -	Ps. 176,371
Problem portfolio	1,472	781	2,253
Past-due interest	-	2	2
Total rated portfolio	Ps. 177,843	Ps. 783	Ps. 178,626

1. Valued at the exchange rates in effect on December 31, 2016 and 2015.
2. Ratable portfolio.
3. It is comprised of the commercial portfolio, government entities, financial intermediaries and irrevocable guarantees, and letters of credit and international factoring.

4. Does not include the consumer loan and housing portfolio.

5. Past due interest is included for information purposes, as established in the provisions for rating portfolios, and it is reserved as it is incurred.

k. Allowance for loan losses at December 31, 2016 and 2015.

This balance was determined based on the loan portfolio rated at December 31, 2016 and 2015, in accordance with the rules issued by the Department of Finance and the CNBV, with the following results:

Total ratable portfolio per type of loan at December 31, 2016

Rating	Commercial	Government entities	Financial intermediaries	Guarantees	Housing portfolio	Consumer loan portfolio	Total
A-1	Ps.140,211	Ps. 8,877	Ps. 23,065	Ps. 27,995	Ps. -	Ps. -	Ps. 200,148
A-2	10,353	-	2,242	679	-	-	13,274
B-1	2,180	-	606	-	-	5	2,791
B-2	318	-	211	-	95	4	628
B-3	1,429	-	412	-	-	-	1,841
C-1	104	-	21	-	-	1	126
C-2	-	-	-	-	1	-	1
D	108	-	41	-	-	-	149
E	2,548	-	-	-	7	4	2,559
Subtotal	157,251	8,877	26,598	28,674	103	14	221,517
Past-due interest	13	-	-	-	-	-	13
Total	Ps.157,264	Ps. 8,877	Ps. 26,598	Ps. 28,674	Ps. 103	Ps. 14	Ps. 221,530

Does not include the rating-exempt portfolio of Ps.72.

Allowance required per risk group at December 31, 2016

Rating	Commercial	Government entities	Financial intermediaries	Guarantees	Housing portfolio	Consumer loan portfolio	Total
A-1	Ps. 709	Ps. 44	Ps. 140	Ps. 121	Ps. -	Ps. -	Ps. 1,014
A-2	116	-	25	9	-	-	150
B-1	36	-	10	-	-	-	46
B-2	8	-	5	-	1	-	14
B-3	48	-	16	-	-	-	64
C-1	6	-	2	-	-	-	8
C-2	-	-	-	-	-	-	-
D	35	-	19	-	-	-	54
E	2,275	-	-	-	6	4	2,285
Subtotal	3,233	44	217	130	7	4	3,635
Past-due interest	13	-	-	-	-	-	13
Total	Ps. 3,246	Ps. 44	Ps. 217	Ps. 130	Ps. 7	Ps. 4	3,648
Additional allowances							82
Total allowances							Ps. 3,730

Total ratable portfolio per type of loan at December 31, 2015

Rating	Commercial	Government entities	Financial intermediaries	Guarantees	Housing portfolio	Consumer loan portfolio	Total
A-1	Ps. 119,429	Ps. 863	Ps. 12,260	Ps. 25,054	Ps. -	Ps. -	Ps. 157,606
A-2	8,646	-	5,874	1,352	-	-	15,872
B-1	573	-	37	851	-	6	1,467
B-2	45	-	132	-	-	4	181
B-3	916	-	214	35	97	-	1,262
C-1	-	-	91	-	1	2	94
C-2	-	-	-	-	2	-	2
D	1,354	-	75	-	2	-	1,431
E	824	-	-	-	15	5	844
Subtotal	131,787	863	18,683	27,292	117	17	178,759
Past-due interest	2	-	-	-	-	-	2
Total	Ps. 131,789	Ps. 863	Ps. 18,683	Ps. 27,292	Ps. 117	Ps. 17	Ps. 178,761

Does not include the exempt portfolio of Ps.126

Allowance required per risk group at December 31, 2015

Rating	Commercial	Government entities	Financial intermediaries	Guarantees	Housing portfolio	Consumer loan portfolio	Total
A-1	Ps. 618	Ps. 4	Ps. 64	Ps. 121	Ps. -	Ps. -	Ps. 807
A-2	102	-	77	16	-	-	195
B-1	10	-	1	15	-	-	26
B-2	1	-	3	-	-	-	4
B-3	39	-	9	1	2	-	51
C-1	-	-	6	-	-	-	6
C-2	-	-	-	-	-	-	-
D	597	-	34	-	-	-	631
E	686	-	-	-	11	4	701
Subtotal	2,053	4	194	153	13	4	2,421
Past-due interest	2	-	-	-	-	-	2
Total	Ps. 2,055	Ps. 4	Ps. 194	Ps. 153	Ps. 13	Ps. 4	2,423
Additional allowances							-
Total allowances							Ps. 2,423

Movements in the allowance for loan losses were as shown below:

	2016	2015
Balances at beginning of year	Ps. 2,423	Ps. 1,673
Increase/(release), net	1,132	1,138
Applications	(192)	(496)
Pardons	(4)	(2)
Exchange effect	371	110
Ending balances	Ps. 3,730	Ps. 2,423

The allowance for loan losses set up by the Bank includes Ps. 13 and Ps. 2 at December 31, 2016 and 2015, respectively, as a supplement to reserve 100% past due interest at the closing of each of those years.

In rating the loan portfolio at December 31, 2016 and 2015, the Bank applied the methodologies set forth in the General Provisions Applicable to Credit Institutions for each year.

In 2016, loan reserves comprise 1.9% of the total portfolio and cover 1.8 times the non-performing loan portfolio; in 2015, those factors were 1.6% and 3.0 times, respectively.

Criterion B-6 "Loan portfolio" of Exhibit 33 of the Sole Bank Circular establishes that the Bank may opt to eliminate from its assets any past due loans that have been reserved 100%. In 2016, the Bank applied the balance of 3 loans against the allowance for loan losses for a total of Ps.192. In 2015, it applied the balance of 2 loans against the loan loss reserve for a total of Ps.496.

The balances of the eliminated portfolio are as follows:

	2016		2015	
	USD	MXP	USD	MXP
Past-due capital				
Companies	Ps.378	Ps. 649	Ps.316	Ps. 599
Former employees	-	28	-	31
Total capital	Ps.378	Ps. 677	Ps.316	Ps. 630
Past-due interest				
Companies	Ps. 7	Ps. 16	Ps. 5	Ps. 15
Former employees	-	1	-	1
Total interest	Ps. 7	Ps. 17	Ps. 5	Ps. 16

The amounts recovered from the loan portfolio eliminated from assets in prior years were Ps.0 and Ps.312 in 2016 and 2015, respectively, and were recorded under other operating income (expenses).

The balance of the rating-exempt portfolio (Federal Government and Development Banking) is Ps.72 and Ps. 126 in 2016 y 2015, respectively.

l. Interest income recognized in loans at the moment of capitalization.

Interest income recognized in the moment of capitalization in 2016 and 2015 totals Ps.15 and Ps.70, respectively.

m. Credit lines

The amount of opening credit lines recorded in memorandum accounts at December 31, 2016 and 2015 is Ps.5,161, USD5,134 and 17 Euros, and Ps.8,948, USD 5,365 and .18 Euros in millions, respectively.

Note 10 - Other accounts receivable:

This caption is made up as follows:

	2016	2015
Loans made to Bank personnel	Ps. 2,172	Ps. 2,132
Debtors for collateral given in cash	8,462	5,178
Debtors for settlement of currency purchase and sale operations	22	319
Assigned accounts receivable	18	32
Sundry debtors	63	59
Debtors for commissions on current operations	11	12
Value added tax	9	7
Debtors for settlement of repurchase agreements	1	1
Write-off allowance	(21)	(21)
Total	Ps. 10,737	Ps. 7,719

At December 31, 2016 and 2015, the Bank has accounts receivable in foreign currency valued to Mexican pesos of Ps.11 and Ps.11, respectively.

Note 11 - Foreclosed assets:

a. The breakdown of these goods at December 31, 2016 and 2015 is shown below:

Item	Mexican pesos	USD million	Valued foreign currency	2016	2015
Movable property	Ps. 92	Ps. -	Ps. -	Ps. 92	Ps. 93
Securities	26	9	190	216	185
Collection rights	24	-	-	24	24
Subtotal	142	9	190	332	302
Real property:					
Rustic land	110	-	-	110	113
Urban land	136	-	-	136	154
Single family	60	-	-	60	63
Condominiums	4	-	-	4	4
Industrial plants	319	-	-	319	323
Commercial establishments	124	-	-	124	124
Other	44	-	-	44	44
Subtotal	797	-	-	797	825
Goods held for sale:					
Real property	102	-	-	102	142
Movable property	1	-	-	1	1
Subtotal	103	-	-	103	143
	1,042	9	190	1,232	1,270
Less: set up reserves	1,022	9	190	1,212	1,228
Total	Ps. 20	Ps. -	Ps. -	Ps. 20	Ps. 42

* Relates to the balance of goods held for sale worth Ps.103 and Ps. 83 (Ps.143 and Ps.101 in 2015).

b. Allowance for foreclosed assets or assets received as payment in kind

The allowance of foreclosed assets or goods received as payment in kind at December 31, 2016 and 2015 was as follows:

	2016	2015
Real property	Ps. 797	Ps. 825
Securities	216	185
Movable property	92	93
Collection rights	24	24
Goods held for sale	83	101
Total reserve	Ps. 1,212	Ps. 1,228

The charge to income for this item was Ps.19 and Ps. 243 in 2016 and 2015, respectively.

Note 12 - Property, furniture and equipment:

At December 31, 2016 and 2015, this caption is comprised as follows:

	Useful life	2016	2015
Building	90 years	Ps. 522	Ps. 476
Furniture and equipment	10 years	510	510
Computer equipment	3.3 years	191	191
Transportation equipment	4 years	3	3
		1,226	1,180
Less: accumulated depreciation		(855)	(847)
		371	333
Constructions in progress		2	2
Land		82	82
Total		Ps. 455	Ps. 417

The charge to income for depreciation and amortization in 2016 and 2015 was Ps.8 and Ps.7, respectively.

