Grupo Financiero Scotiabank Inverlat, S. A. de C. V.
(A foreign-owned Mexican Holding Company)
and Subsidiaries

Consolidated Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Reports Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Free Translation from Spanish Language Original)

The Board of Directors and Stockholders
Grupo Financiero Scotiabank Inverlat, S. A. de C. V.:

Opinion

We have audited the consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico issued by the National Banking and Securities Commission (the Banking Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

During 2016, accounting changes were made as described in note 4 to the consolidated financial statements. These accounting changes were applied prospectively. Our opinion is not modified in respect of this matter.

(Continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico established by the Banking Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group'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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with 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 for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or 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 the Group's internal control.

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

(Continued)

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

Mauricio Villanueva Cruz

Mexico City, February 23, 2017.

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets

December 31, 2016 and 2015

(Millions of Mexican pesos)

Assets		2016	2015
Cash and cash equivalents (note 6)	$	33,025	27,748
Margin accounts		306	334
Investment securities (note 7):			
Trading		12,349	30,264
Available-for-sale		32,278	35,273
Held-to-maturity		5,457	3,420
		50,084	68,957
Derivatives (note 9):			
Trading purposes		19,427	4,439
Hedging purposes		1,274	28
		20,701	4,467
Valuation adjustment from hedging of financial assets (note 10d)		(571)	11
Current loan portfolio (note 10):			
Commercial loans:			
Business or commercial activity		92,543	76,393
Financial entities		26,739	20,449
Government entities		6,501	8,301
		125,783	105,143
Consumer loans		29,878	26,622
Residential mortgages:			
Medium and residential		90,174	77,649
Low income housing		163	190
		90,337	77,839
Total current loan portfolio		245,998	209,604
Past due loan portfolio (note 10):			
Commercial loans:			
Business or commercial activity		2,825	2,420
Financial entities		111	106
Consumer loans		1,222	1,285
Residential mortgages:			
Medium and residential		2,257	2,436
Low income housing		23	27
Total past due loan portfolio		6,438	6,274
Loan portfolio		252,436	215,878
Less:			
Allowance for loan losses (note 10e)		7,750	7,123
Total loan portfolio, net		244,686	208,755
Benefits receivable from securitization transactions (note 11)		50	85
Other accounts receivable, net		12,284	14,449
Foreclosed assets, net (note 12)		79	68
Premises, furniture and equipment, net (note 13)		3,832	3,823
Permanent investments (note 14)		108	103
Deferred taxes and deferred employees' statutory profit sharing, net (note 19)		4,581	5,974
Other assets:			
Deferred charges, prepaid expenses and intangibles		3,465	2,339
Other short and long term assets		117	355
		3,582	2,694
Total assets	$	372,747	337,468

Liabilities and Stockholders' Equity		2016	2015
Deposit funding (note 15):			
Demand deposits	$	146,541	118,374
Time deposits:			
General public		74,321	62,484
Money market		19,750	17,954
Debt securities issued		13,528	14,584
Global account of deposits without movements		346	297
		254,486	213,693
Banking and other borrowings (note 16):			
Due on demand		897	54
Short-term		13,983	10,538
Long-term		6,749	4,183
		21,629	14,775
Assigned securities to be settled (note 7b)		3,931	4,642
Creditors on repurchase/resell agreements (note 8)		7,056	38,244
Collateral sold or pledged (note 8):			
Securities lending		66	65
Derivatives (note 9):			
Trading purposes		20,333	6,603
Hedging purposes		133	319
		20,466	6,922
Valuation adjustments from hedging financial liabilities (note 15b)		34	39
Other accounts payable:			
Income tax payable		944	615
Employee statutory profit sharing payable (note 19)		278	328
Creditors on settlement of transactions (notes 3c, 6 and 7)		7,341	8,360
Creditors on collateral received in cash		1,003	597
Sundry creditors and other accounts payable		7,334	6,508
		16,900	16,408
Subordinated debt issued (note 20)		2,100	2,099
Deferred credits and prepayments		1,114	1,082
Total liabilities		327,782	297,969
Stockholders' equity (note 21):			
Paid-in capital:			
Capital stock		4,507	4,507
Earned capital:			
Statutory reserves		901	901
Retained earnings		34,178	29,011
Unrealized result from valuation of available-for-sale securities		(47)	86
Unrealized result from valuation of cash flow hedge instruments		337	(159)
Remeasurements of defined employees' benefits		71	-
Net income		5,018	5,153
		40,458	34,992
Total stockholders' equity		44,965	39,499
Commitments and contingent liabilities (note 24)			
Total liabilities and stockholders' equity	$	372,747	337,468

(Continued)

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets, continued

December 31, 2016 and 2015

(Millions of Mexican Pesos)

Memorandum accounts (notes 10d and 22)

	2016	2015
Transactions on behalf of third parties		
Customer current accounts:		
Customer banks	$ 40	108
Settlement of customer transactions	(691)	(236)
Other current accounts	137	137
	(514)	9
Custody operations:		
Customer securities in custody	301,979	298,900
Transactions on behalf of customers:		
Securities on repurchase/resell agreements by customers	49,578	58,729
Secutities lending by customers	97	44
Collaterals received in guarantee by customers	25,399	30,634
Collaterals delivered in guarantee by customers	28,172	31,445
	103,246	120,852
Investment banking transactions on behalf of third parties	90,061	84,515
Total transactions on behalf of third parties	$ 494,772	504,276

	2016	2015
Transactions by own account		
Contingent assets and liabilities	$ 3	3
Assets in trust or under mandate:		
Trusts	169,361	160,079
Mandate	28,985	29,082
	198,346	189,161
Assets in custody or under management	626,399	355,343
Loan commitments	150,812	346,351
Collaterals received by the entity:		
Government debt	26,601	15,495
Net equity instruments	148	137
Other securities	27,728	27,223
	54,477	42,855
Collaterals received and sold or pledged by the entity:		
Government debt	24,405	13,991
Net equity instruments	66	65
	24,471	14,056
Interest earned but not collected arising from past-due loan portfolio	299	305
Other accounts	1,141,153	851,409
Total by own account	$ 2,195,960	1,799,483

"As of December 31, 2016 and 2015, the historical capital stock amounts to $3,111, in both years"

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect all the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Enrique Zorrilla Fullaondo General Director	Michael Coate Deputy General Director of Finance and Business Intelligence	Agustín Corona Gahbler Deputy General Director of Group Audit	H. Valerio Bustos Quiroz Director of Group Accounting

"These consolidated balance sheets faithfully match with the consolidated balance sheets originals, which are properly signed and held by the Financial Group."

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/default.aspx

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Income

Years ended December 31, 2016 and 2015

(Millions of Mexican pesos)

		2016	2015
Interest income (note 23b)	$	26,214	22,422
Interest expense (note 23b)		(8,419)	(6,470)
Financial margin		17,795	15,952
Allowance for loan losses (note 10e)		(3,935)	(3,690)
Financial margin adjusted for allowance for loan losses		13,860	12,262
Commissions and fee income (note 23c)		5,248	4,713
Commissions and fee expense		(777)	(711)
Financial intermediation income (note 23d)		788	322
Other operating income (note 23e)		2,809	2,300
Administrative and promotional expenses		(15,377)	(13,948)
		(7,309)	(7,324)
Net operating income		6,551	4,938
Equity in the income of associated companies, net		2	–
Income before income taxes		6,553	4,938
Current income tax (note 19)		(780)	(1,749)
Deferred income tax, net (note 19)		(755)	1,964
		(1,535)	215
Net income	$	5,018	5,153

See accompanying notes to consolidated financial statements.

"These consolidated statement of income, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the income and expenses carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These consolidated statement of income were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

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H. Valerio Bustos Quiroz
Director of Group Accounting

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Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2016 and 2015

(Millions of Mexican pesos)

	Capital stock	Statutory reserves (Earned capital)	Retained earnings (Earned capital)	Unrealized result from valuation of available-for-sale securities (Earned capital)	Unrealized result from valuation of cash flow hedge instruments (Earned capital)	Remeasurements of defined employee benefits (Earned capital)	Net income (Earned capital)	Total stockholders' equity
Balances as of December 31, 2014	$ 4,507	901	25,035	195	(173)	–	3,976	34,441
Changes resulting from stockholders' resolutions:								
Resolution passed at the Ordinary Annual General Stockholders' Meeting of April 30, 2015:								
Appropriation of 2014 net income	–	–	3,976	–	–	–	(3,976)	–
Changes related to the recognition of comprehensive income (note 21c):								
Net income	–	–	–	–	–	–	5,153	5,153
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $41 and $15, respectively (notes 7, 9 and 19)	–	–	–	(109)	14	–	–	(95)
Total comprehensive income	–	–	–	(109)	14	–	5,153	5,058
Balances as of December 31, 2015	4,507	901	29,011	86	(159)	–	5,153	39,499
Changes resulting from stockholders' resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 29, 2016								
Appropriation of 2015 net income	–	–	5,153	–	–	–	(5,153)	–
Changes related to the recognition of comprehensive income (note 21c):								
Net income	–	–	–	–	–	–	5,018	5,018
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $(179) and $(60), respectively (notes 7a, 9 and 19)	–	–	–	(133)	496	–	–	363
Result from application of new accounting criteria (note 4)								
Result from application of new accounting criteria	–	–	(37)	–	–	–	–	(37)
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for ($163) and ($55), respectively (note 19)	–	–	51	–	–	71	–	122
Total comprehensive income	–	–	14	(133)	496	71	5,018	5,466
Balances as of December 31, 2016	$ 4,507	901	34,178	(47)	337	71	5,018	44,965

See accompanying notes to consolidated financial statements.

"These consolidated statements changes in stockholders' equity, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the movements in stockholders' equity accounts carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound 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 following officers."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director of Group Audit

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H. Valerio Bustos Quiroz
Director of Group Accounting

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Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

(Millions of Mexican pesos)

	2016	2015
Net income	$ 5,018	5,153
Items not requiring cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	15	(27)
Depreciation of premises, furniture and equipment	411	403
Amortization of deferred charges, prepaid expenses and intangible assets	168	142
Provisions, mainly allowance for loan losses	5,078	3,505
Current and deferred income taxes	1,535	(215)
Equity in income of associated companies	(2)	–
Other, mainly valuation at fair value	(23)	484
Subtotal	7,182	4,292
Operating activities:		
Change in margin accounts	28	(227)
Change in investment securities	18,910	(13,858)
Change in derivatives (asset)	(15,965)	(541)
Change in loan portfolio (net)	(39,838)	(40,161)
Change in benefits receivable from securitization transactions	39	59
Change in foreclosed assets (net)	(20)	15
Change in other operating assets (net)	3,253	6,083
Change in deposit funding	40,793	37,180
Change in bank and other borrowings	6,854	6,325
Change in creditors on repurchase / resell agreements	(31,188)	746
Cahnge in collaterals sold or pledged	–	(135)
Change in derivatives (liabilities)	14,270	803
Change in subordinated debt issued	1	–
Change in other operating liabilities	(538)	(2,663)
Payments of income taxes	(901)	(1,692)
Net cash flows provided by operating activities	(4,302)	(8,066)
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(421)	(412)
Proceeds from sale of permanent investments	–	24
Payments for acquisition of subsidiaries	(5)	(37)
Collections of cash dividends	1	–
Payments for acquisition of intangible assets	(2,196)	(1,513)
Net cash flows used in investing activities	(2,621)	(1,938)
Net increase (decrease) in cash and cash equivalents	5,277	(559)
Cash and cash equivalents at beginning of year	27,748	28,307
Cash and cash equivalents at end of year	$ 33,025	27,748

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the cash inflows and outflows carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthemore, these transactions were carried out and valued in accordance with sound 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 following officers."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

H.Valerio Bustos Quiroz
Director of Group Accounting

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions-

Description of business-

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (the Group) is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.4% of its capital stock and is authorized to acquire and manage voting right stocks issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

As at December 31, 2016 and 2015, the Group and its subsidiaries, which have been consolidated, are as follows:

– Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), which in accordance with the Credit Institutions Law and general provisions issued by the National Banking and Securities Commission (the Banking Commission) is authorized to carry out multiple-service banking transactions comprising, amongst other, accept deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services. The Bank has four subsidiaries consolidable (a real estate banking company, a company of complementary banking services, an operating company listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer), and as from August 15, 2016, a regulated multi-purpose financial company. MexDer also has two trusts clearing members).

– Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), is a company authorized to act as intermediary in securities and financial transactions in accordance with the applicable laws and general dispositions issued by the Banking Commission.

– Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat (the Fund Management Company), is a company authorized to act as the operator of a fund company in accordance with the applicable laws general dispositions issued by the Banking Commission.

– Servicios Corporativos Scotia, S. A. de C. V., (SECOSA) is engaged in providing personnel and technical advisory services in areas such as: human resources, finance and legal, among others.

– Crédito Familiar, S. A. de C. V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero Scotiabank Inverlat (Crédito Familiar), which in accordance with the applicable laws general provisions issued by the Banking Commission, is engaged in granting consumer loans. Crédito Familiar has two consolidating subsidiaries (a service company and an asset management company).

(Continued)

2016 significant transactions-

(a) Capital stock increase of the Bank-

On July 29, 2016, at the Extraordinary General Stockholders' Meeting, the Group agreed to increase the Bank's capital stock in $870, through the issuance of 870,000,000 "F" series common shares, with a face value of one peso each one; the Group remains being the main stockholder with a controlling interest of 99.99%.

(b) Globalcard acquisition and sale -

On April 22, 2016, the purchase and sale agreement was signed between the Grupo, as buyer and the The Bank of Nova Scotia (BNS), as seller, by which the Group acquired, at book value of $125, all less one of the representative shares of Globalcard, S. A. de C. V., SOFOM, E. R., Grupo Financiero Scotiabank Inverlat ("Globalcard"), related company. Globalcard's business line is granting consumer loans. This transaction was authorized by the Comisión Nacional Bancaria y de Valores (the Banking Commission) through official letter No. UBVA/DGABV/130/2016.

On the same date, in the Extraordinary General Shareholders' Meeting was approved the spin-off of Globalcard, as spun-off company, which allow the creation of the splitting company Comercializadora Snoosses, S.A. de C. V. (Comercializadora Snoosses). The assets and the capital stock of the aforementioned company was conformed by $53.

Additionally, the merger of the Bank with Comercializadora Snoosses (merged entity), related company, was approved in the Extraordinary General Stockholders´ Meeting, the merged company disappeared and the Bank subsisted as merging entity. As a result of the merger, the Bank´s assets and the Stockholders' equity increased in by $53. For this purpose 53,500,000 "F" series of common shares with a nominal value of one peso each were issued.

On August 15, 2016, the purchase and sale agreement was signed between the Bank as buyer and the Group, as seller, by which the Bank acquired all of the representative shares of Globalcard, at book value of $72 at such date. This transaction was authorized by the Banking Commission through official letter No. UBVA/DGABV/130/2016.

(c) Trust rights transfer-

On January 15, 2016, the Bank carried out movements resulting from agreements of the Ordinary and Extraordinary General Stockholders Meeting’s held on September 23, 2015, where the transfer of trust rights of two trusts MexDer (Trust Clearing Members) to its subsidiary Scotia Derivados was approved, as follows:

Disposal of Trust rights of the Bank in Fideicomisos and Asigna, Compensación y Liquidación, S. A. de C. V. for $268, subject to the Bank to continue participating in these Trusts and simultaneously an increase in investment in Scotia Derivados through subscription and payment of 267,695,712 representative shares of the Stockholders' equity for $268.