In 2015, subsidiary DIESA cancelled the effects of Statement C-15 "Impairment in the value of long-lived assets and disposal thereof", since the recoverable value of those assets is above their book value.

Note 13 - Permanent investments:

a. The main companies for which the equity method was used, and the Bank's shareholding in those companies, at December 31, 2016 and 2015, are as follows:

	Shareholding %		
Company	2016	2015	Activity
Cesce México, S. A. de C. V. (CESCEMEX)	48.99	48.99	Insurance
Corporación Mexicana de Inversiones de Capital, S. A. de C. V. (CMIC)	6.43	6.89	Investment fund

b. The amounts used to recognize the equity method at December 31, 2016 and 2015 are shown below:

Company	Capital stock	Prior years' income	(Loss) income for the period	2016 Total	2015 Total
CESCEMEX	Ps. 95	(Ps. 1)	(Ps. 8)	Ps. 86	Ps. 94
CMIC	355	51	7	413	366
Other	-	-	-	42	34
Total				Ps. 541	Ps. 494

c. At December 31, 2016 and 2015, the assets, liabilities and main captions of the statement of income of associated companies are as follows:

	2016			
	Total			
	Assets	Liabilities	Income	Expenses
CESCEMEX	Ps. 357	Ps. 181	Ps. 66	Ps. 82
CMIC	6,856	435	697	586

	2015			
	Total			
	Assets	Liabilities	Income	Expenses
CESCEMEX	Ps. 334	Ps. 143	Ps. 61	Ps. 79
CMIC	5,470	158	496	344

d. Investments in shares of associated companies located in Mexico in which there is no control or significant influence are shown valued by the acquisition cost method. The acquisition cost of other permanent investments in shares is Ps.2 in 2016 and Ps.2 in 2015.

Note 14 - Time deposits:

Time deposits at December 31, 2016 and 2015 are made up as follows:

	2016	2015
Fixed-term deposits MXP	Ps. 90	Ps. 78
Promissory notes with interest payable at maturity	80,331	75,007
Deposits for Special Savings loan	999	931
Fixed-term deposits F.C.	34,144	23,432
Valuation of hedging swaps, net	(15)	-
Total	Ps. 115,549	Ps. 99,448

Following are the features of promissory notes payable at maturity in 2016 and 2015:

Issue	Term	Average rate	2016	2015
Promissory note	1 to 29 days	5.9036%	Ps. 70,937	Ps. 22,714
Promissory note	30 to 179 days	5.5893%	9,394	49,294
Promissory note	180 to 365 days	-	-	2,999
			Ps. 80,331	Ps. 75,007

Term deposits payable to related parties at December 31, 2016 and 2015 were of Ps. 45 and Ps.75 and interest paid was Ps.8.72 and Ps.2.01, respectively.

Following are the features of fixed-term deposits in F.C. for 2016 and 2015:

Term	Rate	Initial amount	Accrued interest	2016	2015
1 to 29 days	From 0.30 to 0.85%	Ps. 25,358	Ps. 2	Ps. 25,360	Ps. 17,820
30 to 179 days	From 0.45 to 1.22%	2,358	2	2,360	997
180 to 360 days	From 0.93 to 1.70%	2,548	13	2,561	1,643
More than 360	From 1.26 to 1.78%	3,835	28	3,863	2,972
		Ps. 34,099	Ps.45	Ps. 34,144	Ps. 23,432

Note 15 - Debt instruments issued:

At December 31, 2016 and 2015, this caption is comprised as follows:

	2016	2015
Bank bonds	Ps. 20,765	Ps. 17,361
Debt instruments	10,127	15,123
Valuation of hedging swaps, net	(1,877)	(454)
	Ps. 29,015	Ps. 32,030

The features of bank bonds are as follows:

			2016		
Rate	Term days	Maturity	Amount	Interest	Total
4.375%	7,300	14/10/25	Ps.20,619	Ps.190	Ps.20,809
Placement discount			-	-	(44)
					Ps.20,765

			2015		
Rate	Term days	Maturity	Amount	Interest	Total
4.375%	7,300	14/10/25	Ps.17,249	Ps.159	Ps.17,408
Placement discount			-	-	(47)
					Ps.17,361

On October 6, 2015, the Bank conducted an issue of a USD 1,000 million bond, thus strengthening its financial structure, reducing the USD liquidity gap and strengthening its image and position in the international markets. The general terms of the issue are as follows:

Amount placed:	USD.1,000 million
Coupon rate:	4.375% fixed annual
Yield:	4.410%
Price:	99.719
Term:	10 years
Format:	144A and Regulation S
Date of placement:	October 6, 2015
Date of issue:	October 14, 2015
Payment of principal:	At maturity

The total amount of the issue was applied a floating rate at the date of issue through swaps operations carried out in the following terms:

USD.600 million subject to $Libor_{3m}$ + 233.45 bp.
USD.400 million subject to $Libor_{6m}$ + 221.00 bp.

The additional annual cost of issue expenses is approximately 4.9 bp.

Following are the features of the debt securities:

			2016		
Rate	Term days	Maturity	Amount	Interest	Total
4.70% to 5.90%	3,640	04/07/22	Ps. 1,500	Ps. 42	Ps. 1,542
4.70% to 5.90%	3,640	11/11/22	2,000	14	2,014
4.70% to 5.90%	3,640	17/02/23	3,000	59	3,059
4.70% to 5.90%	3,640	03/12/24	3,500	12	3,512
			Ps. 10,000	Ps.127	Ps.10,127

			2015		
Rate	Term days	Maturity	Amount	Interest	Total
3.60% to 4.80%	1,455	23/03/16	Ps. 5,000	Ps. -	Ps. 5,000
4.70% to 5.90%	3,640	04/07/22	1,500	41	1,541
4.70% to 5.90%	3,640	11/11/22	2,000	14	2,014
4.70% to 5.90%	3,640	17/02/23	3,000	58	3,058
4.70% to 5.90%	3,640	03/12/24	3,500	10	3,510
			Ps. 15,000	Ps.123	Ps.15,123

Note 16 - Interbank loans and loans from other lending entities:

The balances of interbank loans and loans from other lending entities at December 31, 2016 and 2015 are made up as follows:

	2016	2015
Commercial credit lines	Ps. 31,396	Ps.33,944
Guaranteed credit lines	6,021	4,150
Call money operations	4,530	1,529
Development banking	3,712	727
Federal Government loans	1,668	1,503
Official bodies	1,546	517
Implementing agent	121	888
Interest provisions	171	72
	Ps. 49,165	Ps. 43,330

At December 31, 2016, this caption is comprised as follows:

Counterparty	Currency	Rate	Source currency millions	Valued to Mexican pesos
a. Commercial credit lines				
Foreign banks	USD	1.3362 to 1.8540%	1,090	Ps.22,496
Domestic banks	MXP	5.5949 to 6.1200%	8,900	8,900
				Ps.31,396
b. Guaranteed credit lines				
Foreign banks	USD	1.25 to 3.9%	292	Ps.6,015
Foreign banks	EURO	2.00%	1	6
				Ps.6,021
c. Federal Government loans				
Domestic banks	MXP	5.48%	61	Ps. 61
Domestic banks	USD	0.6167 to 1.9466%	78	1,607
				Ps. 1,668
d. Implementing agent.				
International bodies and foreign banks	USD	2.05 to 2.11%	6	Ps. 121
e. Official bodies				
International bodies	USD	1.6053 to 1.7445%	75	Ps. 1,546
f. Development banking				
Domestic banks	USD	0.8 to1.010%	180	Ps.3,712
g. Call Money				
Domestic banks	USD	0.25 to 0.40%	89	Ps. 4,480
Domestic banks	MXP	5.70%	50	50
				Ps. 4,530

At December 31, 2015, this caption is comprised as follows:

Counterparty	Currency	Rate	Source currency millions	Valued to Mexican pesos
a. Commercial credit lines				
Foreign banks	USD	0.8206 to 1.39215%	1,579	Ps. 27,227
Domestic banks	MXP	3.3658 to 3.5825%	6,717	6,717
				Ps. 33,944
b. Guaranteed credit lines				
Foreign banks	USD	1.2005 to 3.9%	240	Ps. 4,143
Foreign banks	EURO	2.00%	1	7
				Ps. 4,150
c. Federal Government loans				
Domestic banks	MXP	3.03%	59	Ps. 59
Domestic banks	USD	0.2400 to 1.9466%	85	1,444
				Ps. 1,503
d. Implementing agent.				
International bodies and foreign banks	USD	0.9439 to 1.45%	51	Ps. 888
e. Official bodies.				
International bodies	USD	1.22%	30	Ps. 517
f. Development banking				
Domestic banks	USD	0.416 to1.8705 %	14	Ps. 727
g. Call Money				
Domestic banks	USD	0.25 to 0.40%	89	Ps. 1,529

Those loans are contracted with domestic and foreign credit institutions without significant concentration on any of them.

Note 17 - Income Tax (IT) and Employees' Statutory Profit Sharing (ESPS) payable and deferred:

a. IT

The Bank and its subsidiary determined a tax result of Ps.2,553 in 2016 and Ps.2,079 in 2015. The tax result differs from the book result mainly due to items that accrue over time and are deducted differently for book and tax purposes, to recognition of the effects of inflation for tax purposes and to items affecting only the book or tax result.

Any unamortized tax losses may be offset against tax profits. If the latter are greater than the tax losses, the difference will be the IT base tax result.

In 2008, the Bank paid Ps.483 of IT in Chile on the sale of shares and the assignment of a loan in that country, which tax was recorded in income for 2008. The Bank may offset that amount against IT payable in the next ten years, restated from the date of payment to the date it is credited, for which purpose the amount of the tax has been recorded in memorandum accounts.

The Bank and its subsidiary determine their tax bases and taxes payable. Following are the separate results of each entity, since they do not consolidate for tax purposes.

The figures presented in 2016 are those recorded before the annual tax return.

a. IT

	2016	2015
IT incurred	(Ps. 775)	(Ps. 628)
Deferred IT	380	340
Total deferred taxes in the statement of income	(Ps. 395)	(Ps. 288)

At December 31, 2016 and 2015, the main temporary differences on which deferred income tax is recorded are as follows:

	2016	2015
Liabilities and disposals	Ps. 2,307	Ps. 1,300
Advance collections, investments, repurchases and DFI	555	551
Allowance for other debts and foreclosed assets	133	131
Valuation of investments, repurchases and DFI	44	109
Property, machinery and equipment	(302)	(194)
Prepayments	(123)	(60)
Accounts receivable from commissions	(11)	(10)
Investments in shares	-	(347)
	2,603	1,480
Applicable IT rate	30%	30%
Deferred IT	Ps. 781	Ps. 444

Following is the reconciliation between the rate incurred and the effective income tax rate for 2016 and 2015:

	2016	2015
Income before income taxes	Ps. 1,115	Ps. 1,150
Income tax incurred	30%	30%
IT at statutory rate	335	345
Plus (less) effect on IT of the following items:		
- Client advances	74	92
- Other non-book tax income	52	35
- Employee benefits	170	108
- Deferred taxes	(377)	(337)
- Employees' statutory profit sharing	(23)	(29)
- Allowance for loan losses	349	304
- Other non-tax book deductions	105	131
- Deductible annual inflation adjustment	(30)	(59)
- Deduction of investments	(1)	(2)
- Contribution to pension fund	(77)	(48)
- Tax loss on foreclosed assets	(3)	(17)
- Trust	(2)	(3)
- Provisions paid	(1)	(1)
- Commissions collected	(72)	(53)
- Other commissions and premiums collected	(11)	(11)
- Other non-tax book income	(93)	(167)
IT recorded in income	Ps. 395	Ps. 288
Effective IT rate	35.0%	25.0%

The effective IT rate for 2016 and 2015 increased due to the change in the tax treatment of the loan loss reserve recorded in 2015, which gave rise to an increase in non-deductible items, and consequently the tax base also increased.

b. ESPS

The Bank is required to pay ESPS, which is calculated applying the procedures established in the IT Law.

The tax base for calculating ESPS, which is determined on the basis of the provisions of article 9 of the IT Law, considers the tax base to be the taxable income for IT purposes, without subtracting the ESPS paid nor the amortized tax losses, and subtracting the amount of non-deductible exempt salaries, as well as the historic tax depreciation that would have been determined had the immediate deduction of fixed assets in years prior to 2015 not been applied.

In 2016 and 2015, the Bank determined ESPS payable of Ps.275 and Ps.229, respectively. The procedure to calculate the ESPS tax base is taken from the provisions of article 9 of the IT Law.

The ESPS provisions for 2016 and 2015 are analyzed below and have been recorded under Administration and Promotion Expenses:

	2016	2015
ESPS payable	Ps. 275	Ps. 229
Deferred ESPS	(126)	(114)
Total	Ps. 149	Ps. 115

Following are the main temporary differences on which deferred ESPS is recognized:

	2016	2015
Liabilities and disposals	Ps. 2,307	Ps. 1,300
Advance collections, investments, repurchases and DFIs	555	551
Allowance for other debts and foreclosed assets	133	131
Valuation of investments, repurchases and DFI	44	109
Prepayments	(123)	(60)
Property, machinery and equipment	(14)	(15)
Accounts receivable from commissions	(11)	(10)
Investments in shares	-	(347)
Base	2,891	1,659
Applicable ESPS rate	10%	10%
Deferred ESPS asset	Ps. 289	Ps. 166

Incurred and deferred ESPS is shown under administration and promotion expenses in the statement of income.

DIESA had incurred Asset Tax (AT) benefits that can be recovered by complying with certain requirements set forth in the tax provisions. The years of expiration and amounts restated to December 31, 2016 are:

Year in which AT was incurred	AT	Expiration date
2006	11	2016
2007	7	2017

Note 18 - Sundry creditors and other accounts payable:

At December 31, 2016 and 2015, this item is comprised as follows:

	2016	2015
Liabilities arising from bank services rendered	Ps. 925	Ps. 852
Provisions for exposure to legal and operating risk	824	648
Provisions for sundry obligations	100	113
Other sundry creditors	152	143
Total	Ps. 2,001	Ps. 1,756

Following is an analysis of the differences in the provisions for exposure to legal and operating risk:

	2016	2015
Balances at beginning of year	Ps. 648	Ps. 527
Increases	155	79
Cancellations	(104)	(24)
Exchange effect	125	66
Ending balances	Ps. 824	Ps. 648

Note 19 – Subordinated debentures outstanding:

In August 2016, the Bank issued subordinated debentures outstanding in the international capital markets. Those hybrid instruments were contemplated in calculating the supplementary portion of the Bank's capital, which made it possible to increase its net capital index. Additionally, since that capital is expressed in US dollars, the issue provided a natural capital index hedge against fluctuations in the peso/USD exchange rate.

Following are the features of the subordinated debentures outstanding:

			2016		
Rate	Term days	Maturity	Amount	Interest	Total
3.80%	3,650	11/08/26	Ps. 17,249	Ps. 159	Ps. 14,400
Placement discount			-	-	(126)
					Ps. 14,274

Amount placed:	USD.700 million
Coupon rate:	Fixed, biannual 3.80%
Yield:	4.032%
Price:	98.959
Term:	10 years

Early payment option or Call:	Upon 5th anniversary (11/08/2021)
Format:	144A and Regulation S
Date of issuance:	August 11, 2016
Payment of principal:	Amortization at maturity or at Call
Demand:	8 times the amount initially offered

Note 20 - Employee benefits:

a. Defined benefit pension plans

The Bank has a defined benefit pension plan that covers all employees who meet the requirements established in the general work conditions, which consists of giving them a pension calculated on the basis of the average salary earned in the last year of services, plus a year-end bonus and vacation premium, to which a percentage based on age and years of service is applied.

The plan also covers seniority premiums, which consist of a sole payment equivalent to 12 salary days per year worked based on the most recent salary (which is limited to twice the minimum bank salary in effect at the date of retirement), as well as payment of other retirement benefits, including medical expenses, medicines, hospital fees and sports fees.

The "Special savings loan Program(PEA) " consists of a loan offered by the Bank to its retired and active personnel that can only be used as an investment (time deposit) in the Bank, thus guaranteeing a minimum yield with a difference payable by the Bank against the funding rate.

The respective liability and the annual cost of post-retirement benefits are calculated by an independent actuary using the bases of the plans, the Provisions of the CNBV and MFRS D-3 of the CINIF.

In 2016 and 2015, the investment of the funds covers the reserves for labor obligations, with an excess of Ps.2 and Ps.2 in the Defined Benefit Pension Fund, respectively.

Contributions to the Defined Benefit Pension Fund were for Ps.546 y Ps.337 in 2016 and 2015, respectively. Ps.109 and Ps.71 were contributed to the PEA fund in 2016 and 2015, respectively.

In 2016, those contributions include recycling remeasurements of the accumulated balance of plan losses not yet recognized (corridor approach) in the average remaining labor life.

b. Defined contribution pension plan

As of January 1, 2007, the Bank modified the general labor conditions based on the trends and best practices for managing and operating retirement and pension schemes, in order to incorporate the new employees and the employees who decided to migrate from the Defined Benefit System to the Defined Contribution System. This arrangement provides for better control over plan costs and liabilities, and makes it possible to maintain a proper cost-benefit ratio for the Bank and its employees, and establishes clear contribution or retirement rules. At December 31, 2016 and 2015, the Defined Contribution Trust was of Ps.235 and Ps.223, respectively.

At December 31, 2016, the Bank had the following balances resulting from the actuarial valuation performed by an independent expert:

	2016			
	Retirement pensions	Seniority premiums	Retirement benefits other than pensions	PEA and financial cost of loans
Obligation for acquired benefits	Ps. 6,670	Ps. 1	Ps. 4,141	Ps. 2,147
Obligation for defined benefits (ODB)	(Ps. 7,932)	(Ps. 18)	(Ps. 5,136)	(Ps. 2,952)
Fair value of plan assets	7,130	15	4,249	2,771
Net (liability) asset for defined benefits NLDB/(NADB)	(Ps. 802)	(Ps. 3)	(Ps. 887)	(Ps. 181)
Reserve balance at beginning of year under former MFRS	Ps. -	(Ps. 2)	Ps. -	Ps. -
Past services not yet recognized affecting retained earnings not yet recorded	-	-	(3)	-
Reserve balance at beginning of period	-	(2)	(3)	-
Net cost for the period	381	2	163	109
Contribution to the fund	(381)	(2)	(163)	(109)
Reserve balance at year end	Ps. -	(Ps. 2)	(Ps. 3)	Ps. -
Accumulated actuarial losses not yet recognized in OCI (stockholders' equity)	Ps. 1,245	Ps. 5	Ps. 730	Ps. 287
(Gains) / losses recognized in OCI (Stockholders' equity) not yet recycled to 2017 income	(443)	-	160	(107)
Accumulated actuarial losses not yet Recognized in OCI and in the statement of income	1,245	5	730	287
Net cost for the period:				
Cost of service	Ps. 66	Ps. 1	Ps. 44	Ps. 37
Net interest	91	-	51	20
Recycling of remeasurements	224	1	68	52
	Ps. 381	Ps. 2	Ps. 163	Ps. 109

Actuarial loss (differences in assumptions)	6.18 years	11.54 years	11.73 years	6.18 years
Actuarial assumptions:				
Estimated discount rate	7.70%	7.70%	7.70%	7.70%
Rate of increase in officer wages	3.50%	3.50%	3.50%	3.50%
Rate of increase in employee wages	4.00%	4.00%	4.00%	4.00%
Rate of increase in medical expenses	N/A	N/A	6.00%	N/A
Estimated yield rate	7.70%	7.70%	7.70%	7.70%
Effect of increasing by one point the rate of cost of other benefits, considering the other unchanged assumptions, in:				
Total labor cost of current services and total cost of interest	-	-	Ps. 505	-
Obligation for defined benefits (ODB)	-	-	5,855	-
Effect of decreasing by one point the rate of cost of other benefits, considering the other unchanged assumptions, in:				
Total labor cost and financial cost of current services and total cost of interest	-	-	Ps. 383	-
Obligation for defined benefits	-	-	4,548	-

Based on the Resolution that amends the general Provisions applicable to lending institutions published on December 31, 2015, the Bank opted to start recognizing remeasurements of the accumulated balance of plan actuarial losses as of 2021, by recognizing 20% of those balances as of the initial application and an additional 20% in each subsequent year. Those balances must be recognized at each period end.