(d) Sale of mortgage portfolio -

On September 7, 2016, the Bank sold a past-due mortgage loan portfolio to a non-related party, the agreed sale price was $54 and the book value of such loan portfolio at the aforementioned date was $227, which was totally impaired, as a result of this sale the Bank recognized an income equal to the selling price for $54. Likewise, on September 7, 2016 the Bank sold a totally written-off mortgage loan portfolio with book value of $19; income received and book value for that portfolio was $5. The results of these transactions were recorded in the consolidated statement of income in “Other operating income” caption.

(e) Sale of consumer loan portfolio (individuals)-

On September 7, 2016, the Bank sold a totally written-off consumer loan portfolio to a non-related party, the face value of such loan portfolio was $904, thus income received and the book value gain of such loan portfolio sale was $6. The results of these transactions were recorded in the consolidated statement of income in “Other operating income” caption.

(f) Sale of shares of the Mexican Stock Exchange (BMV)-

In March 2016, the Brokerage Firm sold 14,176,479 shares of the BMV that were held as available-for-sale. The historic cost of such shares was $54 and the sale price was $387, therefore, a profit of $333 was obtained.

(g) Sale of consumer loan portfolio (individuals and credit cards)-

On September 7, 2016, Crédito Familiar sold totally written-off consumer loan portfolio and credit cards to Inversiones Firpo, S. A. de C. V., at fair value of $8, the face value of such loan portfolio was $1,137; as a result, Crédito Familiar recognized an income and a gain under “Other operating income” caption for $8.

(Continued)

(h) Incorporation of mutual fund-

On November 20, 2015, the Fund Management Company incorporated a Debt Security Funds named “Scotia Objetivo 1”, “Scotia Objetivo 2”, “Scotia Objetivo 3”, “Scotia Objetivo 4” and “Scotia Objetivo 5” Sociedad Anónima de Capital Variable. The Fund Management Company contributed $1 to the mutual funds, each one. Such contribution is represented by Class “A” representative shares (minimum fixed portion without right for withdrawal). These mutual funds were introduced to the general public on March 11, 2016 with ticker symbol SCOT22, SCOT29, SCOT36, SCOT43 and SCOT50, respectively.

2015 Significant Transaction-

(i) Sale of mortgage portfolio-

On March 6, 2015, the Bank sold a past-due and partially reserved mortgage loan portfolio to a non-related party; the agreed sale price was $113 and the face value of such loan portfolio at the aforementioned date was $282; as a result of this sale the Bank released the allowance for loan losses of $62, thus the loss on such loan portfolio sale amounted to $107, additionally the Bank paid for transaction costs originated by legal expenses related to the sale of $27. On March 6, 2015, the Bank also sold totally written-off mortgage loan portfolio with face value of $410 therefore the received income and net income for this loan portfolio was $118.

On September 25, 2015, the Bank sold a past-due mortgage loan portfolio to a non-related party, the face value at such date was $139 with a related allowance for loan losses of $111. The agreed sale price was $55, thus the income on sale of such loan portfolio amounted to $20, additionally the Bank paid for transaction costs originated by legal expenses related to the sale of $7. Likewise, the Bank sold written-off mortgage loan portfolio with face value of $40, therefore the received income and net income for this loan portfolio was $13. The results of these transactions were recorded in the 2015 consolidated statement of income in “Other operating income” caption.

(j) Sale of consumer loan portfolio-

On March 17, 2015, the Bank sold a current and past-due consumer loan portfolio to a non-related party; the agreed sale price was $3,017 and the face value of such loan portfolio at the date was $3,320; as a result of this sale the Bank released the related allowance for loan losses of $451, thus the gain of such loan portfolio sale amounted to $148 recorded in the 2015 consolidated statement of income in “Other operating income” caption.

(Continued)

On March 25, 2015, Crédito Familiar sold a totally written-off consumer loan portfolio to Gestionadora de Carteras del Norte, S. A. de C. V., the agreed sale price at fair value was $3, and the face value of such loan portfolio at the date was $149. Thus, the gain of such loan portfolio sale amounted to $3.

Likewise, on July 8, 2015, Crédito Familiar sold a totally written-off consumer loan portfolio to Gestionadora de Carteras del Norte, S. A. de C. V., the agreed sale price at fair value was $5, and the face value of such loan portfolio at the date was $228. Thus, the gain of such loan portfolio sale amounted to $5.

(k) BNS's controlling interest in the Group-

On February 23, 2015, BNS acquired, from third parties, 749,685 "B" Series shares, of the Group with a value of $19.34 pesos per share and BNS still remains being the main Group´s stockholder with a controlling interest of 97.4% of the capital stock.

(l) Capital stock increase in the Bank-

On June 10, 2015, the Bank´s Extraordinary General Stockholders' Meeting approved to increase the variable portion of capital stock in $480, through the issuance of 480,000,000 "F" series common shares, with a face value of one peso each one, in accordance with resolutions agreed by the Board of Directors. The Group remains being the main stockholder with a controlling interest of 99.99%.

(m) Capital stock increase in Crédito Familiar-

On March 25, 2014, by unanimous resolution, the Group approved the subscription of 345,000,000 "B" Series common shares without nominal expression, to increase capital stock of Crédito Familiar, thus, on August 28, 2015, the Goup made a contribution of capital of $70. At December 31, 2015, $42 are pending of payment, which will be paid as required by Crédito Familiar.

(n) Sale of property-

On June 12, 2015, Inmobiliaria Scotia Inverlat, S. A. de C. V. (the real estate company or Inmobiliaria), subsidiary of the Bank, sold a property through the transfer of property title to Mexican State of Chihuahua, the sale price amounted to $68, which includes $6 of value added tax. The net book value of the property at the date of sale amounted to $40, thus the income on sale amounted to $22, which was recorded in the 2015 consolidated statement of income in "Other operating income" caption.

(Continued)

(o) Certificate of property tax return-

On September 8, 2015, the Secretaria de Finanzas del Distrito Federal (Mexico City Finance Ministry), as part of legal proceeding number 179/2005 of property tax, issued in favor of Inmobiliaria a certificate of property tax return for the amounted of $53, which was recorded in the 2015 consolidated statement of income in “Other operating income” caption.

(p) Incorporation of mutual funds-

On May 6, 2015, the Fund Management Company incorporated the mutual fund called “Scotia Solución 5”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed in the capital stock for $1, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public with ticker symbol SBANKDL.

On June 5, 2015, the Fund Management Company incorporated the mutual fund called “Scotia Solución 6”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed in the capital stock for $1, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public with ticker symbol DYNUSA+.

(q) Acquisition of mutual funds-

On October 15, 2014, the Fund Management Company and the Bank, held an agreement to acquire all of the minimum fixed capital stock of Class “A” shares that the Bank owned from the following mutual funds, such transaction was authorized by the Commission through Official Letter 154/7541/2015 dated February 20, 2015.

Mutual funds investing in debt instruments:

- Finde 1, S. A. de C. V., (FINDE1)
- Scotia Inversiones, S. A. de C. V., (SBANKCP)
- Scotia Solución 8, S. A. de C. V., (SCOTGMP) (in 2014, Scotia para no Contribuyentes, S. A. de C. V.)
- Scotia Productivo, S. A. de C. V., (SCOTI10)
- Scotia Disponibilidad, S. A. de C. V., (SCOTIA1)
- Scotia Rendimiento, S. A. de C. V., (SCOTIA2)
- Scotia Previsional de Liquidez Restringida, S. A. de C. V., (SCOTILP)
- Scotia Plus, S. A. de C. V., (SCOTIMB)

(Continued)

Mutual funds investing in equity:

- Scotia Patrimonial Plus, S. A. de C. V. (SBANK50)
- Scotia Patrimonial, S. A. de C. V., (SCOT-RV)
- Scotia Inversiones Plus, S. A. de C. V., (SCOTDOL)
- Scotia Estratégico, S. A. de C. V., (SCOTI12)
- Scotia Crecimiento, S. A. de C. V., (SCOTI14)
- Scotia Indizado, S. A. de C. V., (SCOTIPC)
- Scotia Internacional, S. A. de C. V., (SCOTUSA)

(2) Financial statement authorization and presentation-

Authorization

On February 23, 2017, Enrique Zorrilla Fullaondo (General Director), Michael Coate (Deputy General Director of Finance and Business Intelligence), Agustín Corona Gahbler (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Group's consolidated financial statements include those of its subsidiaries for whom exercises control: the Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar. Significant balances and transactions with the Group´s companies have been eliminated in preparing the consolidated financial statements. The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2016 and 2015.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The accompanying 2016 consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

Basis of preparation

a) Statement of compliance

The attached consolidated financial statements have been prepared, based on the applicable legislation, in conformity with the accounting criteria established by the Banking Commission, for financial group holding companies in Mexico. The Banking Commission is responsible for the inspection and supervision of financial group holding companies as well as reviewing their financial information.

(Continued)

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the FRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravence the accounting criteria A-4 of the Banking Commission.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The major items subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses, employees' benefits and the future realization, and deferred taxes. The actual results may differ from those estimates and assumptions.

c) Functional and reporting currency

The aforementioned consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, "pesos" or "$" refers to millions of Mexican Pesos, and when reference is made to "dollars" or "USD", it means millions of dollars of the United States of America.

d) Recognition of assets and liabilities related to financial instruments

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivatives are recognized in the consolidated financial statements on the trade date, regardless of the settlement date.

(3) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements, except for the accounting changes indicated in note 4.

(Continued)

(Millions of Mexican pesos)

(a) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation based on in Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

The years ended December 31, 2016 and 2015 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. Should be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is as follows:

			Inflation	
December 31,		**UDI**	**Annual**	**Accumulated**
2016	$	5.562883	3.38%	9.97%
2015		5.381175	2.10%	10.39%
2014		5.270368	4.18%	12.34%

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. Also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money"), as of January 1, 2016 excess of plan assets by maximum obligation of employee benefits according to the MFRS D-3 "Employee benefits" and deposits in Banco de México (Central Bank) which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits lack term and bear interest at the average funding rate, which are recognized in income statement as accrued.

The cash and cash equivalents are recognized at nominal value. For the currencies in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect is recognized in the results, as interest income or interest expense, accordingly.

Immediate collection notes will be recorded as other cash equivalent according to what is mentioned bellow:

– Transactions with Mexican entities: two business days after the transaction took place.

(Continued)

– Transactions with foreign entities: five business days after the transaction took place.

When the notes mentioned in the last paragraph of the prior page are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either “Other accounts receivable” or “Loan portfolio”, and due consideration should be given to the provisions of criterion A-2, “Application of particular standards”, and B-6 “Loan portfolio”, respectively.

Transactions transferred to sundry debtors under the caption “Other accounts receivable”, not settled within fifteen days following the transfer date will be classified as past-due debts and an allowance for their total amount recorded will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption “Other accounts”.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption “Sundry creditors and other accounts payable”. Likewise, this caption presents the offset balance of receivable currencies against deliverable currencies, in case this offset results negative.

The foreign exchange currencies acquired and agreed to be settled in purchase transactions to 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency for received), while the currency sold is recorded as cash outflow (foreign currency for delivery). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions”, respectively.

(d) Margin accounts-

The margin accounts granted in cash required to the Group to operate derivatives in recognized markets are recorded at par value and presented in the caption “Margin accounts”. The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Group.

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under “Interest income” and “Commission and fee expense”, respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in “Margin accounts”. At December 31, 2016 and 2015, the balance in “Creditors on settlement of transactions” derived from the margin accounts amount to $388 and $41, respectively.

(Continued)

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trust based on open agreements recorded in their accounts and minimum initial contributions required by Asigna. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents”.

(d) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of management of the Group on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date.

Subsequently, securities are valued at fair value provided by an independent price vendor, when the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this concept shall cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment thereof arises under the caption "Interest income".

Valuation effects and purchase or sale results are recognized in the year's income within the caption of "Financial intermediation income".

(Continued)

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities”, and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

Interest earned is determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity instruments are recognized in the year's income when the right to receive payment thereof arises under the caption "Interest income".

Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold to maturity. These securities are initially recognized at fair value, which is presumably the price paid, and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under “Interest income”.

Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Impairment of value of a security-

Where sufficient objective evidence exists that a security available for sale or held to maturity has been impaired as a result of one or more events that occurred subsequent to initial recognition of security, the carrying amount of the security is modified and the impairment is recognized in income under “Financial intermediation income” caption. For available-for-sale securities, the amount of loss recognized in equity is canceled.

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year´s results, except if it is an equity instrument.

(Continued)

Book value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a clearing account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under “Assigned securities to be settled”.

Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale securities, provided it is not intended to hold them until maturity. Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission.

(e) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Group acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at the amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption “Interest income” or “Interest expense”, as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption “Debtors under repurchase/resell agreements” and “Creditors under repurchase/resell agreements”, respectively.

The Group acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”. Financial assets granted as collateral, when the Group acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of “Investment securities”, reporting it as a restricted asset.

(Continued)

Should the Group, acting as repurchaser sell or pledge the collateral, the transaction proceeds and an account payable is recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Group acting as repurchase turn becomes as repurchaser and the debit or credit balance is presented in the consolidated financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts under the caption “Collaterals received and sold or pledged by the entity”, in accordance with accounting criterion B-9 “Assets in custody or under management”.

(f) Securities lending-

At the trade date of securities lending transactions, the Group acting as lender reclassifies securities subject to lending as restricted in the consolidated balance sheet under the caption “Investments securities”, while acting as borrower, securities are recognized in memorandum accounts under the caption "Collaterals received by the entity", according to the guidelines for valuation of criteria B-6 “Assets in custody and under management” of the General provisions applicable to for Brokerage Firms. The accrued premium amount, acting the Group as a lender or borrower, is recognized in the consolidated income statement, through the effective interest method over the term of the transaction under the caption "Interest income" or "Interest expense", respectively, against the caption "Securities lending" within the asset or liability, accordingly.

The financial assets received as collateral, whereby the Group acts as a lender, are recognized in memorandum accounts following the guidelines for valuation of criterion B-6 "Assets in custody and under management" of the Provisions previously mentioned; while acting as borrower, the financial assets delivered as collateral are presented as restricted under the caption "Investment securities".

In the case that the Group, as lender, prior to the maturity of the securities lending transaction sells the collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale as well as the obligation to return such collateral to the lender or the transaction value to the borrower under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently marked to market, the valuation effect is recorded in the consolidated income statement under the caption “Financial intermediation income”.

The difference between the price received and the fair value of the security subject to the transaction or the collateral received, if any at the time of the sale, is recorded under the caption “Financial intermediation income”, as applicable.

Regarding securities lending transactions wherein the financial assets granted as collateral or the value matter of the transaction acting the Group as the borrower or lender, respectively, come from collateral received in other transactions, the control of such collaterals are recorded in memorandum accounts under “Collaterals received and sold or pledged in guarantee by the entity”, following the valuation guidelines of criterion B-6 “Assets in custody or under management” of the Provisions previously mentioned.

(g) Derivatives-

Transactions with derivative financial instruments comprise those that are carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under the captions of “Derivatives”, in the assets or liabilities, accordingly, and “Financial intermediation income”, respectively. The effect of the derivatives credit risk (counterparty), must be determined according to the risk area methodology, and must be recognized in results in the period in which it occurs against the supplementary account.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity under the caption “Unrealized result from valuation of cash flow hedge instruments”, while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under “Financial intermediation income”, and the counter-account with such effect are presented in the consolidated balance sheet under “Derivatives”. The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders’ equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year’s results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

(Continued)

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under “Derivatives” and in the consolidated statement of income in “Interest income” and “Financial intermediation income”, since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under “Valuation adjustments from hedging of financial assets” and recognized in the year’s income in the case of loan portfolio, in “Interest income”, while for investments securities classified as available-for-sale, in “Financial intermediation income”.

Collaterals pledged and received in derivate transactions carried over-the counter

The collateral is a security obtained to ensure payment of the price agreed in contracts with derivative financial instruments on over-the- counter transactions.

The granting of collateral pledged in cash in derivative over-the-counter transactions are recorded as account receivable under the caption "Other accounts receivables", while collateral received in cash are recorded as "Other accounts payable".

The collaterals pledged in securities are recorded as restricted securities by guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

(h) Settlement clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the consolidated financial statement caption “Other accounts receivable, net” or “Creditors on settlement of transactions”, as appropriate.

(Continued)

(i) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in memorandum accounts, under “Loan commitments”. The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under “Loan commitments” which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Past-due loans and interest-

Outstanding loans and interest balances are classified as past-due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

   An exemption exists from the rule mentioned in the last paragraph, for those loans that continues receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided in the following numeral 2, they will be recorded as past-Due loan portfolio.

2. Its installments have not been fully settled on the terms originally agreed, considering the following:

   a) If the debts consist in loans with a single payment of principal and interest at maturity and are 30 or more calendar days past-due;

   b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest when the respective interest payment is 90 or more calendar days past-due, or principal is 30 or more calendar days past-due;

   c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, when 90 or more calendar days are past-due;

(Continued)

d) If debts consist of revolving loans, when unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when 60 or more calendar days are past-due; and

e) Overdrafts from checking accounts, and immediate payment notes receivable, upon occurrence of such event.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts; also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under "Interest income". Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be considered as past-due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is written-off when there is evidence of sustained payment.

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.) except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

Sustained payments

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive amortizations of the loan payment scheme, or in the case of loans with amortizations that cover periods greater than 60 calendar days, the payment of one installment.

In loans with periodic payments of principal and interest whose amortizations are less than or equal to 60 days in which the periodicity of payment to minor periods is modified due to the application of a restructuring, a sustained payment of the loan is considered, when the borrower shows payment of amortizations equivalent to three consecutive amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loan originate the reclassification to the caption "Past-due loan portfolio", in order to determine the three consecutive amortizations required for the existence of a sustained payment, the original loan repayment scheme should be considered, whose repayments equivalent to the longer term.

(Continued)

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, it is considered that there is a sustained payment of the loan when any of the following assumptions occur:

a) the borrower has covered at least 20% of the original amount of the loan at the time of the restructuring or renewal or,

b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days had been covered.

Prepayment of an amortization of restructured or renewed loan (amortization of restructured or renewed loan that have been paid without the occurrence of natural days equivalent to three consecutive amortizations of the loan amortization schedule or in the case of loans with amortization covering longer periods than 60 calendar days, the payment of one installment), other than those with a single payment of principal at due date, regardless of whether the interest is paid in installmentes or at the due date, is not considered as a sustained payment.

Restructuring and renewals

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past-due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

(Continued)

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

i) fully paid the total interest accrued;
ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving which have been restructured or renewed, will be considered, as current when the borrower had paid off the totality of accrued interest, there are no invoicing periods past-due and there is evidence to prove the debtor's repayment capability.

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured.

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructuring or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed particularly.

The Group periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off is recognized in the year's results.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

(Continued)

Costs and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to income under the caption "Interest expense" during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

(j) Allowance for loan losses-

Allowance for loan losses represents the Group management's best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments.

Commercial loans– The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission. Commercial loans shall be subject to credit rating without including those loans with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using risk analysis of the investment project according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure at default.

Until June 2016, for loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS, the Group used internal credit rating models authorized by the Banking Commission. Beginning July 2016, the Group uses the methodology sets on Appendix 22 the Provisions issued by Banking Commission.

(Continued)

(Millions of Mexican pesos)

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales lesser than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For the financial institutions loans, the methodology set forth on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure at default is used.

The estimates carried out at December 31, 2016 and 2015, were determined based on the risk levels and allowance percentage according to the following table:

Grade of risk	Range of allowance percentages
A1	0.000 – 0.9%
A2	0.901 – 1.5%
B1	1.501 – 2.0%
B2	2.001 – 2.5%
B3	2.501 – 5.0%
C1	5.001 – 10.0%
C2	10.001 – 15.5%
D	15.501 – 45.0%
E	Higher than 45.0%

Mortgage loans –

Allowance for loans losses of mortgage is determined using the corresponding balances the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation. The total amount to reserve for each assessed loan is the result of multiplying the probability of default for the loss given default and exposure at default.

In determining the loss given default the loan recovery rate component is used, which is affected if the loan has a guarantee trust or judicial agreement, classifying by regions at the federal boroughs in which such courts reside.

(Continued)

(Millions of Mexican pesos)

The risk grades and percentages of allowance for loan losses on December 31, 2016 and 2015, are as shown below:

Grade of risk	Ranges of allowance percentages
A1	0.000 – 0.50%
A2	0.501 – 0.75%
B1	0.751 – 1.00%
B2	1.001 – 1.50%
B3	1.501 – 2.00%
C1	2.001 – 5.00%
C2	5.001 – 10.00%
D	10.001 – 40.00%
E	40.001 – 100.00%

Consumer loans–

In determining the allowance, consumer loans are segregated into two groups: a) non-revolving consumer loans; and b) consumer loans relating to credit card transactions and other revolving loans. The methodology followed for both groups is described in articles 91 and 92 of the Provisions, respectively. The total allowance amount for each loan is the result of multiplying the probability of default by the loss given default and exposure to default.

The risk grades and percentages of allowance for loan losses on December 31, 2016 and 2015, are as shown below:

	Ranges of allowance percentages	
Grade of risk	Non- revolving	Credit cards and other revolving loans
A1	0.00 – 2.0%	0.00 – 3.00%
A2	2.01 – 3.0%	3.01 – 5.00%
B1	3.01 – 4.0%	5.01 – 6.50%
B2	4.01 – 5.0%	6.51 – 8.00%
B3	5.01 – 6.0%	8.01 – 10.00%
C1	6.01 – 8.0%	10.01 – 15.00%
C2	8.01 – 15.0%	15.01 – 35.00%
D	15.01 – 35.0%	35.01 – 75.00%
E	35.01 – 100.0%	Higher than 75.01%

(Continued)

Impaired loan portfolio – For consolidated financial statement disclosure purposes, the Group considers impaired loans to those commercial loans for which determine that there is a considerable probability that they could not be recovered in full, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves– Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization is considered to result in a loss to the Group, as well as reserves maintained as prescribed by regulations.

Write-offs– The Group has policies of write-offs for consumer and residential mortgages loans, according to established terms (6 and 35 months, respectively) that determine the practical impossibility of recovery; the write-offs cancel the loan balance against the allowance for loan losses previously recorded. When the loan to be written-off exceeds the balance of its related allowance, before making the write-off, the allowance should be increased up to the amount of the difference. Any amount recovered from previously written-off loans is recognized in income.

(k) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, The Group has adopted the International Financial Reporting Interpretations Committee IFRIC 13 "Customer loyalty program" of IFRS for recording credit card transactions related to the loyalty program. According this interpretation, a portion of revenue from exchange fees are deferred until the obligation to deliver the rewards to which customers are entitled is incurred and amortized to income once that obligation is extinguished.

(l) Other accounts receivable-

Loans to officers and employees, collection rights and the accounts receivable related to debts whose maturity is agreed from origin to more than 90 calendar days term, are evaluated by Group´s management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 90 days after their initial recording if they correspond to identified items and 60 days if the balances are unidentified, regardless of their chance to recovery, except for tax-related balances.

(Continued)

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past-due and a provision is booked for the total amount.

Overdrafts on checking accounts of customers which do not have a loan facility for such purposes, shall be classified as past-due debts and credit institutions must simultaneously create a reserve for such classification for the total amount of the overdraft, at the time when such event occurs.

(m) Securitization transactions

The residual benefits on the securitization transactions are recognized in caption “Benefits receivable on securitization transactions” and are marked to market. Valuation adjustments are recognized in income under “Other operating income”. Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

The Trust where the securitization is recorded is not consolidated with the Bank in accordance with the established in paragraph 21 of transitory dispositions of accounting criteria C-5 “Consolidation of specific purpose entities” issued by the Banking Commission on September 19, 2008.

(n) Foreclosed assets or assets received in lieu of payment-

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure) as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the lost is recognized in consolidated income statement caption “Other operating income”. Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

(Continued)

(Millions of Mexican pesos)

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption “Other operating income” The Group creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year’s results of operations under “Other operating income”, which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as follows:

	Allowance percentage	
Months elapsed from the date of Foreclosure or received in lieu of payment	**Real Estate**	**Receivables, furniture, and equipment and investment securities**
Up to 6	0%	0%
More than 6 and up to 12	0%	10%
More than 12 and up to 18	10%	20%
More than 18 and up to 24	10%	45%
More than 24 and up to 30	15%	60%
More than 30 and up to 36	25%	100%
More than 36 and up to 42	30%	100%
More than 42 and up to 48	35%	100%
More than 48 and up to 54	40%	100%
More than 54 and up to 60	50%	100%
More than 60	100%	100%

(o) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the financial information was suspended according to the MFRS. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Group’s management of the corresponding assets. Depreciation amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Group periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

(Continued)

The Group evaluates periodically the net book values of premises, furniture and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized by the Group in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(p) Permanent investments-

The permanent investments where there is no control, join control or significant influence exists are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption “Other operating income”, except if are from prior periods to the acquisition, in which case are decreased from the permanent investment.

(q) Other assets-

This caption includes mainly the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Group.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount the asset value is written down and the impairment loss is recognized in the results of operations for the year.

Furthermore, in this caption, the projected net assets of the defined benefit plan are recorded (up to the amount of the plan asset ceiling, in accordance with the provisions of MFRS D-3 “Employee benefits” beginning in 2016). The excess of non-reimbursable resources provided by the Group to cover employee benefits are recognized as restricted cash under the caption “Cash and cash equivalents” (see notes 6 and 17).

(r) Income taxes and employee statutory profit sharing (ESPS)-

The income taxes and ESPS payable for the year are determined in conformity with the applicable tax provisions.

Income taxes payable are presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

(Continued)

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT for operating loss carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

The deferred income tax asset is periodically valuated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

The deferred income tax asset or liability determined from the temporary deductible or taxable differences of the year, are presented in the in the consolidated balance sheet.

Current and deferred ESPS are shown under the caption "Administrative and promotional expenses", in the consolidated statement of income.

(s) Capital leases-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income (expense)" The asset is depreciated in the same way as other assets held in property when it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise is depreciated over the term of the contract.

(t) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding, the placement of debt certificates and bank bonds and the global account of deposits without movements. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(Continued)

(u) Provisions-

Based on management's estimates, the Group recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises as a consequence of past events.

(v) Banking and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted borrowings with agencies specializing in financing economic, production or development activities. Interest is recognized on accruals basis under the caption "Interest expense".

(w) Employees' benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Group has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Group's net obligation in relation to direct long-term benefits (except for deferred ESPS - see note Income taxes and employee statutory profit sharing), and which the Group is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Group has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

(Continued)

Defined contribution plans

The Group has a defined contribution pension plan, where the amounts contributed by the Group are recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 17).

Defined benefit plans

In addition, the Group has a defined benefit plan in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets, except for severance compensation.

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a possible asset for the Group, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

(Continued)

Remeasurements generated as from January 1, 2016 (before actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder's equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

According to the resolution published on December 31, 2015 by the Banking Commission, modifications to the plans and remeasurements accumulated until December 31, 2015, for the Bank, are gradually recognized from 2016 to the next four years (see note 4b).

(x) Subordinated debt issued-

The subordinated debt is recorded at contractual value and the interest are recognized on accrual basis in the consolidated income statement under the caption "Interest expense".

(y) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance, origination loan fees and credit card annual fees are recorded within "Deferred credits and prepayments", and applied to the year's results of operations in "Interest income" and "Commission and fee income", respectively, as accrued, in the term of the loan or during a year, as applicable.

The commissions from Financial intermediation (issue of securities and shares), the commissions from assets in custody or under management as well as commissions from services related to derivative transactions are recognized in income when the service is rendered in "Commission and fee income" caption.

Fees on trust transactions are recognized in income as accrued in "Commission and fee income". Such revenues are not accrued when fees are 90 or more calendar days past-due, and are recorded in memorandum accounts. When accrued revenues are collected, they are reported directly in income for the year.

Fees collected for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in "Interest income" using the straight-line method during the new term of the loan.

(Continued)

Income from commissions collected on transactions in the derivative market are recorded in the consolidated statements of income as the service is provided under the caption "Commission and fee income".

Income from leasing is recognized in results as accrued.

(z) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statement presentation purposes. In the case of currencies other than dollars are translated into dollars at the exchange rates as established in the Provisions applicable to credit institutions, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year.

At the year-end date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by the Central Bank and foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(aa) Memorandum accounts-

Memorandum accounts corresponds mainly to assets in custody or management and trust transactions, as well as custody or management transactions.

Securities or transactions in custody or under management and trust operations-

Customer's securities in custody, warranty or under management are valued at fair value or in accordance with applicable accounting principles, representing the amount for which the Group is obligated to its customers against any future eventuality and are presented in the captions "Customer securities in custody" or "Assets in custody or under management", as appropriate.

Trust operations are presented in the caption "Assets in trust or under mandate".

Transactions on behalf of customers-

The amounts of securities repurchase/resell agreements and securities lending in repurchase/resell agreements that the Group undertakes for its customers is presented under the "Securities on repurchase/resell agreements by customers" caption.

Securities lending conducted by the Group on behalf of its customers are presented under the "Securities lending by customers" caption.

In the case of collaterals that the Group receives or delivers on behalf of its customers from repurchase/resell agreements, securities lending, derivatives or other, collateral received or delivered are presented under the caption "Collaterals received in guarantee by customers" and/or "Collaterals delivered in guarantee by customers" as appropriate.

(Continued)

The determination of the valuation of the estimated amount for the assets in management and transactions on behalf of its customers is made according to the operation carried out in accordance with the accounting criteria for brokerage firms and accounting criteria for credit institutions.

The Group records transactions on behalf of its customers, on the trade date, regardless of its settlement.

(ab) UDI Trusts-

The provisions published in the Federal Official Gazette dated July 26, 2010 were followed to for purposes of early termination of the mortgage programs, until 2015.

(ac) Contributions to IPAB-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual, corporation, or credit institution. The contributions to IPAB are recorded in the consolidated income statement within the caption "Administrative and promotional expenses".

(ad) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements.

Contingent income, earnings or assets are not recognized until their realization is virtually certain.

(4) Accounting changes and reclassification–

The accounting changes for 2016 that had impact on the Group's consolidated financial statements are shown in the following page.

(Millions of Mexican pesos)

Accounting changes-

(a) Change in the methodology for the consumer loans' allowance for loan losses

On December 16, 2015, the Banking Commission published in the Official Federal Gazette a resolution amending the Provisions to adjust the general methodology for consumer loans' allowance for loan losses corresponding to credit cards and other revolving loans. The modification included factors such as the payment behavior and the indebtedness level of the borrowers, which is in line with the expected loss model; the entry into force of this change was on April 1, 2016. The financial impact in the Bank was the creation of additional allowance for loan losses for approximately $37 for credit cards that was recorded under the caption "Retained earnings" in the consolidated balance sheets; while the effect of "Other revolving loans" corresponded to an allowance release for $14, was recognized as a credit to the allowance for loan losses in the consolidated statements of income all in accordance with the Provisions.

The Group made all reasonable efforts to determine the effect of the retrospective application of the adjustments to the general methodology for consumer loans' allowance for loan losses corresponding to credit cards operations and other revolving loans, however, it was impractical due to (i) historical information does not have the same behavior and there may be inconsistencies, (ii) it is required that significant estimates be made of the previous period, and (iii) it is not possible to determine objectively whether required information to make such estimates was available in previous years.

Had these effects been recorded in the consolidated statements of income, the income for the year ended December 31, 2016 would have decreased by the aforementioned amounts recognized in stockholders' equity.