The Bank provided timely notice to the National Banking and Securities Commission of its decision to apply the option specified in Transitory Article Three of the General Provisions applicable to lending institutions.

At December 31, 2016, remeasurements of liabilities (assets) from Defined Benefits, Net, determined during the actuarial valuation are as follows:

	Retirement pensions	Seniority premium	Retirement benefits different from pensions	PEA and financial cost of loans
Obligation for defined benefits	Ps.7,932	Ps.18	Ps.5,136	Ps.2,952
Estimated obligation for defined benefits	8,434	18	5,003	3,080
Actuarial (gains) losses from obligations	(Ps. 502)	Ps. -	Ps. 133	(Ps. 128)

	Retirement pensions	Seniority premium	Retirement benefits different from pensions	PEA and financial cost of loans
Fair value of plan assets	Ps.7,130	Ps.15	Ps.4,249	Ps.2,771
Estimated value of plan assets	7,189	15	4,276	2,792
(Gains)/losses on return of plan assets	Ps. 59	Ps. -	Ps. 27	Ps. 21
Remeasurements for the period to be recognized in other comprehensive income	(Ps. 443)	Ps. -	Ps. 160	(Ps. 107)

Reconciliation of plan gains and losses at December 31, 2016

	Retirement pensions	Seniority premium	Retirement benefits different from pensions	PEA and financial cost of loans
Remeasurements not yet recognized in OCI				
Actuarial (gains) losses from obligations at beginning of the year	Ps.1,097	Ps. 2	Ps. 294	Ps. 235
Recycling	(167)	-	(25)	(36)
Actuarial (gains) losses from obligations at year end	930	2	269	199
(Gains)/losses on return of plan assets at beginning of year	372	3	504	104
Recycling	(57)	-	(43)	(16)
(Gains)/losses on return of plan assets at year end	315	3	461	88
Actuarial (gains) losses from obligations not yet recognized in OCI	930	2	269	199
(Gains)/losses on return of plan assets not yet recognized in OCI	315	3	461	88
Total remeasurements not yet recognized in OCI	1,245	5	730	287
Remeasurements recognized in OCI				
Actuarial (gains) losses from obligations in the year	(502)	(1)	133	(128)
Actuarial (gains) losses from return of plan assets of the year	59	1	27	21
Remeasurements recognized in Other comprehensive income	(443)	-	160	(107)
Total remeasurements				
Actuarial (gains) losses from obligations at the year-end closing	428	1	402	71
Actuarial (gains) losses from return of plan assets at year-end closing	374	4	488	110
Total remeasurements	Ps. 802	Ps. 5	Ps. 890	Ps. 181

The Bank has accumulated actuarial losses not yet recognized in other comprehensive income (OCI) of 2,267, which will be gradually recognized as of 2021 as per the option to defer recognition thereof as per the resolution amending the general provisions applicable to lending institutions, published in the December 31, 2015 Official Gazette.

Those actuarial losses will be recycled to income on the basis of the average remaining labor life.

At December 31, 2015, the Bank had the following balances resulting from the actuarial valuation performed by an independent expert:

	2015			
	Retirement pensions	Seniority premiums	Retirement benefits other than pensions	PEA and financial cost of loans
Obligation for acquired benefits	Ps. 6,918	Ps. 1	Ps. 4,033	Ps. 2,452
Obligation for defined benefits(ODB)	(Ps. 8,283)	(Ps. 17)	(Ps. 4,835)	(Ps. 3,051)
Fair value of plan assets	6,814	13	4,040	2,711
Situation of the fund	(1,469)	(4)	(795)	(340)
Past services for plan changes	-	-	(3)	-
Actuarial loss (differences in assumtions)	1,469	6	798	340
Projected net assets	Ps. -	Ps. 2	Ps. -	Ps. -
Net cost for the period	Ps. 1,161	Ps. 3	Ps. 702	Ps. 443
Net cost for the period:				
Labor cost	Ps. 64	Ps. 1	Ps. 44	Ps. 36
Financial cost	555	1	338	210
Expected yield	(482)	(1)	(281)	(186)
Annual amortization	45	-	33	9
Effect of early retirement	15	-	6	2
	Ps. 197	Ps. 1	Ps. 140	Ps. 71
Contribution to the fund	Ps. 197	Ps. -	Ps. 140	Ps. 71
Payments	473	-	212	140
Past services due to plan changes	N/A	N/A	4.57 years	N/A
Actuarial loss (differences in assumptions)	6.55 years	9.80 years	11.66 years	6.55 years

	Retirement pensions	Seniority premiums	Retirement benefits other than pensions	PEA and financial cost of loans
Actuarial assumptions:				
Estimated discount rate	7.12%	7.12%	7.12%	7.12%
Expected salary increase rate	4.00%	4.00%	4.00%	4.00%
Rate of increase in medical expenses	N/A	N/A	6.00%	N/A
Estimated yield rate	7.12%	7.12%	7.12%	7.12%
Effect of increasing by one point the rate of cost of other benefits, considering the other unchanged assumptions, in:				
Total labor cost and financing cost	-	-	Ps. 478	-
Accumulated obligation	-	-	6,009	-
Effect of decreasing by one point the rate of cost of other benefits, considering the other unchanged assumptions, in:				
Total labor cost and financial cost	-	-	Ps. 358	-
Accumulated obligation	-	-	4,625	-

Note 21 - Stockholders' equity:

a. The capital stock at December 31, 2016 and 2015 was comprised as follow:

	2016			
	Number of CAP's	Nominal value	Restatement effects	Total
Subscribed:				
Series A	92,460,098	Ps. 9,246	Ps. 627	Ps. 9,873
Series B	47,630,960	4,763	323	5,086
Subtotal	140,091,058	14,009	950	14,959
Contributions for future capital increases formalized by the Bank's governing body	-	9,250	-	9,250
Share premium	-	71	10	81
Capital reserve	-	(547)	688	141
Prior years' income (loss)	-	(1,079)	(1,153)	(2,232)
Result from valuation of available for sale securities	-	13	-	13
Remeasurement for obligations related to employees' defined benefits	-	390	-	390
Result from holding non-monetary assets	-	-	(25)	(25)
Net income	-	718	(4)	714
Total	140,091,058	Ps. 22,825	Ps. 466	Ps. 23,291

	2015			
	Number of CAP's	Nominal value	Restatement effects	Total
Subscribed:				
Series A	92,460,098	Ps. 9,246	Ps. 627	Ps. 9,873
Series B	47,630,960	4,763	323	5,086
Subtotal	140,091,058	14,009	950	14,959
Contributions for future capital increases formalized by the Bank's governing body	-	7,550	-	7,550
Share premium	-	71	10	81
Capital reserve	-	(547)	688	141
Prior years' income (loss)	-	(1,867)	(1,158)	(3,025)
Result from valuation of available for sale securities	-	(5)	-	(5)
Result from holding non-monetary assets	-	-	(25)	(25)
Net income	-	788	5	793
Total	140,091,058	Ps. 19,999	Ps. 470	Ps. 20,469

b. The capital stock is comprised of nominative CAP's, with no coupons, and is divided into the following series:

Series "A" comprising at all times 66% of the Bank's capital stock; it may only be subscribed by the Federal Government; a sole bond will be issued, which will be non-transferable and in no case may its nature or the rights that it confers to the Federal Government be changed.

Series "B" comprises 34% of the capital stock and it may be issued in one or several bonds of equal value. They may be subscribed by the Federal Government, the Governments of the different States and Municipalities or by Mexican individuals or business entities of the social and private sectors, preference given to parties associated to foreign trade activities. No individual or business entity may take control of the bonds for more than 5% of the capital paid to the Bank. In no case may foreign individuals or business entities hold interest in the capital stock, nor Mexican companies whose bylaws do not include a clause for direct and indirect exclusion of foreigners.

The capital stock is represented by the Federal Government (99.9762%), Banco de México (0.0139%), Nacional Financiera, S.N.C. (0.0054%) and Banco Nacional de Obras y Servicios, S.N.C. (0.0045%).

c. The distribution or reduction of equity, after subtracting the restated capital stock contributed and restated tax profits, would be subject to 30% IT payable by the Bank. At December 31, 2016 and 2015, the balances of the tax accounts related to the Bank's stockholders' equity known as Capital Contributions Account (CUCA) and After-tax Earnings Account (CUFIN) were as follows:

	2016	2015
CUCA	Ps.45,462	Ps. 43,984
CUFIN	9,339	7,918

Subsidiary DIESA had CUCA of Ps. 630 and Ps. 610, and CUFIN of (Ps.335) in 2016 and 2015, respectively.

d. On December 16, 2016, the Board of Directors authorized the Bank's management to request a capital contribution of up to Ps. 1,700 from the executive power through the SHCP, which is required to support the growth in the volume of Business Banking (First Tier) and Development Banking (Second Tier) operations, and to back up the capital base and maintain a prudential level of capitalization. A Ps. 1,700 contribution was received on December 30, 2016.

In 2015, the Bank requested a capital contribution of up to Ps.2,200 to be able to support the growth in the volume of loan transactions and keep a prudential level of capitalization. The contribution received on December 28, 2015 was of Ps.2,200.

e. In accordance with the Credit Institutions Law, Development Banks must keep a minimum net capital of 8.0% in relation to their assets at risk. Additionally, they must keep a capital supplement equivalent to 2.5% of those assets.