(b) MFRS D-3 "Employee benefits"

The remeasurements of defined employee benefits net of deferred taxes and ESPS, shown in the consolidated statements of changes in stockholders' equity, were recognized by the Group in 2016, resulted from the adoption of MFRS D-3 "Employee benefits ", as shown below:

		Effect on Stockholders' equity	
Entity		Retained earnings	Remeasurements of defined employee benefits
The Bank	$	46	65
Brokerage Firm		5	1
SECOSA		-	1
Crédito Familiar		-	4
	$	51	71

(Continued)

(Millions of Mexican pesos)

Progressive implementation of the adoption of MFRS D-3 "Employee benefits" issued by the Banking Commission (applicable to the Bank)

On December 31, 2015, a resolution was issued in the Official Gazette that amends the Provisions in which through the third transitory article, the Banking Commission sets out the terms to recognize changes for reformulation resulting from the adoption of the new MFRS D-3, which enters into force on January 1, 2016, and defines the term that credit institutions have to recognize in its stockholders' equity the total amount of outstanding balances to be amortized from profits or losses of defined benefit plan, as well as modifications to the plan, not recognized until December 31, 2015.

The resolution states that the institutions referred to in Article 2, Section I of the Credit Institutions Law, opting for the progressive implementation of the transitory article refered to, should start the recognition of the balances listed in numbering a) and b) of paragraph 81.2 of MFRS D-3, in the year 2016, recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years". Credit institutions can apply early recognition, provided that the corresponding year the Bank recognize at least 20%, or the total amount remaining in terms of the aforementioned transitory article.

Bank´s Management informed to the Banking Commission its decision to take the option referred to the third transitory article, therefore the initial accounting effect as of January 1, 2016 due to the pending balances of amortization due to modifications to the defined benefit plan, as well as to the actuarial gains and losses of the plan, recognized in the items "Retained earnings" and "Remeasurements of defined employee benefits", respectively, are as follows:

		Defined employee benefits modifications	Actuarial losses
Initial balance of (favorable) unfavorable effect on the adoption of MFRS D-3.	$	(232)	2,170
First year of recognition in the stockholders' equity.		46	(434)
Balance at January 1st, 2016 pending to be amortized and progressively applied during the next four years.	$	(186)	1,736

(Continued)

The Bank made every reasonable effort to determine the effect of the retrospective application of the new standard, however, the determination was impractical due to significant estimates of the prior period were required and subsequent to the gradual recognition of 20% during 2016 and during the following four years so that financial effect was recorded as established in the third transitory of the Provisions indicated above in the Bank. The accounting effects of the other subsidiaries are not considered significant and therefore were applied prospectively.

(c) 2016 MFRS Improvements

In December 2015, CINIF issued the document referred to as "2016 MFRS Improvements", which contains precise modifications to some current MFRS. MFRS Improvements mentioned below that entered into force for the years beginning after the 1st. January 2016 did not generate important effects in the consolidated financial statements of the Group.

- **MFRS C-7 "Investments in associates, joint ventures and other permanent investments"-** establishes that investments or contributions in kind should be recognized based on fair value.

- **MFRS B-7 "Business acquisitions"-** clarifies that acquisitions of entities under common control are not part of the scope of this MFRS, regardless of how the amount of the consideration was determined.

(d) 2015 MFRS and MFRS improvements

In December 2014, CINIF issued the document referred to as "2015 MFRS Improvements", which contains precise modifications to some MFRS. The modifications that bring about accounting changes are listed as follows, which adoption did not generate important effects in the consolidated financial statements of the Group.

- **MFRS B-8 "Consolidated or combined financial statements"**

- **Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments"**

(e) 2015 accounting criteria

On May 19, 2014, SHCP issued a resolution through the Official Gazette that amends the accounting criteria for credit institutions in Mexico. These amendments, mainly in the criteria A-2 "Application of particular standards" "B-1 Cash and cash equivalents" and "B-6 Loan portfolio", did not generate important effects in the consolidated financial statements of the Group.

(Continued)

Reclassification-

The Consolidated Balance Sheet as of December 31, 2015, was reclassified to conform with the presentation used in the consolidated financial statements as of December 31, 2016 from the caption “Demand deposits” for ($209) and “Time deposits- General public” for ($88) to the caption “Global account of deposits without movements” for $297.

(5) Foreign currency position-

Central Bank regulations require that banks and brokerage firms maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital of the Bank computed as of the third immediately preceding quarter, and 15% of the net capital of the Brokerage Firm. Accordingly, at December 31, 2016 and 2015, the Bank and the Brokerage Firm maintain a position within the authorized limits.

At December 31, 2016 and 2015 the foreign currency position is analyzed as follows:

		Millions of dollars		Equivalent in pesos	
		2016	2015	2016	2015
Assets	$	3,018	4,114	62,229	70,961
Liabilities		(3,014)	(4,159)	(62,147)	(71,737)
Large (short) position	$	4	(45)	82	(776)
		====	====	=====	=====

At December 31, 2016, the large position in foreign currency consists of 87% in U.S. dollars (99% in 2015) and 13% in other foreign currencies (1% in 2015).

The exchange rate relative to the U.S. dollar at December 31, 2016 and 2015, was $20.6194 pesos per dollar and $17.2487 pesos per dollar, respectively, and on the authorization issuance date of the consolidated financial statements, was $ 19.7011 pesos per dollar.

(Continued)

(Millions of Mexican pesos)

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2016 and 2015 are as follows:

		2016	2015
Cash in hand	$	6,186	5,838
Banks:			
Domestic		844	730
Foreign		7,011	4,859
Call money		4,076	1,606
24 and 48 hour foreign currency sales		(5,405)	(9,293)
Other funds available (due on demand)		4	15
Restricted funds:			
Excess of maximum obligation for employee's benefits		226	-
Compensation fund to operate derivatives		753	172
Deposits with the Central Bank		11,572	13,512
24, 48, 72 and 96-hour foreign currency purchase		7,758	10,309
	$	33,025	27,748

December 31, 2016 and 2015, deposits in the Central Bank correspond to monetary regulation deposits of $11,566 and $13,511, respectively, which have no maturity. The interest generated by deposits in the Central Bank at December 31, 2016 and 2015, were $6 and $1, respectively. The provisions in force issued by the Central Bank for the monetary regulation deposit, which may be comprised of cash, securities or both, at December 31, 2016 and 2015, the Group keeps Reportable Monetary Regulation Bonds (BREMS-R) that amount to $3,090 and $1,145, which are part of the monetary regulation deposit (see note 7a).

(Continued)

(Millions of Mexican pesos)

At December 31, 2016 the Group had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed for $3,599 and $(6,080), respectively, ($5,492 and $(6,522), respectively, at December 31, 2015), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

At December 31, 2016 and 2015, the Group had the following Call money:

	2016			2015		
Institution	**Amount**	**Annual Rate**	**Term**	**Amount**	**Annual Rate**	**Term**
HSBC México S.A.	$ 2,651	3.25%	4 days	$ 106	3.25%	4 days
Banco Nacional de México, S. A.	-	-	-	1,500	3.15%	4 days
Industrial & Commercial Bank of China S. A.	25	5.75%	3 days	-	-	-
Banco Nacional de Obras y Servicios Públicos SNC.	900	5.75%	3 days	-	-	-
Nacional Financiera SNC.	500	5.75%	3 days	-	-	-
	$ 4,076			$ 1,606		

At December 31, 2016 and 2015, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

	Foreign currency receivable		Foreign currency deliverable	
	2016	**2015**	**2016**	**2015**
Dollar	$ 7,427	9,874	(4,837)	(8,521)
Other currencies	331	435	(568)	(772)
	$ 7,758	10,309	(5,405)	(9,293)

At December 31, 2016 and 2015, earnings (losses) from operations of buy/sell currencies amounted to $735 and $(167), respectively, the valuation result amounts to $(176) in 2016 and $641 in 2015, which are recorded under "Financial intermediation income".

(Continued)

(Millions of Mexican pesos)

(7) Investment securities-

(a) At December 31, 2016 and 2015, the investment securities at fair value, except held to maturity, are as follows:

		2016	2015
Trading:			
Debt securities:			
Government securities	$	9,988	28,292
Bank promissory notes		801	570
Others		194	495
Equity shares		1,366	907
		12,349	30,264
Available-for-sale:			
Debt securities:			
Government securities		28,722	31,532
Bank promissory notes		3,104	2,950
Others		450	465
Equity shares		2	326
		32,278	35,273
Held-to-maturity:			
Special CETES of the UDI Trusts:			
Residential mortgages		2,367	2,275
Bonds		3,090	1,145
		5,457	3,420
Total investment securities	$	50,084	68,957

At December 31, 2016 and 2015, the fair value of the securities classified as trading, available-for-sale and held-to-maturity are analyzed in the following pages.

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		2016	2015
Trading:			
Unrestricted securities:			
Own position:			
BI CETES	$	550	1,286
M BONOS		140	34
		690	1,320
Value date sales:			
M BONOS		(12)	(13)
BI CETES		(12)	(24)
S UDIBONO		–	(3)
LD BONDES		–	(5)
		(24)	(45)
Subtotal unrestricted securities		666	1,275
Restricted securities:			
CETES delivered as collateral		150	1,045
Under repurchase/resell agreements:			
LD BONDES		4,536	7,467
M BONOS		704	3,376
BI CETES		1,915	10,702
IQ BPAG91		594	1,062
CBUR		–	46
S UDIBONO		19	118
IS BPA 182		226	55
IM BPAG28		75	973
CBPC		–	475
		8,069	24,274
Value date purchases:			
BI CETES		33	359
M BONOS		16	1,314
S UDIBONO		105	20
LD BONESD		949	5
		1,103	1,698
Total government securities	$	9,988	28,292

(Continued)

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		2016	2015
Trading (continued):			
Bank promissory notes:			
Bank promissory notes (unrestricted):			
BANOBRA	$	151	354
BANCOMEXT		–	16
SCOTIAG		158	–
Bank promissory notes (unrestricted)		309	370
Restricted securities:			
Under repurchase/resell agreements:			
PRLV		242	142
CBBD		250	–
CEBUR		–	58
		492	200
Total bank promissory notes	$	801	570
Other debt securities:			
Under repurchase/resell agreements:			
91FINAECB	$	–	7
CBUR		179	439
CBPC		15	45
EUROBONO		–	4
Total other debt securities	$	194	495
Equity shares:			
Equity shares (unrestricted):			
NAFTRAC	$	52	183
1 ICH B		–	2
1A FCX*		–	2
1A TX*		–	2
1I EWZ*		–	2
SCOTIA G		1,086	463
CEMEX		–	5
1I TWM*		2	–
Other equity shares		57	–
Subtotal, carried forward	$	1,197	659

(Continued)

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		2016	2015
Trading (Continued):			
Subtotal, brought forward	$	1,197	659
1I GXG*		–	1
GMEXICO B		–	79
AMXL		–	7
APPL*		–	2
SIMEC B		–	3
VOW3 N		–	1
MGGT- N		–	15
ASUR B		–	1
		1,197	768
Value date sales:			
IVV *		(86)	-
HYS *		(40)	-
VWO *		(40)	-
ERJ N		(32)	-
NAFTRAC		(7)	(21)
GMEXICO		–	(2)
MO*		–	(3)
GM*		–	(3)
DB N		–	(42)
BCS N		–	(1)
NOK N		–	(1)
LIVEPOL C-1		–	(1)
SANMEX B		–	(1)
TLEVISA CPO		–	(1)
LVS*		–	(1)
XOP		–	(1)
SHV*		(83)	(6)
LALA B		(2)	(1)
BABA N		–	(3)
MGGT N		–	(15)
ALFAA		–	(3)
1 ICH B		–	(2)
Other equity shares		(40)	(4)
Equity shares, net of value date sales **		(330)	(112)
Subtotal, carried forward	$	867	656

** Assigned to securities to be settled" by its credit balance (note 7b)

(Continued)

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		2016	2015
Trading (Continued):			
Subtotal, brought forward	$	867	656
Securities lending:			
GRUMA		–	16
NAFTRAC		21	21
TLEVISA		–	1
ALFA A		9	13
CEMEX CPO		12	4
ICHB		–	1
GMEXICO B		1	1
MEXCHEM B		7	5
SANMEX B		–	1
SIMEC B		4	2
ALPEK A		1	3
NEMAK A		3	2
ASUR B		6	5
Other equity shares		2	–
		66	75
Restricted equity shares:			
AMXL		–	1
SCOTIAG		72	72
		72	73
Value date purchases:			
SHV		83	6
IVV *		86	-
VWO *		40	-
HYS *		40	-
IVV PESO		33	-
ERJ N		32	-
NAFTRAC		5	21
GMEXICO B		–	11
Other equity shares		42	65
		361	103
Total equity shares		1,366	907
Total trading securities	$	12,349	30,264

(Continued)

(Millions of Mexican pesos)

		2016	2015
Available-for-sale:			
Debt securities:			
Domestic government securities:			
LD BONDESD	$	13,563	2,422
BI CETES		614	–
S UDIBONO		–	70
		14,177	2,492
Foreign government securities:			
BRAZM14		1,293	1,111
BRAZQ28		–	1,767
BRAZE97		244	200
		1,537	3,078
Restricted securities:			
Under repurchase/resell agreements:			
LD BONDESD		10,710	23,874
M BONOS		1,991	2,088
UDIBONOS		307	-
		13,008	25,962
Total government debt		28,722	31,532
Banking notes:			
Own position:			
BANSAN		2,950	2,950
BANOBRA		154	–
Total banking notes		3,104	2,950
Other debt securities:			
CABEI		100	114
MOLYMET		151	–
MONTP10		–	150
UFINCB		199	201
Total other debt securities		450	465
Equity shares:			
BOLSA		–	324
Other equity shares		2	2
Total equity shares		2	326
Total available-for-sale securities	$	32,278	35,273

(Continued)

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		2016	2015
Held-to-maturity:			
Government securities:			
CETES B4 170713	$	867	834
CETES B4 270701		1,097	1,054
CETES B4 220804		2	2
CETES B4 220707		388	373
CETES BC 170713		13	12
Total special CETES (note 10c)		2,367	2,275
BONOS XL BREMSR (restricted, note 6)		3,090	1,145
	$	5,457	3,420

At December 31, 2016 and 2015, BREMS-R amounts to $3,090 and $1,145, respectively and are classified as securities held-to-maturity. The amount of these securities is part of monetary regulation deposit, thus these instruments may only be decreased as the monetary regulation deposit in cash increases.

As of December 31, 2016, the Group held an asset (liability) balance for transactions with securities settled on a date subsequent to the trade date of $3,695 and $(873), respectively, ($5,130 and $(1,797), respectively, as of December 31, 2015), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions" captions, as appropriate.

The valuation result from available-for-sale securities as of December 31, 2016, recognized in other comprehensive income within stockholders' equity amounted to $(221) less deferred income tax for $66 and deferred ESPS for $22 ($(182) less deferred income tax for $55 and deferred ESPS for $18 in 2015).

The valuation result from securities available for sale in hedge transactions at fair value recognized in income statement for the years ended December 31, 2015 amounts to $(5), (in 2016 the effect is zero).

For the years ended December 31, 2016 and 2015, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investment securities were as shown in the following page.