The capital ratio at December 2016 and 2015 is as follows:

	2016	2015
Net capital	Ps. 37,446	Ps. 20,225
Basic	23,012	20,225
Supplementary	14,434	-
Assets at risk	196,847	159,441
Loans	169,263	138,931
Market	18,872	13,182
Operational	8,712	7,329
Capitalización index $_{Basic}$ (%)	11.69	12.68
Capitalización index $_{Net}$ (%)	19.02	12.68

At December 31, 2016 and 2015, the Bank complies with the above requirement by maintaining a capital ratio of 19.02% and 12.68 %, respectively. Said ratio was calculated based on the rules for determining capitalization requirements published by the SHCP in the Official Gazette of December 28, 2005, and its respective amendments.

The capital ratio is reported monthly to the Comprehensive Risk Management Committee and quarterly to the Board of Directors, explaining the main differences in the captions that comprise it.

Note 22 - Statement of income:

a. Financial margin

Interest income and expenses in 2016 and 2015 are comprised as follows:

	2016		
	Mexican pesos	Foreign currency (valued to Mexican pesos)	Total
Loan portfolio income	Ps. 3,560	Ps. 5,009	Ps. 8,569
Interest from investments in securities	7,150	92	7,242
Interest from cash and cash equivalents	142	81	223
Income from margin accounts	213	-	213
	Ps. 11,065	Ps. 5,182	Ps. 16,247
Expenses for repurchase agreements	Ps. 6,455	Ps. -	Ps. 6,455
Interest from time deposits	2,985	184	3,169
Interest from bonds	655	818	1,473
Interest from interbank loans and loans from other lending entities	10	890	900
Interest from subordinated debentures	-	211	211
Result of valuation of DFIs	(829)	-	(829)
Other items	7	42	49
	Ps. 9,283	Ps. 2,145	Ps. 11,428
Financial margin	Ps. 1,782	Ps. 3,037	Ps. 4,819

	2015		
	Mexican pesos	Foreign currency (valued to Mexican pesos)	Total
Loan portfolio income	Ps. 2,631	Ps. 3,448	Ps. 6,079
Interest from investments in securities	4,675	132	4,807
Interest from cash and cash equivalents	103	29	132
Income from margin accounts	111	-	111
	Ps. 7,520	Ps. 3,609	Ps. 11,129

	2015		
	Mexican pesos	Foreign currency (valued to Mexican pesos)	Total
Expenses for repurchase agreements	Ps. 4,122	Ps. -	Ps. 4,122
Interest from time deposits	1,807	58	1,865
Interest from bonds	932	155	1,087
Interest from interbank loans and loans from other lending entities	10	480	490
Result of valuation of DFIs	(400)	-	(400)
Other items	2	17	19
	Ps. 6,473	Ps. 710	Ps. 7,183
Financial margin	Ps. 1,047	Ps. 2,899	Ps. 3,946

b. Commissions and fees collected

	2016	2015
Loan operations	Ps. 287	Ps. 396
Collateral guarantees	299	260
Trusts	35	38
Letters of credit	18	22
Appraisals	8	9
Other commissions and fees collected	1	1
	Ps. 648	Ps. 726

Total operating income

c. Intermediation income (loss)

	2016	2015
Result for valuation of bonds and metals	(Ps. 10)	Ps. 47
Result from purchase-sale of securities	21	201
Result from purchase-sale of currencies	17	21
Total	Ps. 28	Ps. 269

Operating income (loss)

d. Other operating income (expenses)

	2016	2015
Amounts recovered	Ps. 304	Ps. 362
Cancellation of allowance for foreclosed assets	56	53
Interest charged on loans made to personnel	95	91
Profit on sale of property, furniture and equipment	-	1
Profit on sale of foreclosed assets	8	1
Write off for cancellation of foreclosed assets	(19)	(243)
Risk management allowance	(86)	(70)
Payment of public use taxes to the Federal Government*	(1,700)	(1,500)
Other items	12	98
Total	(Ps. 1,330)	(Ps. 1,207)

* The Executive Power, acting under the authority conferred by Article 10 of the Federal Income Law in effect, issued ruling 102-B-024 through the SHCP on December 8, 2016 assessing secondary taxes of Ps.1,700 payable by the Bank, which was applied to income before taxes. The respective payment was made on December 9, 2016. On December 9, 2015, the Bank paid secondary taxes in the amount of Ps.1,500 to respond to ruling 102-B-078 issued by the SHCP on December 8, 2015.

Note 23 - Guarantees granted:

At December 31, 2016 and 2015, the following guarantees were granted:

Purpose	2016	2015
Partially guarantee payment of capital and/or interest of up to 33% of a debt instruments issue of no more than Ps.2,200, over a term of up to 12 years, in order to improve the rating assigned to debt instruments issued by the sector.	Ps. -	Ps. 549
Partially guarantee payment of up to 33% of capital plus the first period of interest, of a debt instruments issue of no more than Ps.2,500, over a term not exceeding 10 years, in order to improve the rating assigned to this type of debt instruments.	940	940
Partially guarantee payment of up to 36% of capital plus the first period of interest, of a debt instruments issue of no more than Ps.500, over a maximum seven-year term, in order to improve the rating assigned to this type of debt instruments.	190	190
Guarantees issued in Mexican pesos	Ps. 1,130	Ps. 1,679

Note 24 - Contingent assets and liabilities:

Contingent asset and liabilities include guarantees issued by the Bank to financial intermediaries; contingencies arising from commercial, labor, civil and administrative suits that according to Note 29 "Comprehensive risk management" are recorded depending on their status; and invoices subtracted from hedged financial factoring operations.

Assets represent recovered casualties (paid guarantees), contributions not yet made to the Fund of Funds (capital at risk), and bonds and checks received as guarantees by service vendors.

The balances at December 31, 2016 and 2015 are as follows:

	2016	2015
Contingent liabilities:		
Responsibilities for guarantees issued	Ps. 10,864	Ps. 9,777
Legal risk management	1,068	886
International factoring (Invoices)	462	377
	12,394	11,040
Contingent assets:		
Responsibilities for future contributions	80	67
Casualties recovered (guarantees paid)	337	204
	417	271
	Ps. 12,811	Ps. 11,311

In 2016 and 2015, other recording accounts include: counter-guarantee funds of Ps.2,869 and Ps.3,775, and loans eliminated as per criterion B-6 "Loan Portfolio", in litigation for Ps.8,633 and Ps.6,198, respectively.

Note 25 - Goods in trust or under mandate:

At December 31, 2016 and 2015, the Bank's fiduciary division had the following trusts:

	2016	2015
Guarantee trusts	Ps.22,434	Ps. 19,026
Administration trusts	26,887	28,528
Transfer of ownership trusts	2,999	254
	52,320	47,808
Mandates	Ps. 5,479	Ps. 4,903

Trust management income was of Ps.35 and Ps.38 in 2016 and 2015, respectively.

Administration Trust balances include Pension Fund Trust balances, which at December 31, 2016 and 2015 were as follows: a) Defined Benefits Ps.11,394 and Ps. 10,866, and b) Defined Contributions Ps.235 and Ps. 223, and Special Savings Loans and Financial Cost of Loans of Ps.2,771 and Ps.2,711, respectively.

Note 26 - Assets in custody or under administration:

At December 31, 2016 and 2015, custody and administration operations were made up as follows:

	2016			2015		
	USD millions	Euros millions	Mexican pesos	USD millions	Euros millions	Mexican pesos
Operations carried out on behalf of third parties in repurchase agreements	-	-	Ps. 1,694	-	-	Ps. 1,414
Operations carried out on behalf of third parties in direct operations	-	-	3,302	-	-	3,102
Other instruments under Administration*	39,808	8	1,032,577	35,092	8	774,397
Other securities under administration	-	-	7	-	-	6
Special savings loan	-	-	997	-	-	929
	39,808	8	Ps.1,038,577	35,092	8	Ps. 779,848

* Refers to book entries made for securities supporting the Bank's loan portfolio.

Note 27 - Segment information:

Following is a breakdown of the information on each of the main segments into which the Bank's operations are divided:

a. Assets and liabilities

	Assets		Liabilities	Equity	Income		Expenses	
Business segment	Amount	Shareholding %	Amount	Amount	Amount	Shareholding %	Amount	Shareholding %
First Tier loans	Ps. 162,819	44.9	Ps. 162,819	Ps. -	Ps. 3,398	56.3	(Ps. 2,092)	35.4
Second tier loans	25,932	7.1	25,932	-	520	8.6	(149)	4.0
Financial Markets and Fund attraction	160,480	44.2	150,644	9,836	1,734	28.7	(514)	8.5
Corporate loans	13,455	3.8	-	13,455	389	6.4	(2,572)	52.1
Total	Ps. 362,686	100.0	Ps. 339,395	Ps. 23,291	Ps. 6,041	100.0	(Ps. 5,327)	100.0

b. Results by segment

	First Tier	Second Tier	Financial markets and fund attraction	Corporate	Total
Income:					
Financial income	Ps. 3,398	Ps. 520	Ps. 1,734	Ps. 389	Ps. 6,041
Expenses:					
Operating expenses	(977)	(121)	(514)	(790)	(2,402)
Allowance for loan losses	(1,115)	(28)	-	(82)	(1,225)
Secondary taxes*	-	-	-	(1,700)	(1,700)
Total	Ps. 1,306	Ps. 371	Ps. 1,220	(Ps. 2,183)	Ps. 714

* Refers to the payment made to the Federal Executive power through the SHCP due to the authority conferred by article 10 of the current Income Law.

First tier loan operations refer to loans made directly to companies; second tier interbank loans channel resources through banking financial intermediaries and other non-banking intermediaries and financial markets, and fund attraction refers to obtaining the necessary funds to meet the Annual Financial Program authorized by the Department of Finance, cover the Bank's liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

c. Loan portfolio and fund attraction

The loan placement unit balance at December 31, 2016 was Ps.234,504; Ps.8,971 (3.8%) corresponds to public sector operations and Ps.225,533 (96.2%) corresponds to private sector operations, of which Ps.200,272 are for first tier loans and guarantees.

The resources used to grant loans are mainly attracted through loans from international lending institutions and from the issue of paper in Mexican pesos, which are included in a pool of resources to obtain interest that allows the Bank to offer competitive placement rates for its first tier and second tier loan operations.

At December 31, 2016, the fund attraction balance arising from issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 62.6% of the internal debt, while loans made through commercial credit lines comprised 46.3% of the external debt, and external securities outstanding comprised 53.7%.