(Continued)

(Millions of Mexican pesos)

		2016	2015
Trading	$	838	789
Available-for-sale		1,581	1,056
Held-to-maturity		192	101
	$	2,611	1,946

(b) At December 31, 2016 and 2015, the fair value of the securities classified as traded securities to be settled are analyzed as follows:

Traded securities to be settled:		2016	2015
Debt securities:			
Government securities (unrestricted):			
BI CETES	$	–	191
M BONOS		–	110
S UDIBONO		–	50
		–	351
Value date sales:			
M BONOS		(3,503)	(4,729)
BI CETES		(323)	(112)
S UDIBONO		(105)	(148)
LD BONDESD		–	(4)
		(3,931)	(4,993)
(Traded securities to be settled) Unrestricted securities	$	(3,931)	(4,642)

(c) Issuers over 5% of the Bank's net capital-

At December 31, 2016 and 2015 investment in non-governmental debt securities and exceeding 5% of the Bank´s net capital are analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

Issuer	Series	Number of securities	Annual average rate	Term in days		Amount
2016						
BANSAN	17011	2,951,413,550	5.75%	3	$	2,950
2015						
BANSAN	16011	2,951,065,275	3.25%	1	$	2,950

(d) Issuers over 5% of the Brokerage Firm's global capital-

At December 31, 2016 and 2015, investments in debt securities other than governmental securities of the same issuer exceeding 5% of the Brokerage Firm's global capital are as follows:

Issuer	Number of securities	Annual average rate	Average term in days		Amount
2016					
BANOBRA	150,817,771	5.30%	2	$	151
2015					
BANOBRA	104,696,422	2.85%	4	$	105

(8) Securities on repurchase/resell agreements and securities lending-

Repurchase/resell agreements-

At December 31, 2016 and 2015, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Group acts as repurchasee, are analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

	Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
	2016	2015	2016	2015
IQ BPAG91	$ 1,865	–	(175)	–
IP BPAS	1,076	–	–	–
BPAG	2,787	–	–	(1,020)
M BONOS	2,006	–	(127)	(4,954)
BI CETES	999	–	(1,121)	(975)
LD BONDESD	14,701	–	–	(18,247)
CBIC	490	–	–	–
CBBD	–	–	(251)	(250)
CBBN	–	–	–	(57)
CBPC	–	–	–	(520)
CBUR	–	–	(195)	(485)
IPAS	925	–	(150)	(55)
PRLV	–	–	(241)	(155)
S UDIBONO	–	–	(19)	(119)
	24,849	–	(2,279)	(26,837)
Collateral sold or pledged (creditor)				
IQ BPAG91	(419)	–	–	910
LD BONDESD	(18,783)	–	(2,113)	(7,416)
M BONOS	(2,006)	–	(1,563)	2,653
BI CETES	(999)	–	(794)	(9,555)
S UDIBONO	–	–	(307)	–
BPAG	(75)	–	–	1,647
BPAS	(2,077)	–	–	
IPAS	–	–	–	354
CBIC	(490)	–	–	–
	(24,849)	–	(4,777)	(11,407)
Debtors (creditors) on repurchase / resell agreements	$ –	–	(7,056)	(38,244)

At December 31, 2016 and 2015, for the Bank, the terms of resell/repurchase agreements vary between 3 and 28 days (4 and 90 days in 2015), with annual weighted rates of 5% acting as repurchasee, and 6% acting as repurchaser (3.21% and 2.94% in 2015). At December 31, 2016 for the Brokerage Firm, the terms of the repurchase/resale agreements is 3 days (between 4 and 91 days in 2015) with annual weighted rates of 5.46% when acting as repurchaser and 5.72% when acting as repurchasee (3.11% and 3.00% in 2015, respectively).

(Continued)

(Millions of Mexican pesos)

During the years ended December 31, 2016 and 2015, premiums collected by the Group amounted to $853 and $753, respectively; premiums paid amounted to $2,264 and $2,024, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 23b).

At December 31, 2016, the Group did not deliver collaterals in repurchase/ resell agreements. At December 31, 2015, the Group gave 3,392,804 government securities (BI CETES series 160428) as guarantee for over three-day repurchase agreements, with a fair value of $34, which are recorded in memorandum accounts.

Securities lending-

At December 31, 2016 and 2015, the Group held securities lending transactions as lender and borrower in which the values object of the transactions were sold and acquired.

At December 31, 2016 and 2015, the obligation to repay the lender values derived from the purchase of these securities are as shown as follows:

2016	Number of securities		Fair value
ALFA A	375,000	$	10
ALPEK A	35,000		1
ASUR B	20,000		5
CEMEX CPO	737,127		12
MEXCHEM *	138,375		7
NAFTRAC ISHRS	450,000		20
NEMAK A	150,000		3
SIMEC B	40,000		4
GMEXICO B	14,600		1
AAPL *	500		1
FCX *	5,000		1
IENOVA *	3,158		1
		$	66

(Continued)

(Millions of Mexican pesos)

2015	Number of securities		Fair value
ALFA A	375,000	$	13
ALPEK A	130,000		3
ASUR B	24,500		6
CEMEX CPO	432,622		4
FEMSA UBD	9,186		1
GRUMA B	65,000		16
ICH B	23,400		1
MEXCHEM *	120,000		5
NAFTRAC ISHRS	180,000		8
NEMAK A	100,000		2
SIMEC B	40,000		1
TLEVISA CPO	38,600		4
SANMEX B	40,000		1
		$	65

At December 31, 2016 and 2015, the right to require the borrower securities derived from the sale of such securities, are analyzed as follows:

2016	Number of securities		Fair value
NAFTRAC	450,000	$	21
ALFA A	375,000		9
ALPEK A	35,000		1
SIMEC B	40,000		4
GMEXICO B	14,600		1
AAPL *	500		1
FCX *	5,000		1
MEXCHEM *	138,375		7
NEMAK A	150,000		3
ASUR B	20,000		6
CEMEX CPO	737,127		12
		$	66
2015			
NAFTRAC	482,200		21
ALFA A	375,000		13
ALPEK A	130,000		3
SIMEC B	40,000		2
GMEXICO B	14,600		1
GRUMA B	65,000		16
SANMEX B	40,000		1
ICH B	23,400		1
MEXCHEM *	120,000		5
NEMAK A	100,000		2
TLEVISA CPO	12,600		1
ASUR B	20,000		5
CEMEX CPO	432,622		4
		$	75

(Continued)

(Millions of Mexican pesos)

The range of term of the securities lending transactions as of December 31, 2016 and 2015 whereby the Group acts as a lender is 28 in each year, and acting as a borrower is 29 and 28 days, respectively.

For the years ended December 31, 2016 and 2015, premiums collected and (paid) in securities lending transactions amounted to $7 and $(3) as well as $5 and $(2), respectively, and are included in the consolidated statement of income under the captions of "Interest income" and "Interest expense", respectively (note 23b).

At December 31, 2016 and 2015, the Group received equity shares securities as collateral in the securities lending transactions for $66 and $65, respectively. These securities are managed in memorandum accounts.

(9) Derivatives-

At December 31, 2016 and 2015, the valuation of derivative financial instruments for trading and hedging purposes recognized under the caption "Derivatives", is analyzed as follows:

		2016		2015	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:					
Foreign exchange currency forward contracts	$	148	167	2,019	2,045
Futures		64	63	–	–
Options		819	881	784	1,662
Swaps		18,083	18,917	1,581	2,875
Package of derivative instruments		313	305	55	21
		19,427	20,333	4,439	6,603
Hedging purposes:					
Fair value hedges		576	-	8	24
Cash flow hedges		698	133	20	295
		1,274	133	28	319
	$	20,701	20,466	4,467	6,922

(Continued)

The net gain (loss) for the years ended December 31, 2016 and 2015, derived from the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $14 and ($3), respectively. The effect of gain from valuation relating to the effective hedge portion at December 31, 2016, amounts to $823 less deferred income tax for $(245) and deferred ESPS for $(82). At December 31, 2015, the gain from valuation relating to the effective hedge portion was $33 less deferred income tax for $(14) and deferred ESPS for $(5), which are presented in stockholders' equity.

At December 31, 2016, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was $5 and ($188) ($39 and $(394) at December 31, 2015).

The net estimated effect, based on the results of January 2017 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months is $11.

At December 31, 2016 and 2015, the gain from valuation of fair value hedging derivatives was $587 and $1 respectively, while the loss from valuation of the hedged item related to the hedged risk was ($582) and $(7), respectively.

At December 31, 2016 and 2015, the net valuation result on financial assets and liabilities related to trading derivatives amounted to ($20) and $129, respectively. These amounts include the impairment or (reverse) for credit risk in the counterparty for ($14) and $19, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains from buy/sell transactions and valuation results at December 31, 2016 amounted to $735 and ($176), respectively ($(165) and $641, respectively in 2015) and are presented in "Financial intermediation income".

For the years ended December, 31 2016 and 2015, the Bank foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2016 and 2015, the Group had transactions settled on a date subsequent to the traded date.

The Group may reduce or modify the market risk mainly through two activities: converting fixed to variable rate financial assets and floating-rate to fixed rate financial liabilities. Both transformations are achieved using interest rate swaps and foreign exchange swaps related to different rates of interest.

At December 31, 2016, out of all hedging derivative transactions, there are 108 agreements (124 agreements in 2015) totaling $15,850 ($16,600 in 2015) classified as hedges under the cash flow methodology; the remainder relates to hedges under the fair value methodology $10,515 ($7,420 in 2015).

(Continued)

(Millions of Mexican pesos)

The Group uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment on securities and on repurchase/resell agreements, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Group´s assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(10) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2016 and 2015, the classification of loans into current and past-due by currency (valued in domestic currency), is as follows:

	2016		2015	
	Current	**Past-due**	**Current**	**Past-due**
In assets:				
Mexican pesos:				
Business or commercial activity	$ 75,944	2,610	59,310	2,221
Financial institutions	26,737	81	20,449	81
Government entities	6,501	–	8,301	–
Consumer loans	29,878	1,222	26,622	1,285
Residential mortgages				
Medium and residential [1]	90,060	2,185	77,528	2,377
Low income housing	163	23	190	27
	229,283	6,121	192,400	5,991
Foreign currency translated into pesos:				
Business or commercial activity	16,599	215	17,083	199
Financial institutions	2	30	–	25
Medium and residential mortgages	114	72	121	59
	16,715	317	17,204	283
	245,998	6,438	209,604	6,274
	252,436		215,878	
In memorandum accounts:				
Loan commitments (see note 22g)	20,234		9,872	
	$ 272,670		225,750	

(1) Includes loans in UDIS.

(Continued)

(Millions of Mexican pesos)

As of December 31, 2016 and 2015, the Group has no restricted loan portfolio.

(b) Classification of loan portfolio by economic sector-

At December 31, 2016 and 2015, credit risk including loans, guarantees and loan commitments, (see note 22g) classified by economic sector. The percentage of concentration are analyzed as follows:

		2016		2015	
		Amount	**%**	**Amount**	**%**
Agriculture, forestry and fishing	$	8,527	3	6,915	3
Commerce and tourism		29,903	11	22,100	10
Construction and housing*		103,797	38	83,849	37
Manufacturing		39,615	15	38,985	17
Consumer loans and credit cards		31,100	11	27,907	13
Community, social and personal services mainly government entities		14,926	6	9,711	4
Financial, insurance and real estate services		43,452	16	35,299	16
Transportation, warehousing and communication		1,350	-	984	–
	$	272,670	100	225,750	100

* Includes mortgage loan portfolio in 2016 for $92,617 in 2016 and $80,302 in 2015.

(c) Early termination of mortgage programs-

On July 15 and 26, 2010, the relevant agreement was executed and the Official Gazette published the general provisions applicable to the early termination of the support programs for housing loan debtors.

For the discounts payable by the Federal Government, a five-year loan payable on an annual basis was recognized under “Commercial loans – Government Entities”, being part of the current loan portfolio until 2015.

Until 2015, the Group received five annual payments of $366 ($330 capital and $36 interests) on the discounts due by the Federal Government under the Agreement.

(Millions of Mexican pesos)

The Special Cetes currently recorded by the Group at December 31, 2016 and 2015 under "Investment securities – Held-to-maturity securities" (see note 7a), are as follows:

2016

	Securities	Amount	Maturity date
Special Cetes B4 170713	8,867,241	$ 867	July 13, 2017
Special Cetes B4 220707	3,961,831	388	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	1,097	July 1, 2027
Special Cetes BC 170713	404,851	13	July 13, 2017
Special Cetes BC 220804	3,115	-	August 4, 2022
Special Cetes BV 270701	6	-	July 1, 2027
Total special Cetes		$ 2,367	

2015

	Securities	Amount	Maturity date
Special Cetes B4 170713	8,867,241	$ 834	July 13, 2017
Special Cetes B4 220707	3,961,831	373	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	1,054	July 1, 2027
Special Cetes BC 170713	404,851	12	July 13, 2017
Special Cetes BC 220804	3,115	-	August 4, 2022
Special Cetes BV 270701	6	-	July 1, 2027
Total special Cetes		$ 2,275	

(d) Additional loan portfolio information-

Annual weighted loan rates:

Annual weighted loan interest rates of the Bank, non-audited, during 2016 and 2015 were as follows:

	2016	2015
Commercial loans *	5.76%	4.91%
Personal loans	14.58%	13.79%
Credit cards	25.75%	25.29%
Residential mortgages	9.95%	10.19%

* Includes commercial, financial and government entities loans.

(Continued)

(Millions of Mexican pesos)

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2016 and 2015, the amount of loans granted under these programs totaled $6,779 and $5,807, respectively, and the related liability is included in "Bank and other borrowings" (see note 16).

Restructured loans:

At December 31, 2016 and 2015, restructured and renewed loans are analyzed as follows:

	Current loans	Past-due loans	Total
2016			
Commercial loans	$ 2,695	848	3,543
Residential mortgages	5,758	321	6,079
Consumer loans	59	130	189
	$ 8,512	1,299	9,811
2015			
Commercial loans	$ 2,484	538	3,022
Residential mortgages	5,906	402	6,308
Consumer loans	77	110	187
	$ 8,467	1,050	9,517

During 2016 and 2015, the Group carried out some modifications (change to better qualified guarantees, currency and partial payment dates) to the original terms of loans classified as commercial loans for $2,347 and $1,346, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Group during 2016 and 2015, which continue being current, amount to $1,103 and $927, respectively; for mortgage portfolio were $748 and $1,240, respectively.

(Continued)

(Millions of Mexican pesos)

During the years 2016 and 2015, the Group recorded restructuring from past-due commercial loans which remained as past-due for $427 and $265, respectively. Also in 2016 the Group made restructure from past-due mortgages loans for $28 ($2 in 2015).

The restructuring consumer loans current and past-due made by the Group during 2016 and 2015 amount to $128 and $47, respectively.

During the year 2016 no interest capitalization was carried out (interest capitalization was for $2 in 2015).

Risk concentration:

At December 31, 2016, the Bank has five economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $29,196 and represent 88% of the basic capital as of September, 2016. At December 31, 2015, the Bank has three economic group debtor that exceeded such limit totaling $26,864 and represent 94% of its basic capital of September, 2015. The balance of the loans granted to the three largest borrowers as of December 31, 2016 and 2015, amount to $19,119 and $18,606, respectively.

Past-due loan portfolio:

An analysis of past-due loans at December 31, 2016 and 2015, from the date the loans were considered past-due, are summarized below:

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2016						
Commercial *	$	701	206	1,225	804	2,936
Consumer		1,153	57	10	2	1,222
Residential mortgages		1,026	450	543	261	2,280
	$	2,880	713	1,778	1,067	6,438
2015						
Commercial *	$	538	1,011	543	434	2,526
Consumer		1,207	66	8	4	1,285
Residential mortgages		1,128	518	601	216	2,463
	$	2,873	1,595	1,152	654	6,274

* Includes commercial loans, loans to financial institutions and government entities.

(Continued)

(Millions of Mexican pesos)

The movement in the past-due loan portfolio for the years ended December 31, 2016 and 2015, is summarized below:

	2016	2015
Balance at beginning of year	$ 6,274	5,915
Globalcard acquisition effect	7	-
Settlements	(1,509)	(184)
Write-offs and write-downs	(2,430)	(2,982)
Net increase, for transfers from and to current loans	4,052	3,517
Foreign exchange fluctuation	44	8
	$ 6,438	6,274

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2016 amounted to $299 ($305 in 2015), which are recorded in memorandum accounts.