Following is a breakdown at December 31, 2015 of the information on each of the main segments into which the Bank's operations are divided:

a. Assets and liabilities

Business segment	Assets Amount	Assets Shareholding %	Liabilities Amount	Equity Amount	Income Amount	Income Shareholding %	Expenses Amount	Expenses Shareholding %
First Tier loans	Ps. 130,965	40.8	Ps. 130,965	Ps. -	Ps. 3,398	56.3	(Ps. 2,092)	35.4
Second tier loans	18,531	5.8	18,531	-	520	8.6	(149)	4.0
Financial Markets and Fund attraction	162,080	50.5	151,092	10,988	1,734	28.7	(514)	8.5
Corporate loans	9,481	2.9	-	9,481	389	6.4	(2,572)	52.1
Total	Ps. 321,057	100.0	Ps. 300,588	Ps.20,469	Ps. 6,041	100.0	(Ps. 5,327)	100.0

b. Results by segment

	First Tier	Second Tier	Financial markets and fund attraction	Corporate	Total
Income:					
Financial income	Ps. 2,899	Ps.405	Ps. 1,656	Ps. 400	Ps. 5,360
Expenses:					
Operating expenses	(801)	(127)	(387)	(659)	(1,974)
Allowance for loan losses	(1,037)	(56)	-	-	(1,093)
Secondary taxes	-	-	-	(1,500)	(1,500)
Total	Ps. 1,061	Ps.222	Ps. 1,269	(Ps. 1,759)	Ps. 793

First tier loan operations refer to loans made directly to companies; second tier bank loans channel resources through banking financial intermediaries and other non-banking intermediaries and financial markets, and fund attraction refers to obtaining the necessary funds to meet the Annual Financial Program authorized by the Department of Finance, cover the Bank's liquidity needs and assign transfer costs to the operating segments that require resources to carry out their operations.

c. Loan portfolio and fund attraction

The balance of loan placement units at December 31, 2015 is Ps.189,687; Ps.1,036 (.5%) corresponds to public sector operations and Ps.188,651 (99.5%) corresponds to private sector operations, of which Ps.170,443 are for first tier loans and guarantees.

The resources used to grant loans are mainly attracted through loans from international lending institutions and from the issue of paper in Mexican pesos, which are included in a pool of resources to obtain interest that allows the Bank to offer competitive placement rates for its first tier and second tier loan operations.

At December 31, 2015, the fund attraction balance arising from issue of promissory notes payable at maturity and debt securities in Mexican pesos comprised 71.7% of the internal debt, while loans made through commercial credit lines comprised 63.5%, and securities outstanding abroad comprised 34.5%.

Note 28 - Contingencies:

Financing granted to a trust of the aeronautical sector eliminated from assets in 2011 is in the final stage of recovery, and it has been correctly secured.

Note 29 - Comprehensive risk management:

a. General policies

The Bank's Comprehensive Risk Management (AIR from Spanish) policies and procedures are regulated mainly by Chapter IV of Title Two of the General Provisions applicable to Credit Institutions (Provisions) for AIR purposes published on December 2, 2005.

In accordance with the Provisions of the CNBV, the Bank's AIR function is managed by an area independent from the business areas and it covers market, credit, liquidity, operating, technological and legal risks. The Bank has policies and procedures aimed at identifying, analyzing and controlling such risks, which are included in the AIR manual.

In order for risks assumed to remain within levels not exceeding the Bank's financial capacity, the CAIR sets out limits that are authorized by the Board of Directors and are determined based on an equity management model. Said model depends on the regulatory capital and it establishes strategic limits considering distributable capital that is assigned to the different Bank's businesses: credit, market, operating and shareholding.

Additionally, tactical limits are assigned to the different portfolios of each business. In the case of market risk, capital limits are translated to Value at Risk (VaR) limits for the different treasury portfolios.

The CAIR is made up of the Chief Executive Officer, three independent risk experts, one member of the Board of Directors and the Head of the Comprehensive Risk Management Unit (UAIR from Spanish); it also involves the participation of the different areas' Deputy CEOs, Area Directors and the Head of the Internal Control body, who can participate but not vote, in order to avoid possible conflicts of interest.

The CAIR meets at least once a month. The Committee follows up on the different types of risks, issues recommendations and is in charge of approving methodologies, models, parameters and scenarios used to measure risks, and of reviewing the proposed policies to control said risks.

b. Policies to control credit risk concentration

Chapter III of the Provisions on "Risk diversification" issued by the CNBV establishes limits for credit risk concentration applicable to a person or a group of persons that constitute common risks.

According to article 57 of the Provisions, the limits applicable to the Bank in the fourth quarter of 2016 were determined considering the 12.43% capital ratio and the core capital of Ps.21,350.61 at June, 2016.

Article 54 of the Provisions establishes a financing limit for private sector companies that is based on the level of capitalization and applies a predetermined factor to the Bank's core capital. With the capital ratio above 12% and below 15%, the factor applicable in the fourth quarter of 2016 was 30% of the Bank's core capital (Ps.6,405.18 equivalent to USD310.64 million at the Ps. 20.6194 peso/dollar exchange rate for December 30, 2016).

At December 31, 2016, financing offered to Private Sector companies individually or per economic group is below the regulatory limit of 30% of the core capital, and the responsibilities of the three main debtors taken as a whole total Ps.13,227.0, which comprises 62.0% of their regulatory limit (equivalent to USD 641.48 million at the Ps.20.6194 exchange rate for December 30, 2016).

Financing offered to the three main debtors taken as a whole:

	Million USD	
	December 2016	December 2015
Amount of responsibilities	641.48	570.06
Number of times of the applicable core capital	0.57	0.54

On the other hand, financing offered to Parastate Public Sector Entities and Organisms is below the regulatory limit of 100% of the core capital at December 31, 2016.

Lastly, in accordance with article 60 of the Provisions, responsibilities have been contracted by 75 economic groups of debtors (115 counterparties), whose individual financing exceeds the equivalent of 10% the Bank's core capital.

Financing of debtors exceeding 10% of the core capital:

	Million USD	
	December 2016	December 2015
Amount of responsibilities	27,378.08	30,094.45
Number of times of the applicable core capital	24.53	28.59

The amount of responsibilities includes credit lines authorized to domestic financial entities for conducting discount operations, for which there are signed agreements in place. It also includes credit lines authorized under the "Banks General Methodology for establishing Global Lines of Credit" of BANCOMEXT for conducting promotion, market and derivatives operations with domestic and foreign financial entities that have a current valid position.

c. Market risks

Investments in securities - Market risk is associated to interest rate differences; in the case of foreign currency instruments, it also depends on exchange rate fluctuations. This risk is measured by the VaR method based on the historical method using 251 data, a one-day risk horizon and a trust level of 97.5%, which means that there is only 2.5% probability of those investments depreciating below the amount expected for that period. Those parameters were authorized at the CAIR meeting of October 21, 2016.

The policies and procedures applied in order to control market risk of investments in securities include capital and VaR limits, as well as market value reports on positions and their risk value under regular conditions, under sensitivity scenarios and under extreme conditions. A report is prepared and submitted daily to Top Management, monthly to the CAIR and quarterly to the Board of Directors.

At December 31, 2016, the peso money table securities position was in discount and reviewable government bonds. At that date, the positions in said instruments comprised 1% and 69% and the repurchase position comprised 31% of the total limit; VaR for said table was Ps.16.2, which represented 64.7% of the Ps.25 authorized limit. The average annual value at risk was Ps.10.3. Capital consumption of said portfolio was Ps.343.2, which represented 73.8% of the authorized limit.

At December 31, 2016, the peso investment portfolio was made up of held to maturity securities in government bonds at real rates and reviewable government bonds. At that date, the position in instruments held to maturity made up for 30% and government bonds made up for 70%.

At the December closing, VaR was Ps.2 for the total position, which represented 33.1% of the Ps.6 authorized limit. The average annual value at risk was Ps.1.4. Capital consumption of said portfolio was Ps.22.3, which represented 23.7% of the authorized limit.

At December 31, 2016, there was no foreign currency investment portfolio position. The position in sovereign bonds expired in September 2016.

DFI - The DFI account in the financial statements is subject to market risk arising from fluctuations in interest rates and exchange rates, as well as to counterparty credit risk.

The Bank measures the VaR of currency and interest rate forwards contracts, options and interest rate and currency swaps. The VaR is estimated based on the historical method using 251 data, a one-day risk horizon and a trust level of 97.5%, which means that there is only 2.5% probability of those investments depreciating below the amount expected for that period. Those parameters were authorized at the CAIR meeting of October 21, 2016.

As regards counterparty credit risk, all forwards, options and swaps are operated with highly rated domestic and international financial institutions. Credit risk of forwards and options contracted by clients is covered by their credit lines contracted with the Bank, as well as by control mechanisms that monitor positions to keep them within the authorized levels. At December 31, 2016, credit risk of derivatives transactions is within the authorized limits.

The policies and practices in place to control DFI risk adhere to the Banxico Provisions. There is a capital and VaR limit in place per line of business, and reports are generated on the market value of positions and their respective VaR under regular conditions, under sensitivity scenarios and under extreme conditions. A report is prepared and submitted daily to Top Management, monthly to the CAIR and quarterly to the Board of Directors.

At December 31, 2016, there were closed positions for DFI interest rate options and a swap portfolio, as well as a short position in currencies of USD 3 million, equivalent to Ps.61.9. The DFI and exchange table position VaR was Ps.1.9, which is equivalent to 12.8% of the authorized Ps.15 limit. The annual VaR average of DIF and exchange table was Ps.1.5. Capital consumption of said portfolio was Ps.7.5, which represented 16.6% of the authorized limit.

At December 31, 2016, DFIs in a hedging position referred to interest rate and currency swaps, which were used as hedging of a part of the loan portfolio, debt securities, issue of peso paper money and dollar attraction. The swaps VaR totaled Ps.713.6, which serves as reference, since those transactions are not linked to a VaR limit because they are held for DFI hedging.