For the years ended December 31, 2016 and 2015, the Group recorded write-offs from those past-due loans that had been fully reserved for $2,280 and $2,768, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2016 and 2015, the Group obtained recoveries from written off loans for $260 and $386, respectively.

Additional guarantees

At December 31, 2016 and 2015, the Group has no additional guarantees for the originated loans required by the Banking Commission.

Impaired loans:

At December 31, 2016, the balance of impaired commercial loans is $3,230 ($3,939 in 2015), from which $294 are recorded in current loans ($1,413 in 2015), and $2,936 are recorded in past-due loans ($2,526 in 2015).

Valuation adjustment from hedging of financial assets:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments from hedging of financial assets.

(Millions of Mexican pesos)

At December 31, 2016 and 2015, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption “Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for $(571) and $11, respectively.

(e) Allowance for loan losses-

As of December 31, 2016 and 2015, as a result from the application of the allowance for loan losses methodologies, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average (unaudited) from the exposure at default of the Bank, Crédito Familiar, and Globalcard are as follows:

Type of loan portfolio	Probability of default	Loss given default	Exposure at default
2016			
The Bank			
Commercial	4.93%	42.19%	$ 154,905
Residential mortgages	3.43%	23.91%	92,616
Personal loans	5.54%	64.76%	19,003
Revolving	9.05%	72.58%	18,396
Credito Familiar			
Personal loans	27.99%	65%	3,596
Credit cards	18.65%	75%	49
Globalcard			
Revolving	14.65%	74.07%	74
2015			
The Bank			
Commercial	4.48%	54.00%	119,006
Residential mortgages	3.98%	24.40%	80,302
Personal loans	5.73%	64.79%	15,856
Revolving	12.45%	75.27%	11,048
Credito Familiar			
Personal loans	30.31%	65%	4,080
Credit cards	17.09%	75%	$ 74

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes loan commitments.

(Continued)

(Millions of Mexican pesos)

At December 31, 2016, the credit rated loan portfolio and the allowance for loan losses are analyze as follows:

Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
Credit rated portfolio							
A-1	$	57,418	18,872	6,367	16,624	73,565	172,846
A-2		24,604	3,266	35	3,319	10,463	41,687
B-1		8,516	5,269	-	2,045	2,105	17,935
B-2		5,704	92	50	1,214	1,569	8,629
B3		10,554	1,967	49	1,109	941	14,620
C-1		1,968	838	-	2,294	1,537	6,637
C-2		317	-	-	2,036	481	2,834
D		941	-	-	1,208	1,489	3,638
E		2,015	111	-	1,251	467	3,844
Total	$	112,037	30,415	6,501	31,100	92,617	272,670
Allowance for loan losses							
A-1	$	323	116	35	377	140	991
A-2		273	49	-	162	62	546
B-1		148	96	-	100	18	362
B-2		126	1	1	74	19	221
B-3		328	59	2	82	16	487
C-1		84	56	-	201	44	385
C-2		36	-	-	291	36	363
D		399	-	-	466	309	1,174
E		1,773	110	-	760	200	2,843
Total	$	3,490	487	38	2,513	844	7,372

Additional reserves for residential mortgages past-due loans		94
Operational risk reserve		35
Additional reserve for past-due accrued interest		152
Specific reserves authorized by the Banking Commission		97
Total allowance for loan losses	$	7,750

At December 31, 2015, the credit rated loan portfolio and the allowance for loan losses are analyzed in the next page.

(Continued)

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Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
Credit rated portfolio							
A-1	$	72,744	9,817	5,624	14,081	60,592	162,858
A-2		3,025	4,425	7	2,283	10,988	20,728
B-1		442	7,379	22	2,146	1,787	11,776
B-2		321	520	-	1,489	1,596	3,926
B-3		1,851	3,419	2,648	1,141	998	10,057
C-1		1,091	305	-	1,997	1,703	5,096
C-2		628	-	-	2,234	521	3,383
D		1,241	-	-	1,314	1,240	3,795
E		1,926	106	-	1,222	877	4,131
Total	$	83,269	25,971	8,301	27,907	80,302	225,750
Allowance for loan losses							
A-1	$	264	72	28	170	115	649
A-2		33	59	-	106	66	264
B-1		7	121	-	290	15	433
B-2		8	11	-	96	19	134
B-3		62	117	72	84	17	352
C-1		75	22	-	180	50	327
C-2		91	-	-	306	39	436
D		414	-	-	580	261	1,255
E		1,421	105	-	747	307	2,580
Total	$	2,375	507	100	2,559	889	6,430
Additional reserves for residential mortgages past-due loans							447
Operational risk reserve							33
Additional reserve for past-due accrued interest							116
Specific reserves authorized by the Banking Commission							97
Total allowance for loan losses						$	7,123

(Continued)

(Millions of Mexican pesos)

Specific estimates recognized by the Banking Commission

Through official letter number 142-2/6584/2012 dated October 15, 2012, the Banking Commission authorized the Group to create additional reserves for covering FOVI (Fund for the Operations and Bank Financing of Housing) type loans. The allowance was determined by analyzing such portfolio and the need of recording specific allowances for loans with guarantees with recovery deficiencies on the unpaid balance provided for by such Fund. The authorized additional allowance amounts to $97. For the year ended December 31, 2015, the amount of $24, was recorded in the consolidated income statement. At December 31, 2015, the Group has recognized the full amount authorized for the aforementioned allowance.

The movement in the allowance for loan losses for the years ended December 31, 2016 and 2015 is summarized below:

		2016	2015
Balance at beginning of year	$	7,123	6,754
Globalcard acquisition effect		12	-
Provisions charged to results of operations		3,935	3,690
Provisions charged to retained earnings		37	-
Applications, write-downs and others		(2,547)	(2,980)
Allowance cancellation		(755)	(332)
Foreclosure		(137)	(63)
Exchange rate fluctuations		82	54
Balance at end of year	$	7,750	7,123

Change of methodology for the allowance determination of commercial loan portfolio with income or net annual sales greater than 14 million UDIS.

During year 2015 and until June 2016, the Group calculated the allowance for loans losses for commercial loan portfolio to borrowers with income or net annual sales greater than 14 million UDIS with an internal methodology authorized by the Banking Commission; beginning July 2017, the Group, through an official letter No. 142-3/10980/2015, informed the Banking Commission that since such month it would adopt the standard methodology established in its Provisions. The financial effect estimated by the Group for the change in methodology increased allowance for loans losses by $182, which was recognized with a charge to the results for the year.

(11) Benefits to receive from securitizations-

On March 13, 2008, the Group realized a securitization of a mortgage portfolio, through of a trust that issued debt securities for $2,500 with maturity in 20 years and an annual interest rate of 9.15%. At December 31, 2016 and 2015, the amount of the portfolio assigned receivable amounted to $427 and $563, respectively, and the amount payable on the debt securities amounted to $351 and $465, respectively.

(Continued)

(Millions of Mexican pesos)

As part of the agreed transaction of the securitization, the Group received a trust certificate, which is reported under the caption “Benefits receivable on securitization transactions” on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust assets and the remaining cash flows once all obligations to bondholders are met. The fair value of benefits receivable on securitization transactions at December 31, 2016 and 2015 were $50 and $85 respectively, the valuation effect was recognized in "Other operating income" in the consolidated statement of income.

For the years ended December 31, 2016 and 2015, the assigned portfolio received prepayments of $67 and $97, respectively.

The Group receives servicing fees from the trust, which are recognized in earnings when the services are provided, for the years ended December 31, 2016 and 2015, were $4 and $6, respectively.

(12) Foreclosed assets-

At December 31, 2016 and 2015, foreclosed assets are comprised as follows:

		2016	2015
Premises	$	98	86
Furniture, values and foreclosed rights		11	10
		109	96
Allowance for impairment		(30)	(28)
	$	79	68

The change in of the allowance for impairment for the years ended December 31, 2016 and 2015 is analyzed as follows:

		2016	2015
Balance at beginning of year	$	(28)	(23)
Additional provisions due to aging, charged to operations for the year		(9)	(8)
Credit to income on sale of assets		7	3
Balance at end of year	$	(30)	(28)

(13) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2016 and 2015 are analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

	2016	2015	Annual depreciation rate
Lands	$ 548	550	-
Office premises	1,425	1,847	Various
Transportation equipment	15	21	25% and 33%
Transportation equipment in capital lease	38	44	33%
Computer equipment	1,453	1,720	Various
Computer equipment in capital lease	51	51	20%
Furniture and equipment	1,407	1,607	10%
Leasehold improvements	2,701	2,080	Various
	7,638	7,920	
Accumulated depreciation	(3,806)	(4,097)	
	$ 3,832	3,823	

Depreciation charged to results of operations for the years ended December 31, 2016 and 2015 amounted to $428 and $403, respectively.

For the year ended December 31, 2016 there was not an effect from impairment of leasehold improvements.

According to assessment carried out by the Group´s management, the residual value (except land) of office premises at December 31, 2016 and 2015, is minimum.

(14) Permanent investments-

At December 31, 2016 and 2015, the Group´s permanent investments in equity and associate classified by activity, are analyzed as follows:

	2016	2015
Banking related services	$ 47	47
Derivatives market operators	54	49
Security and protection	1	1
Other permanent investments	102	97
Derivatives market operators (associate)	6	6
	$ 108	103

(Continued)

(Millions of Mexican pesos)

(15) Deposit funding-

At December 31, 2016 and 2015, the deposit funding caption, is analyzed as follows:

		2016			2015		
		Currency			Currency		
		Domestic	Foreign	Total	Domestic	Foreign	Total
Demand deposits:							
Bearing interest	$	65,209	476	65,685	47,561	232	47,793
Non-bearing interest		48,271	32,585	80,856	50,938	19,643	70,581
		113,480	33,061	146,541	98,499	19,875	118,374
Time deposits:							
General public		74,321	-	74,321	61,888	596	62,484
Money market:							
Certificates of deposit (CD´s)		19,482	-	19,482	13,605	-	13,605
Promissory notes		268	-	268	4,349	-	4,349
		19,750	-	19,750	17,954	-	17,954
Debt securities issued:							
Bank bonds		3,948	-	3,948	4,981	-	4,981
Banking stock certificates		9,580	-	9,580	9,603	-	9,603
		13,528	-	13,528	14,584	-	14,584
Global account of deposits without movements		346	-	346	288	9	297
Total deposit funding	$	221,425	33,061	254,486	193,213	20,480	213,693

The average weighted interest rates, non-audited, on deposit balances during the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
	Domestic currency	Dollars	Domestic currency	Dollars
Demand deposits	1.23%	0.09%	0.90%	0.05%
Time deposits:				
Open public	3.41%	0.01%	2.79%	0.10%
Money market	3.98%	-	2.95%	-

At December 31, 2016 and 2015, money market and debt securities issued among the public investors, are as shown in the following page.

(Continued)

(Millions of Mexican pesos)

(a) Money market time deposits-

At December 31, 2016 and 2015, the Group issued CD's with par value of one hundred pesos for an amount of $19,482 and $13,605, respectively, as shown bellows:

2016 CD's-

Payment of interests	Annual rate	Term in days		Amount
28 days	TIIE 28 + 0.05%	85	$	500
28 days	TIIE 28 + 0.0525%	169		1,300
28 days	TIIE 28 + 0.20%	169		600
28 days	TIIE 28 + 0.35%	197		2,000
28 days	TIIE 28 + 0.105%	168		1,000
28 days	TIIE 28 + 0.05%	197		2,000
28 days	TIIE 28 + 0.05%	225		500
28 days	TIIE 28 + 0.05%	197		1,400
28 days	TIIE 28 + 0.26%	197		1,000
28 days	TIIE 28 + 0.26%	225		1,000
28 days	TIIE 28 + 0.05%	225		1,000
28 days	TIIE 28 + 0.21%	197		550
28 days	TIIE 28 + 0.22%	225		550
28 days	TIIE 28 + 0.05%	169		300
28 days	TIIE 28 + 0.0450%	169		1,000
28 days	TIIE 28 + 0.050%	197		500
28 days	TIIE 28 + 0.050%	169		1,000
28 days	TIIE 28 + 0.050%	169		40
28 days	TIIE 28 + 0.060%	337		200
28 days	TIIE 28 + 0.05%	169		800
28 days	TIIE 28 + 0.08%	253		650
28 days	TIIE 28 + 0.10%	337		650
28 days	TIIE 28 + 0.05%	169		500
				19,040
	Accrued interest			36
	Carried forward		$	19,076

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Underlying	**Periods**	**Term in days**		**Amount**
Brought forward			$	19,076
2016 Structured CD´s-				
TIIE 28	13	364		22
TIIE 28	13	364		28
TIIE 28	13	364		26
TIIE 28	13	364		187
TIIE 28	13	364		39
TIIE 28	13	364		37
TIIE 28	13	364		22
TIIE 28	13	364		29
TIIE 28	13	364		16
Subtotal structured CD´s				406
Total CD's			$	19,482

2015 CD's-

Payment of interests	**Annual rate**	**Term in days**		**Amount**
28 days	TIIE 28	113	$	1,000
28 days	TIIE 28	141		1,000
28 days	TIIE 28 – 0.04%	197		1,000
28 days	TIIE 28	365		1,000
28 days	TIIE 28	365		500
28 days	TIIE 28 – 0.05%	197		500
28 days	TIIE 28 – 0.01%	113		500
28 days	TIIE 28	113		500
28 days	TIIE 28	113		750
28 days	TIIE 28	113		1,000
28 days	TIIE 28 + 0.04%	113		1,000
28 days	TIIE 28 + 0-01%	113		350
28 days	TIIE 28 + 0.01%	141		500
28 days	TIIE 28	225		1,000
28 days	TIIE 28 + 0-01%	113		500
28 days	TIIE 28	85		750
				11,850
Accrued interest				13
Carried forward			$	11,863

(Continued)

(Millions of Mexican pesos)

Underlying	Periods	Term in days		Amount
Brought forward			$	11,863
2015 Structured CD´s-				
TIIE 28	9	252		500
TIIE 28	4	365		29
TIIE 28	4	365		302
TIIE 28	14	387		25
TIIE 28	7	197		700
TIIE 28	13	365		64
TIIE 28	4	363		17
TIIE 28	13	366		51
TIIE 28	4	365		22
TIIE 28	13	364		32
				1,742
			$	13,605

Structured CD´s pay interest on each payment date according to the terms established in the offering filing, if the underlying at observation date is within the ranges established for each period.

Promissory notes-

At December 31, 2016 and 2015, the Group issued promissory notes with par value of approximately one peso each as follows:

Issuance date	Number of securities	Term in days	Annual rate		Amount
2016					
December 2016	250,000,000	196	6.50%	$	241
December 2016	25,039,733	60	5.80%		25
					266
Accrued interest					2
				$	268

(Millions of Mexican pesos)

Issuance date	Number of securities	Term in days	Annual rate	Amount
2015				
December 2015	1,773,933,532	61	3.66%	$ 1,763
December 2015	1,005,916,667	60	3.57%	1,000
December 2015	301,745,000	60	3.52%	500
December 2015	502,908,333	60	3.52%	300
November 2015	754,337,500	60	3.50%	750
October 2015	30,228,750	90	3.07%	30
				4,343
Accrued interest				6
				$ 4,349

(b) Debt securities issued-

At December 31, 2016 and 2015, the Group issued banking stock certificates with par value of one hundred pesos each one, under the program authorized by the Baking Commission for up to $25,000, as shown below:

2016 – Securitized certificates

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
November 2015	23,000,000	5	28	9%	TIIE 28 + 0.40%	$ 2,300
October 2015	20,000,000	3	28	8%	TIIE 28 + 0.25%	2,000
June 2013 *	11,500,000	10	182	8%	7.30%	1,150
March 2013 *	34,500,000	5	28	8%	TIIE 28 + 0.40%	3,450
October 2010 *	3,580,000	7	28	2%	TIIE 28 + 0.49%	358
December 2005 *	3,000,000	13	183	3%	9.75%	300
						9,558
Accrued interest						22
Total securitizer certificates						$ 9,580

* Issued under the prior years program authorized by the Banking Commission.

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2016 – Structured banking bonds

Issuance date	Number of securities	Term in days	Underlying		Amount
December 2016	917,400	727	Nikkei 225 (NKY)	$	92
October 2016	338,350	1,094	SX5E		34
October 2016	634,750	1,094	SPX		63
May 2016	2,596,300	728	TIIE 28		260
May 2016	329,800	896	TIIE 28		33
May 2016	2,300,000	364	TIIE 28		230
February 2016	777,300	1,096	SX5E		78
February 2016	1,455,200	1,093	SPX		146
February 2016	3,767,100	1,456	TIIE 28		377
December 2015	774,400	1,094	IBEX 35		77
December 2015	1,415,300	1,092	TIIE 28		141
December 2015	1,250,000	730	SX5E		125
December 2015	1,200,000	924	TIIE 28		120
November 2015	521,200	728	TIIE 28		52
November 2015	2,577,700	728	TIIE 28		258
November 2015	103,800	1,080	IXM SX7E		10
October 2015	2,426,950	1,098	SPX		243
September 2015	1,755,550	1,092	SXAE		175
August 2015	193,500	1,094	IXM SX7E		19
June 2015	300,000	1,093	SX7E		30
June 2015	300,000	730	SX5E		30
June 2015	285,000	1,278	SPX		29
June 2015	190,000	1,278	SX7E		19
May 2015	800,000	1,097	IXM SX5E		80
April 2015	4,608,200	1,091	IXM SX5E		461
February 2015	2,528,250	1,093	HSCEI		253
January 2015	438,100	1,094	SXEE		44
October 2014	240,000	1,095	IPC		24
October 2014	649,000	1,096	IPC		65
April 2014	983,500	1,096	IPC		98
April 2014	473,500	1,096	IPC		47
March 2014	1,918,300	1,085	SX5E		192
March 2014	429,200	1,092	SX5E		43
Total banking bonds				$	3,948

(Continued)

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Valuation adjustments from hedging financial liabilities:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial liabilities, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments from hedging financial liabilities.

At December 31, 2016 and 2015, the adjustment to the carrying value of the loan portfolio from the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $34 and $39, respectively.

2015 – Banking stock certificates

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
November 2015	23,000,000	5	28	9%	TIIE 28 +0.40%	$ 2,300
October 2015	20,000,000	3	28	8%	TIIE 28 +0.25%	2,000
June 2013 *	11,500,000	10	182	8%	7.30%	1,150
March 2013 *	34,500,000	5	28	8%	TIIE 28 + 0.40%	3,450
October 2010 *	3,580,000	7	28	2%	TIIE 28 + 0.49%	358
December 2005 *	3,000,000	13	183	3%	9.75%	300
						9,558
	Accrued interest					45
						$ 9,603

* Isued under the prior years program authorized by the Banking Commission.

The interest rate of the structured notes is variable and the guarantee is unsecured.

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2015– Structured banking bonds

Issuance date	Number of securities	Term in days	Underlying		Amount
December 2015	774,400	1,094	IBEX 35	$	77
December 2015	1,415,300	1,092	TIIE 28		141
December 2015	1,250,000	730	SX5E		125
December 2015	1,200,000	924	TIIE 28		120
November 2015	521,200	728	TIIE 28		52
November 2015	2,577,700	728	TIIE 28		258
November 2015	103,800	1,080	IXM SX7E		10
October 2015	2,438,950	1,098	SPX		244
September 2015	1,768,050	1,092	SXAE		177
August 2015	193,500	1,094	IXM SX7E		19
June 2015	300,000	730	SX5E		30
June 2015	300,000	1,093	SX7E		30
June 2015	285,000	1,278	SPX		28
June 2015	190,000	1,278	SX7E		19
May 2015	4,967,450	364	TIIE 28		496
May 2015	800,000	1,097	IXM SX5E		80
April 2015	4,635,700	1,091	IXM SX5E		463
April 2015	700,544	364	TIIE 28		70
February 2015	2,532,250	1,093	HSCEI		253
February 2015	6,500,000	364	TIIE 28		650
January 2015	459,200	1,094	SXEE		46
January 2015	2,902,730	364	TIIE 28		291
October 2014	100,000	728	TIIE 28		10
October 2014	256,000	1,095	IPC		25
October 2014	649,000	1,096	IPC		65
April 2014	983,500	1,096	IPC		98
April 2014	473,500	1,096	IPC		47
March 2014	1,928,300	1,085	SX5E		196
March 2014	429,200	1,092	SX5E		43
December 2013	457,700	1,079	SPTSX60		46
November 2013	1,156,650	1,078	IBEX35		116
November 2013	205,000	1,078	SPTSX60		20
November 2013	1,586,650	1,078	SPTSX60		159
November 2013	603,250	1,078	SPX		60
October 2013	1,749,600	1,079	SX5E		175
August 2013	2,419,200	1,097	SX5E		242
Total banking bonds				$	4,981

(Continued)

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(16) Bank and other borrowings-

At December 31, 2016 and 2015, bank and other borrowings are compromised as follows:

	2016	2015
Due on demand	$ 897	54
Short-term:		
Domestic currency:		
Central Bank	200	1,100
Development banks [1]	1,825	2,049
Development agencies [1]	1,557	1,183
Other organizations	3,223	3,450
Multiple banking	130	-
Accrued interest	56	30
	6,991	7,812
Denominated in dollars, translated into pesos	6,774	2,594
Development agencies [1]	191	111
Development banks [1]	19	21
Accrued interest	8	-
	6,992	2,726
Total short-term	13,983	10,538
Long-term:		
Domestic currency:		
Development agencies [1]	2,986	2,261
Multiple banking	-	1,675
Other organizations	3,536	-
	6,522	3,936
Denominated in dollars, translated into pesos development agencies [1]	227	247
Total long-term	6,749	4,183
Total bank and other borrowings	$ 21,629	14,775

(1) Resources from development funds (see note 10d).

At December 31, 2016 and 2015, long-term bank and other borrowings maturity dates are analyzed in the next page.

(Continued)

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Maturity		2016	2015
2017	$	-	473
2018		1,924	1,986
2019		633	439
2020		1,878	1,117
2021		2,139	85
Over 5 years		175	83
	$	6,749	4,183

At December 31, 2016 and 2015, the Group has no provided guarantees for bank and other borrowings granted.

Due to the operating characteristics of the interbank loans that the Group maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Group, loans whose limit is agreed to daily by the lender. At December 31, 2016 and 2015, the Group has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2016 and 2015, bank and other loans weighted average annual interest rates unaudited are as follows:

	2016 annual rates		2015 annual rates	
	Domestic currency	Foreign currency	Domestic currency	Foreign currency
Domestic banks	-	3.32%	3.31%	1.17%
Development banks	6.55%	2.63%	4.53%	1.81%
Development agencies	5.73%	1.77%	3.86%	1.57%

(17) Employees' benefits-

The Bank, the Brokerage Firm, the Fund Management Company have a defined contribution pension plan and post-retirement benefits, to which all employees that started working from April 1, 2006, are incorporated, being optional for employees who joined prior to such date. The plan provides for established contributions by the Group and employees, which may be fully withdrawn by employees when aged 55 years.

For the years ended December 31, 2016 and 2015, the charge to results for the the Bank, and the Brokerage Firm's contributions to the defined contribution pension plan amounted to $79 and $57, respectively, under the caption "Administrative and promotional expenses" in the consolidated statement of income.

The Bank and the Brokerage Firm also have a pension and post-retirement defined benefit plan to which employees make no contributions. The employees entitled to this benefit are those who reach retirement conditions that establish the texts of plans.

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The costs, obligations and assets of the defined pension, seniority premium, and other post-retirement benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2016 and 2015.

The components of the defined benefit cost for the years ended December 31, 2016 and 2015 are as follows:

		Seniority premium		Legal compensation		Pension plan		Other post-retirement benefits	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Current service cost (CLSA)	$	10	11	49	27	22	26	98	101
Net interest on DBNA*		2	2	27	27	75	59	75	65
Actuarial (losses) gains generated in the year		-	-	-	25	-	(6)	-	-
Net, past service amortization		3	1	-	-	55	31	68	54
Reclassification of DBNA remeasurements recognized in OCI*		1	-	-	-	14	-	17	-
Defined benefit cost	$	16	14	76	79	166	110	258	220
Initial progressive recognition of DBNA* remeasurements	$	6	-	-	-	170	-	257	-
Remeasurements generated in the year		(15)	-	25	-	(219)	-	(479)	-
Reclassification of remeasurements recognized in OCI of the year		(1)	-	-	-	(14)	-	(17)	-
Ending balance of remeasurements of DBNL*	$	(10)	-	25	-	(63)	-	(239)	-
Beginning balance of (DBNL) or DBNA*	$	-	14	(365)	(354)	(91)	75	275	495
Recognition of modifications to the plan in retained earnings (first year of progressive recognition)		-	-	-	-	25	-	30	-
Recognition of actuarial (gains) losses in OCI (first year of progressive recognition)		(6)	-	-	-	(170)	-	(257)	-
Net service cost		(12)	(13)	(76)	(79)	(97)	(79)	(173)	(166)
Amortization of actuarial losses		(3)	(1)	-	-	(55)	(31)	(68)	(54)
Plan contributions		-	-	-	5	(79)	(56)	-	-
Payments charged to DBNL*		-	-	68	63	-	-	-	-
Remeasurements recognized in OCI of the year		15	-	(25)	-	219	-	479	-
Restricted funds		-	-	(6)	-	(18)	-	(202)	-
Other adjustments		2	-	-	-	-	-	-	-
Ending balance of (DBNL) or DBNA*	$	(4)	-	(404)	(365)	(266)	(91)	84	275

* Defined benefits net liability (DBNL) Defined benefits net asset (DBNA)

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The reconciliation of the financial position of the obligation and net projected asset (liability) as of December 31, 2016 and 2015 is as follows:

		Seniority premium		**Legal compensation**		**Pension plan**		**Other post-retirement benefits**	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Defined benefit obligations (DBO)	$	(158)	(162)	(404)	(371)	(2,441)	(2,630)	(3,737)	(3,981)
Plan assets		133	133	-	6	1,610	1,774	2,982	3,121
Financial position of the obligation		(25)	(29)	(404)	(365)	(831)	(856)	(755)	(860)
Cumulative past service		-	-	-	-	(66)	(91)	(120)	(150)
Cumulative actuarial losses		21	29	-	-	631	856	959	1,285
Net projected asset (liability)	$	(4)	-	(404)	(365)	(266)	(91)	84	275

At December 31, 2016, the remeasurements of defined employee benefits recorded in the OCI are analyzed as follows:

		Amount
Remeasurements for adoption of the first year of the Provision	$	433
Reclassification of remeasurements recognized in OCI in the year		(32)
Remeasurements generated in the year (actuarial gains and losses)		(688)
		(287)
Deferred IT [1]		161
Deferred ESPS [1]		55
Effect in the stockholders' equity, net of deferred IT and ESPS	$	(71)

[1] Calculated based on the Tax Provisions of deductibility for salaries and wages to the employees.

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Below is an analysis of changes of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2016 and 2015.

		2016	**2015**
Fair value of the assets at beginning of year	$	5,038	5,327
Transfers to defined contribution fund		(79)	(56)
Restricted funds		(226)	-
Return on plan assets		436	243
Payments charged to the fund during the year		(446)	(480)
Fair value of the assets at end of year	$	4,723	5,034

During the year 2016, the Group transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year amounting to $79 ($56 in 2015).

During the year 2017, it is not expected to have contributions to the fund. Also during 2017, the amount of $73 will be withdraw from the fund.

The annual nominal rates as of December 31, 2016 and 2015 used in actuarial projections are as follows:

	2016	**2015**
Return on plan assets	9.00%	8.25%
Discount	9.00%	8.25%
Compensation increase	4.50%	5.00%
Increase in medical expenses	6.50%	6.50%
Estimated inflation	3.50%	4.00%

The expected return rate on the plan assets is the same to the discount rate in accordance with current standards.

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 60% debt instruments and 40% equity instruments subject to a trust and managed by a Group-designated Committee.

(Continued)

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The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections at December,31, 2016, is shown below:

	Annual rate	DBO medical expenses for retirees
Without modification	6.50%	$ 3,150
1% increase in medical inflation rate	7.50%	3,882
1% decrease in medical inflation rate	5.50%	2,581

As of December 31, 2016, the amortization periods in years for unrecognized items related to defined pension, seniority premium, other post-retirement benefits, and statutory severance compensation benefits are as follows:

	Pensions		Seniority premium		Other post-retirement benefits	Statutory severance compensation
	Retirement	Disability	Retirement	Termination		
Prior service –plan modifications	4	-	4	-	4	-
Net actuarial loss/(gain) and reclassification of remeasurements (P)/ DBNA to be recognized in OCI	12.34	12.34	10.11	-	14.78	7.87

The Bank´s (main subsidiary of the Group) components of the stress-analysis in pesos, as of December 31, 2016, are shown below:

		Seniority premium	Legal compensation	Pension plan	Other post-retirement benefits
Defined benefit obligations (DBO) as of December 31, 2016	$	147	317	2,397	3,762
Significant actuarial assumptions as of December, 31 2016 stress-analysis					
Discount rate 9.50% (+0.50%)	$	(4)	(5)	(97)	(257)
Discount rate 8.50% (-0.50%)	$	4	5	105	287
Long-term inflation rate 3.75% (+0.25%)	$	2	-	23	14
Long-term inflation rate 3.25% (-0.25%)	$	(2)	-	(23)	(13)

(Continued)

(Millions of Mexican pesos)

(18) Related-party transactions-

During the normal course of business, the Group carries out transactions with related parties such as loans, investments, deposit funding, services, etc. Transactions and balances incurred by consolidated companies were eliminated and persistence of those who do not consolidate. According to the Group's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

For the years ended December 31, 2016 and 2015 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability, except credit operations where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the credit institutions Law, the total amount of transactions with related parties must not to exceed 35% the basic portion of the net capital (see note 21e). The loans granted to related parties as of December 31, 2016 and 2015 amount to $6,324 and $5,741, respectively. The deposits made by related parties as of December 31, 2016 and 2015 amount to $8 and $18, respectively.

For the years ended December 31, 2016 and 2015, the benefits granted to senior management amounted to $176 and $197, respectively.

(19) Income taxes and employee's statutory profit sharing (ESPS)-

IT Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years. The current ESPS rate is 10%, for the years 2016 and 2015.

At December 31, 2016 and 2015, current IT and ESPS expense, is as follows:

		2016		2015	
		IT	**ESPS**	**IT**	**ESPS**
Current IT:					
Bank and Subsidiaries	$	514	173	774	254
Reversed provisions from 2015 and 2014, (the Bank and Brokerage firm)		(142)	(50)	(57)	(5)
IT additional provision		147	46	759	-
Brokerage firm		149	52	60	28
The Fund Management Company		78	-	87	-
SECOSA		23	6	23	(7)
Crédito Familiar		11	-	103	2
		780	227	1,749	272
Deferred		755	238	(1,964)	(568)
	$	1,535	465	(215)	(296)

(Continued)

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The Group does not consolidate the tax results with its subsidiaries, therefore the information presented below is only for information purposes.