Credit risk

Credit risk in the financial statements is measured on items expected to arise from possible impairment of the loan portfolio, which is estimated based on the frequency of annual and quarterly rating migration (transition matrices). Said matrices contemplate the likelihood of impairment or improvement of the loan portfolio, which is determined on the basis of historical information on the Bank's borrowers.

Therefore, in evaluating credit risk, the Bank estimates the likelihood of default, recovery rates, transition matrices, credit VaR, expected losses and unexpected losses.

A report on the Bank's credit position and operations is submitted monthly to the CAIR and quarterly to the Board of Directors. That report includes an analysis of the taxonomy of the loan portfolio, the relevant information on portfolio differences, the global credit risk position and its breakdown per portfolio, the past-due portfolio, risk concentrations, portfolio diversification and the main risk indicators, as well as credit VaR estimates and expected and unexpected losses.

At December 31, 2016, the statistics on credit risk of the private sector portfolio showed the following distribution per number of borrowers vs. The average risk level.

December 2016 distribution of the private sector portfolio

Number of counterparties	Balance	Stat. (%)	Accumulated balance	Stat.(%)	Expected Loss (EL)	EL/Bal. (%)	Average risk level
1 - 5	Ps. 18,493	11.3	Ps. 18,493	11.3	Ps. 62	0.3	R1
6 - 10	13,202	8.1	31,695	19.4	84	0.6	R2
11 - 15	11,269	6.9	42,964	26.3	53	0.5	R2
16 - 20	10,186	6.2	53,149	32.6	28	0.3	R1
21 - 25	9,273	5.7	62,422	38.3	20	0.2	R1
26 - 30	7,652	4.7	70,075	43.0	26	0.3	R1
31 - 347	93,010	57.0	163,085	100.0	3,090	3.3	R4
Total	Ps. 163,085	100.0			Ps. 3,362	2.06	R3

At that date, the annual VaR (not considering expected recoveries from guarantees) of the private sector portfolio was of Ps. 6,081.3, which figure represents an extreme value of loss and profit distribution for possible impairment in the portfolio with a trust level of 99% and a one-year time horizon.

The annual VaR of core capital at December 31, 2016 of Ps.23,012.1 represents 26.43%.

The expected loss for impairment of the private sector portfolio was Ps. 3,362.9, which was calculated using the portfolio risk levels based on the Bank's risk indicator method.

Additionally, the report in question contains the structure of capital levels for strategic and tactical purposes, as well as the marginal behavior of the rated portfolio, and the credit concentration per economic activity branch, per geographic area, per borrower and per ranges of responsibilities.

At the November 1, 2016 meeting, the Board of Directors approved a new strategic capital limit for the loan portfolio of Ps. 15,817.0, which represents 85.99% of the distributable capital (Ps.18,394.0).

Liquidity risk

The risk of cash flows from loan transactions and the respective financing is measured per risk factor: base rate and spread. The CAIR is issued a monthly report on the structure of gaps in repricing and maturities, together with a sensitivity analysis that measures the effect of adverse changes in interest rates over the financial margin. It also estimates the degree of diversification of sources of financing.

According to the structure of repricing and maturities of productive assets and idle liabilities shown in the December 2016 balance sheet, if there were to be an adverse variation of 25 base points in each of the risk factors comprising the interest rate (base rate and spread), net income would decrease an average of USD14.6 thousand per day (approximately 2.32% of the daily financial margin).

Quantifiable, non-discretionary risks

The purpose of non-discretionary risk management is to identify, measure, supervise, limit, control and report on operating, technological and legal risks associated to the Bank's critical processes, in order to identify the levels of concentration of those processes, the efficiency with which they operate, and their estimated economic impact.

Following are the results for the period from January 2008 to December 2016 of identifying quantifiable risks and determining their average exposure value per type of event and line of business:

		Frequency		Severity	
Type of event	No. of events	% Total	Losses	% Total	Unit
Process execution, delivery and management	60	87%	Ps. 6.5	78%	Ps. 0.1
Natural disasters and other events	2	3%	0.9	11%	0.5
Occurrence within the business and system failure	6	9%	0.9	11%	0.2
Clients, products and business practices	1	1%	0.0	0%	0.0
External fraud	-	0%	-	0%	-
Internal fraud	-	0%	-	0%	-
Labor relations and safety at place of work	-	0%	-	0%	-
Total	69	100%	Ps. 8.4	100%	Ps. 0.1

According to the matrix per type of event, process execution, delivery and management, concentration averages are 87% of occurrences and 78% of severity.

		Frequency		Severity	
Line of business	No. of events	% Total	Losses	% Total	Unit
Commercial banking	32	46%	Ps. 5.5	65%	Ps. 0.2
Negotiations and sales	25	36%	2.0	24%	0.1
Payment and settlement	12	17%	0.9	11%	0.1
Asset management	-	0%	-	0%	-
Retail banking	-	0%	-	0%	-
Corporate finances	-	0%	-	0%	-
Retail intermediation/retail brokerage transactions	-	0%	-	0%	-
Agency services	-	0%	-	0%	-
Total	69	100%	Ps. 8.4	100%	Ps. 0.1

With regard to the matrix per line of business, commercial banking has 46% frequency and 65% severity concentration, while negotiations and sales have 36% frequency and 24% severity concentration.

The average value of exposure to accumulated events at December 31, 2016 is 0.1%.

Operating Risk

Risk is analyzed based on quality, quantity and regulatory compliance:

Qualitative analysis - This analysis consists of applying self-evaluations to selected critical processes, after which a technical report on operating risk is issued. Five types of risks were identified in the Bank's substantive processes, whose rating is below the tolerance level (5).

Quantitative analysis - Losses are obtained from selected accounting accounts to record operating risk events. The authorized operating risk estimate for 2016 was Ps.6.8, i.e., the tolerance level to control exposure to operating risk events. At the December 2016 closing, Ps.6.8 had been reserved and consumption was Ps.0.03.

Regulatory compliance - The Bank uses the basic indicator method to estimate its capital requirements for operating risks in accordance with the capitalization rules in place for Credit Institutions; the total capital requirement for operating risks was Ps.697 at the December, 2016 closing.

Technological risk

Technological risk is measured and controlled through follow up on six critical indicators: 1) level of availability of critical services; 2) security to access the Bank's network; 3) detection, blocking and locks against viruses in the Bank's network; 4.a) detection and blocking of access to restricted Web sites; 4.b) detection and blocking of e-mails with AntiSPAM, 4.c) detection and blocking of SpyWare, and 5) testing of the Disaster Recovery Plan (DRP).

Supplementary technological risk is evaluated to provide an indicator with which to consider the degree of criticality of applications and the likelihood of occurrences. Additionally, the Bank applies the Business Continuity Plans (BCP) to processes identified as critical under the Continuity of Operations Plan System (COPS). At December 31, 2016, the indicators showed that the goals determined for each indicator were met.

Legal risk

Policies have been established to identify, measure and record provisions and/or contingencies for potential losses arising from negative rulings during legal processes with the Bank as plaintiff or defendant, in order to mitigate the related effects on the Bank's equity.

After applying those policies, the allowance for legal risk at December 2016 was of Ps.818, and was made up as follows: Ps.716 for commercial suits, Ps.35 for labor suits, Ps.33 for costs and expenses, including administrative expenses, Ps.7 for civil suits and Ps.27 for other expenses.

Additionally, in accordance with the above policies, memorandum accounts include contingencies arising from commercial, labor, civil and administrative suits for which the Bank expects to be handed down a favorable sentence in light of their legal status.

Unquantifiable risks

These are risks arising from casualties or unforeseen external events that cannot be associated to the likelihood of occurrence and that give rise to economic losses that can be transferred to external risk-assuming entities.

In the last quarter of 2016 there were no casualty reports that could affect the Bank's equity.

Note 30 - Accounting estimates:

The Bank and its subsidiary prepare estimates and projections for future events in order to recognize and measure certain financial statement captions. The resulting accounting estimations may probably differ from actual results or events. Estimates and projections involving a significant risk of material adjustments to assets and liabilities recognized in the subsequent year are as follows:

Allowance for loan losses

The Bank determines its allowance for loan losses based on the Provisions of the CNBV, which require the use of non-complex or subjective assumptions established in the methods for rating loan portfolios. A change in assumptions could affect the loan loss reserve.

Income taxes

The Bank is subject to payment of income taxes. It is necessary to make significant judgments to recognize incurred and deferred income taxes. There are numerous operations and calculations for which an exact tax determination is uncertain. The Bank records a liability for matters identified during tax audits that it considers likely to result in the determination of tax in addition to the amount originally incurred. When the final result of these processes differs from the liability estimated, said differences are recognized in income taxes payable and/or deferred for the period

Labor benefits

The present value of pension liabilities depends on a number of premises that are determined on actuarial bases using different assumptions. Any changes to these assumptions would affect the liability recognized.

At the closing of each year, the Bank estimates the discount rate for determining the present value of future cash flows calculated to liquidate pension obligations, based on the interest rates of top-quality government bonds, expressed in the same currency as pension benefits with similar maturity dates. Other factors used to estimate pension obligations are based on current market conditions.

The main premises used were those described in the Note 20 Employee benefits.

Note 31 - New accounting standards:

Accounting criteria

In 2013, 2014 and 2015, the CINIF issued new MFRS and amendments to those MFRS, which come into force in 2016 and 2018. Those MFRS and IMFRS are not expected to significantly affect the financial information presented by the Company.

2016

MFRS D-3 "Employee benefits" establishes valuation, reporting and disclosure standards for initial and subsequent recognition of current and long-term liabilities arising from termination and post-employment benefits. Establishes the concept of re-measurement of assets or liabilities from defined benefits and eliminates the possibility of deferring recognition of actuarial profits and losses directly to income, based on accrual. On the basis of the foregoing, actuarial gains and losses must be recorded immediately in Other comprehensive income (OCI), and must subsequently be recycled to net profit or loss.

The December 31, 2015 Official Gazette published the resolution amending the general provisions applicable to lending institutions, whereby Transitory Article Three Four and Five are added. Those articles establish the terms in which lending institutions can progressively recognize the restatement changes referred to in MFRS D-3 "Employee benefits".

In the case of the lending institutions referred to in article 2, Section II, of the Credit Institutions Law opting for progressive application, they may start no later than 2021 to recognize 20% of the accumulated balances of actuarial gains/losses as of their initial application, and recognize an additional 20% in each subsequent year, until they reach 100% of the balance in a maximum period of five years.

The Bank exercised the option to defer recognition of the accumulated balance of plan actuarial losses not yet recognized (corridor approach), after providing timely notice to the National Banking and Securities Commission of its decision.

Following are the initial effects of recognizing the option in question:

	Retirement pensions	Seniority premiums	Retirement benefits other than pensions	PEA and financial cost of loans
Obligation for defined benefits	(Ps. 8,282)	(Ps. 17)	(Ps. 4,835)	(Ps.3,051)
Plan assets	6,813	13	4,040	2,711
Obligation for defined benefits in excess of plan assets	(1,469)	(4)	(795)	(340)
Unamortized past services	-	-	(3)	-
Unamortized actuarila (gain) / loss	1,469	6	798	340
Projected net liability/asset	Ps. -	Ps. 2	Ps. -	Ps. -

2018

MFRS B-17 “Fair value measurement”. Establishes the standards for measuring the fair value and disclosure thereof. It specifies that the fair value must utilize assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a specific date, including risk assumptions. It establishes that consideration must be given to the specific asset or liability being valued, whether it is monetary and whether it is being used in combination with other assets or on independent bases, the market in which the asset or liability could be placed, and the valuation technique(s) appropriate for determining the fair value, as well as maximizing the use of relevant observable input and reducing to a minimum non-observable input data.

MFRS C-2 “Investment in financial instruments”. Establishes standards for valuation, representation and disclosure of investments in financial instruments. Discards the concept of intention to acquire and use an investment in financial debt or capital instruments when determining classification and eliminates the categories of instrument held to maturity and disposable for sale. Adopts the concept of business model for the administration of investments in financial instruments.

MFRS C-3 “Accounts receivable”. Establishes the valuation, presentation and disclosure standards for initial and subsequent recognition of trade accounts receivable and other accounts receivable in the financial statements of an economic entity. Specifies that Accounts Receivable based on a contract qualify as financial instruments.

MFRS C-9 “Provisions, contingencies and commitments”. Establishes standards for valuation, presentation and disclosure of liabilities, provisions and commitments, reducing their scope and relocating the matter of financial liabilities in MFRS C-19. The definition of “liability” has been modified to eliminate the concept of “virtually unavoidable” and include the term “likely.”

MFRS C-10, “Derivative Financial Instruments and hedging operations”. Establishes the features that a financial instrument must bear to be considered a derivative for trade or hedging purposes, defines the rules for presentation and disclosure, and for recognition and valuation of derivative financial instruments, including those for hedging and those applicable to structured hedging operations through derivatives; it does not allow separating existing implicit derivative financial instruments when the host instrument is a financial asset; if the amount of the hybrid contract is to be modified, the modified amount must be charged; it allows designating a net revenue and expense position as a hedged item provided it reflects the entity's risk management strategy.

MFRS C-16 "Impairment of financial instruments receivable". Establishes standards for valuation, accounting recognition, presentation and disclosure of losses from impairment of financial instruments receivable.

MFRS C-19 "Financial instruments payable". Establishes rules for valuation, presentation and disclosure for initial and subsequent recognition of accounts payable, loans and other financial liabilities in an entity's financial statements. This MFRS introduces the concepts of amortized cost for valuing financial liabilities and the effective interest method, based on the effective interest rate, for the purpose of said valuation. Both discounts and the issuance costs of a financial liability are deducted from the liability.

MFRS C-20 "Financial instruments receivable". Establishes the standards for valuation, presentation and disclosure for initial and subsequent recognition of financial instruments receivable in the financial statements of an economic entity engaged in conducting financing activities. Eliminates the concept of intent to acquire and hold financial instruments under assets for the purpose of determining instrument classification. Adopts management's business model concept.

The following MFRS can be applied early as from January 1, 2016, provided MFRS C-2 "Investment in financial instruments", MFRS C-3 "Accounts receivable", MFRS C-9 "Provisions, contingencies and commitments", MFRS C-16 "Impairment of financial instruments receivable", MFRS C-19 "Financial instruments payable" and MFRS C-20 "Financial instruments receivable" are applied jointly.

MFRS D-1 "Revenue from client contracts". Establishes standards for valuation, presentation and disclosure of income incurred in order to obtain or comply with contracts with customers. Establishes the most significant aspects for recognition of income through the transfer of control, identification of contractual obligations to be complied with, assignment of the amount of the transaction and Accounting (IAS) 18 "Revenue", and the respective interpretations, as established in MFRS A-8 "Supplementation".

MFRS D-2 "Costs from client contracts". Establishes standards for valuation, presentation and disclosure of costs incurred in connection with client contracts. Establishes standards for recognition of costs arising from contracts with clients, and includes the accounting treatment for costs pertaining to contracts for the construction and manufacture of capital goods, including the costs related to contracts with clients. Together with MFRS D-1 "Income from contracts with clients", it replaces Statement D-7 "Contracts for the construction and manufacture of certain capital goods" and MFRS 14, "Contracts for the construction, sale and rendering of services pertaining to real property".

Early application of the said MRFS is allowed, provided they are applied jointly.

2017 MFRS Improvements:

MFRS B-7, "Business acquisitions". It modifies application of the changes made in the 2016 improvements, and must therefore be applied prospectively.

MFRS B-13 "Events Occurring after the Date of the Financial Statements". It specifies that if, during the subsequent period (lapse of time between the financial statement date and the financial statement authorization date for issuance to third parties), a debtor manages to sign an agreement to sustain long-term payments for a liability contracted under long-term payment conditions for which the entity has incurred in a breach, it is entitled to retain the classification of said liability as a long-term item at the financial statement date.

MFRS B-6 "Statement of financial position". See improvements established in MFRS B-13.

MFRS C-19 "Financial instruments payable". See improvements established in MFRS B-13.

MFRS C-20 "Financial instruments payable". See improvements established in MFRS B-13.

MFRS C-11 "Stockholders' equity". Establishes that the costs of registering shares in a stock exchange, which at registration date were already the property of investors and for which the issuing entity had already received the respective funds, must be recognized by the entity in net profit or loss as incurred and not in stockholders' equity, since they are not considered to be related to an equity transaction of the entity. Additionally, the gains or losses on acquisition, re-placement, issue or cancellation of the entity's shares must not be recognized in the statement of comprehensive income.

MFRS D-3 "Employee benefits". Establishes that the discount rate to be used in determining the present value of long-term labor liabilities must be a free market rate with very low credit risk, that represents the value of money over time; therefore, the entity could use, indistinctly, either the market rate of government bonds or the market rate of top-rate corporate bonds in absolute terms in a deep market, provided that, in the latter case, compliance with all the requirements established in the MFRS can be supported. Additionally, it establishes that the difference between the plan assets (PA) arrived at by recognizing in income (loss) any interest income estimated over the period and the fair value of PA at the period-end closing, must be recognized either in OCI or in the net profit (loss) at the date of its determination. The entity must be consistent in the procedure for recognizing remeasurements.

2016 MFRS Improvements:

MFRS B-7, "Business acquisitions". The contradiction existing between points b) and d) of paragraph 5 of this MFRS is eliminated, where it is specified that entities under common control do not fall under the scope of this MFRS, regardless of how the amount of the transaction is determined.

MFRS C-1 "Cash and cash equivalents". Establishes that initial and subsequent recognition of cash must be valued at fair value; indicates that cash equivalents are held to comply with short-term obligations and modifies the term "Investments available for sale" to be replaced by "highly-liquid financial instruments", which may not exceed three months and must be valued by applying the respective financial instrument MFRS.

Statement C-2, "Financial instruments, adjustment document". Eliminates the concept of financial assets available for sale and incorporates the concept of financial instrument available for sale. Incorporates the features required in order for a financial instrument to classify as held to maturity. The concept and definition of "transaction costs" are included. Indicates that adjustments for fair value pertaining to financial instruments must be recognized by affecting the net profit or loss for the period, or recognizing an item within OCI.

Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments". Incorporates the concept of "transaction costs" and establishes that those are the costs incurred in order to generate a financial asset or to assume a financial liability, which would not have been incurred had said financial asset or liability not been recognized.

MFRS B-10 "Effects of Inflation". Explains that the effect of valuing certain financial items must be recorded in OCI rather than in the result of monetary position.

MFRS C-7 "Investments in associated companies, joint businesses and other permanent investments". Specifies that contributions in kind made by a holding company or joint business must be recorded at fair value, unless they arise from the capitalization of debt.

Statement C-10, "Derivative Financial Instruments and hedging operations". Specifies valuation periods for the effectiveness of a hedge operation. Establishes exceptions concerning primary positions in fair value coverage. Establishes the method for determining the fair value of an implicit derivative when there is no reliable source, and establishes guidelines for valuing implicit derivatives when they are separate from the host contract.

2015 MFRS Improvements:

MFRS B-8 "Consolidated or combined financial statements" Guidelines were included to identify investment entities and help to understand their primary activity and their main characteristics, with a view to determining whether or not there is control in each specific situation, arising from the need or not for said investment entities to consolidate their financial statements.

Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments". Establishes the accounting treatment of liabilities for client advances on the sale of goods or services collectible in foreign currency, and provides that the balance of the client advances caption should not be modified for exchange fluctuations between the functional currency and the currency in which payment is made. An accounting treatment is thus established, consistent with that applicable to prepayments in foreign currency.

MFRS C-3 "Accounts receivable" and MFRS C-20 "Financing instruments receivable". The date of enactment of those MFRS was changed from January 1, 2016 (although early application is allowed as of January 1, 2016, provided that both MFRS are adopted jointly) to January 1, 2018 (although early application is allowed as of January 1, 2016, provided that both MFRS are adopted jointly).

Francisco Nicolás González Díaz
General Director
(As of February 1, 2017)

Emeterio Barrientos Romero
Head of General Administration and Financial Director

Martha Martínez Quiroz
Finance Director

José Alfonso Medina y Medina
Deputy General Director for Internal Audit