The Group has not recognized a deferred tax liability on the undistributed earnings of its subsidiaries and associated companies, the Group currently does not expect that those undistributed earnings be reinvested and will be taxable, in the near future.

Deferred IT and ESPS:

The deferred asset and the favorable effect (unfavorable) in results and Stockholders' equity of deferred IT and ESPS at December 31, 2016 and 2015 are comprised of the items shown as follows:

	2016		2015	
	IT	**ESPS**	**IT**	**ESPS**
Deferred tax assets				
Valuation of financial instruments:				
Trading	$ 228	76	331	110
Available-for-sale	23	8	(43)	(14)
Cash flow hedge swaps	(170)	(57)	75	25
Expense accruals and others	326	59	438	80
Premises, furniture and equipment	-	56	(41)	49
Unearned fees collected	485	162	449	150
Pension plan	10	3	(71)	(24)
Foreclosed assets	257	86	265	88
Allowance in excess	498	166	1,834	611
Remeasurements of defined employee benefits	(163)	(55)	-	-
Tax loss carryforwards	207	-	-	-
Future loan write-offs	2,486	713	2,321	642
	4,187	1,217	5,558	1,717
Valuation allowance [1]	(645)	(178)	(976)	(325)
	$ 3,542	1,039	4,582	1,392
	$ 4,581		5,974	

(1) Net of valuation allowance of tax loss carryforwards

At December 31, 2016 the valuation allowance for deferred IT and ESPS corresponds to the items of future loan write-offs for $535 and $178, respectively and to tax loss carryforwards for $110. At December 31, 2015 the valuation allowance for deferred IT and ESPS corresponds to the items of allowance in excess for $495 and $165 respectively; and future loan write-offs for $481 and $160, respectively.

(Continued)

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The (unfavorable) favorable effect in consolidated income statement and stockholders' equity, for the years ended December 31, 2016 and 2015 are presented below:

	2016		2015	
	IT	**ESPS**	**IT**	**ESPS**
(Unfavorable) favorable effect				
Valuation of financial instruments:				
Trading	$ (103)	(34)	264	89
Available-for-sale	66	22	55	20
Cash flow hedge swaps	(245)	(82)	(14)	(5)
Expense accruals and others	(123)	(21)	9	(26)
Premises, furniture and equipment	41	7	1	(5)
Unearned fees collected	36	12	32	11
Pension plan	81	27	101	33
Foreclosed assets	(8)	(2)	(46)	(16)
Allowance in excess [1]	(841)	(280)	-	-
Remeasurements of defined employee benefits	(163)	(55)	-	-
Tax loss carryforwards [1]	51	-	-	-
Future loan write-offs [1]	111	53	1,603	482
	$ (1,097)	(353)	2,005	583
	$ (1,450)		2,588	
Deferred tax:				
In statement of income	$ (755)	(238)	1,964	568
In stockholders' equity:				
Valuation in available-for-sale securities	66	22	55	20
Remeasurements of defined employees' benefits	(163)	(55)	-	-
Valuation of cash flow hedge swaps	(245)	(82)	(14)	(5)
	$(1,097)	(353)	2,005	583
	$ (1,450)		2,588	

(1) Net of valuation allowance

Derived from the acquisition of Globalcard, the Bank's deferred tax asset increased by $55, and a charge to income was recognized for $2.

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The following is an analysis of the effective tax rate of the Bank without subsidiaries, which generates the main impact on the Group, for the fiscal years ended at December 31, 2016 and 2015 (for informational purposes only):

		IT			ESPS
		Tax Base	Tax at 30%	Effective rate	ESPS at 10%
December 31, 2016					
Operating income	$	5,483	(1,645)	(30%)	(548)
Allocation to current tax:					
Adjustment for effects of inflation		(1,044)	313	6%	104
Mark to market of investment securities		(508)	152	3%	51
Depreciation and amortization		(8)	2	-	1
Non-deductibles expenses [1]		352	(105)	(2%)	(24)
Loss on sale of loans		172	(51)	(1%)	(17)
Excess of allowance for loan losses		(4,538)	1,361	25%	454
Allowance for loan losses		2,181	(654)	(12%)	(218)
Deductible loan write-offs		(1,205)	362	7%	120
Current and deferred ESPS [2]		413	(124)	(2%)	(41)
Deduction of paid ESPS		(301)	90	2%	-
Others, net		548	(164)	(3%)	(55)
Current tax[2]		1,545	(463)	(7%)	(173)
Allocation to deferred tax: (30% tax and 10% ESPS):					
Mark to market of investment securities		487	(146)	(3%)	(49)
Provisions and others		219	(65)	(1%)	(9)
Premises, furniture and equipment		(58)	17	-	6
Pension plan		(269)	81	1%	27
Foreclosed assets		26	(8)	-	(3)
Unearned fees collected		(118)	35	1%	12
Excess of allowance for loan losses		2,804	(841)	(15%)	(280)
Future loan write-offs		(531)	159	3%	53
Deferred tax		2,560	(768)	(14%)	(243)
Income tax	$	4,105	(1,231)	(21%)	(416)

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

(2) At December 31, 2016, there is an unpaid ESPS with Globalcard of $10.

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	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
December 31, 2015				
Operating income	$ 4,202	(1,261)	(30%)	(420)
Allocation to current tax:				
Adjustment for effects of inflation	(540)	162	4%	54
Mark to market of investment securities	473	(142)	(3%)	(47)
Depreciation and amortization	(52)	16	-	5
Non-deductibles expenses (1)	419	(126)	(3%)	(30)
Loss on sale of loans	564	(169)	(4%)	(56)
Excess of allowance for loan losses	(4,712)	1,414	34%	471
Allowance for loan losses	2,528	(758)	(18%)	(253)
Deductible loan write-offs	(100)	30	1%	10
Current and deferred ESPS	(311)	93	2%	31
Deduction of paid ESPS	(240)	72	2%	-
Others, net	190	(57)	(2%)	(19)
Current tax	2,421	(726)	(17%)	(254)
Allocation to deferred tax: (30% tax and 10% ESPS)				
Mark to market of investment securities	(458)	137	3%	46
Provisions and others	(421)	127	3%	11
Premises, furniture and equipment	49	(15)	-	(5)
Pension plan	(337)	101	2%	34
Foreclosed assets	153	(46)	(1%)	(15)
Unearned fees collected	(106)	32	1%	10
Future loan write-offs	(4,815)	1,445	34%	482
Deferred tax	(5,935)	1,781	42%	563
Income tax	$ (3,514)	1,055	25%	309

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

(Continued)

(Millions of Mexican pesos)

Other considerations:

In accordance with Mexican tax law, the tax authorities may examine transactions carried out during the five years prior to the most recent income tax return filed.

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(20) Subordinated debt issued-

At December 31, 2016 and 2015, the private debt issuance is comprised of 20,930,000 preferred capital subordinated debt securities which are non-convertible into shares with a face value of $100 pesos per security, equivalent to $2,093 in a term of 10 years maturing on December 5, 2024 and with interest payments in each period of 182 days at the annual fixed rate of 7.4%. At December 31, 2016 and 2015, the accrued interest amounts to $7 and $6, respectively.

(21) Capital contable-

(a) Structure of capital stock-

As of December 31, 2016 and 2015, the common shares without par value that integrated the social capital were as follow:

	Series "F"	Series "B"	Total
Subscribed and paid-in shares*	1,660,376,400	1,358,489,782	3,018,866,182
Treasury shares not paid	158,215,942	129,449,407	287,665,349
	1,818,592,342	1,487,939,189	3,306,531,531

* Representing the minimum fixed and variable portion of capital stock.

(Continued)

(b) Dividends declared-

For the years ended at December 31, 2016 and 2015 the Group did not declare nor paid dividends to BNS.

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Group during the year, and includes the net income, plus the result of the valuation of available-for-sale securities and cash flow hedge transactions, as well as the remeasurements of defined employee benefits.

(d) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Group's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

In conformity with the General Corporations Law, 5% of the Group´s net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital. At December 31, 2016 the statutory reserve was $901, which had reached the required percentage of capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2016 the capital contribution account (Cuenta de Capital de Aportación or CUCA, non-audited), and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN, non-audited), of the Group amount to $9,676 and $9,189, respectively.

The retained earnings of subsidiaries may not be distributed to the Group's stockholders until these are received as dividends. Dividends paid derived from profits generated from January 1, 2014 and later, to individuals and to foreign residents, abroad are subject to an additional non-refundable tax of 10%.

(Continued)

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(e) Capitalization (non-audited)-

The Commission requires brokerage firms to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated by applying certain specific percentages according to the level of risk assigned, in conformity with the rules established by the Central Bank. The Brokerage Firm's global capital at December 31, 2016 and 2015 was $1,141 and $1,278, respectively.

At December 31, 2016 and 2015, the Bank maintained a capitalization index in excess of 10.5%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions in both years, the capitalization index is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information (capitalization index reported to the Central Bank and subject to its approval):

Capital as of December 31 of the Bank:

		2016	2015
Basic capital			
Common shares	$	9,777	8,854
Prior years results		22,257	18,059
Other elements of the comprehensive income (and other reserves)		9,182	8,409
Basic capital 1 before regulatory adjustments		41,216	35,322
Regulatory adjustments:			
Defferred debits and prepayments		(4,549)	(3,343)
Investments in clearings		(311)	(133)
Deferred taxes, favorable items from temporary differences		(580)	(2,598)
Total regulatory adjustments to capital		(5,440)	(6,074)
Total Basic Capital		35,776	29,248
Supplementary Capital			
Equity instruments		2,100	2,099
Reserves		23	34
Net Capital	$	37,899	31,381
Total risk weighted assets	$	274,286	254,540

(Continued)

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Equity and supplementary ratios

	2016	2015
Basic Capital Ratio 1	13.04%	11.49%
Basic Capital Ratio	13.04%	11.49%
Supplementary Capital Ratio	0.78%	0.84%
Net Capital Ratio	13.82%	12.33%
Specific institutional supplement	15.69%	7.00%
Supplement capital conservation	2.50%	2.50%
Supplement of local systemic importance (D-SIB)	0.15%	-
Tier 1 common equity available to cover supplements	6.04%	4.49%

Limits applicable to the inclusion of reserves in supplementary capital:

		2016	2015
Provisions eligible for inclusion in supplementary capital in respect of exposures subject to the standardized methodology (prior to apply the limit)	$	23	34
Limits applicable to the inclusion of reserves in supplementary capital under standardized methodology		1,302	1,141

Assets at risk as of December 31, 2016:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in Mexican pesos at nominal interest rates	$	28,886	2,311
Transactions with debt securities in pesos with premium and adjustable rates		1,266	101
Transactions in Mexican pesos at real interest rates or denominated in UDIS		244	20
Positions in UDIS or with returns linked to the INPC		3	-
Foreign currency transactions at nominal interest rates		701	56
Foreign currency positions or with exchange rate indexed returns		392	31
Equity positions or with returns indexed to the price of a single share or group of shares		4,609	369
Capital requirement for Gamma impact		4	-
Capital requirement for Vega impact		80	6
Total market risk, to the next page	$	36,185	2,894

(Continued)

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		Risk weighted assets	Capital requirement
Total market risk, from the previous page	$	36,185	2,894
Weighted assets subject to credit risk by risk group:			
Group II (weighted at 20%)		20	2
Group II (weighted at 100%)		1,537	123
Group III (weighted at 20%)		1,656	132
Group III (weighted at 50%)		6,581	526
Group III (weighted at 100%)		3,038	243
Group IV (weighted at 20%)		1,671	134
Group V (weighted at 20%)		274	22
Group V (weighted at 150%)		212	17
Group VI (weighted at 50%)		24,717	1,977
Group VI (weighted at 75%)		13,765	1,101
Group VI (weighted at 100%)		48,621	3,890
Group VII-A (weighted at 20%)		3,347	268
Group VII-A (weighted at 50%)		11,826	946
Group VII-A (weighted at 57.5%)		2,377	190
Group VII-A (weighted at 100%)		68,550	5,484
Group VII-A (weighted at 115%)		428	34
Group VII-A (weighted at 150%)		44	4
Group VIII (weighted at 115%)		1,595	128
Group VIII (weighted at 150%)		1,642	131
Group IX (weighted at 100%)		31,960	2,557
Securitization with risk degree 2 (weighted at 50%)		107	9
Total credit risk		223,968	17,918
Weighted assets subject to risk and capital requirement from operational risk		14,133	1,131
Total market, credit and operational risk	$	274,286	21,943
Annual average of positive net income for the past 36 months		$	89

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Assets at risk as of December 31, 2015:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in Mexican pesos at nominal interest rates	$	21,965	1,757
Transactions with debt securities in pesos with premium and adjustable rates		976	78
Transactions in Mexican pesos at real interest rates or denominated in UDIS		182	15
Positions in UDIS or with returns linked to the INPC		1	-
Foreign currency transactions at nominal interest rates		874	70
Foreign currency positions or with exchange rate indexed returns		1,233	99
Equity positions or with returns indexed to the price of a single share or group of shares		3,571	286
Capital requirement for Gamma impact		167	13
Capital requirement for Vega impact		242	19
Total market risk		29,211	2,337
Weighted assets subject to credit risk by risk group:			
Group I-B (weighted at 2%)		257	21
Group II (weighted at 20%)		22	2
Group II (weighted at 50%)		1,539	123
Group III (weighted at 20%)		1,549	124
Group III (weighted at 50%)		957	77
Group III (weighted at 100%)		3,069	246
Group IV (weighted at 20%)		1,693	135
Group V (weighted at 20%)		298	24
Group V (weighted at 150%)		597	48
Group VI (weighted at 50%)		19,904	1,592
Group VI (weighted at 75%)		13,897	1,112
Group VI (weighted at 100%)		42,055	3,364
Group VII-A (weighted at 20%)		1,479	118
Group VII-A (weighted at 23%)		30	2
Group VII-A (weighted at 50%)		5,820	466
Group VII-A (weighted at 100%)		58,202	4,656
Group VII-A (weighted at 120%)		27	2
Group VIII (weighted at 115%)		1,826	146
Group VIII (weighted at 150%)		1,374	110
Group IX (weighted at 100%)		35,950	2,876
Group IX (weighted at 115%)		5,753	460
Total credit risk to the next page	$	196,298	15,704

(Continued)

(Millions of Mexican pesos)

		Risk weighted assets		Capital requirement
Total credit risk, from the previous page	$	196,298		15,704
Weighted assets subject to risk and capital requirement from operational risk		29,031		2,322
Total market, credit and operational risk	$	254,540		20,363
Annual average of positive net income for the past 36 months			$	15,483

As of December 31, 2016, the net capital structure of the Bank of $37,899 had an increase of 20.8% compared to $31,381 of the year 2015, due to an income increase in 2016 of $ 4,373, other capital gains of $597 and a decrease of concepts that subtract basic capital by $1,527 in the same period.

On 2016 the Bank carried out its Capital Adequacy Assessment Exercise during 2016, this exercise was carefully planned and executed to evaluate the adequacy of capital and liquidity under conditions of stress in internal scenarios. The result of the exercise led to the conclusion that the institution's liquidity and capital would enable it to cope with the risks arising from defined stress scenarios, maintaining its capital ratio and liquidity indicators above minimum requirements.

On April 29, 2016, the Board of Governors of the Banking Commission appointed the Bank as a multiple banking institution of local systemic importance, through Official Letter number 131/109814/2016. Its degree of systemic importance was defined as Grade I, so it should constitute a capital supplement of 60 basis points. That supplement must be constituted in a period of four years, the twenty five percent must be constituted at December 31, 2016, and during the next 3 years twenty-five percent per year (as of December 31) until complete one hundred percent (December 31, 2019). Based on the aforementioned, the minimum regulatory capital that the Bank must maintain is 10.65% as of December 31, 2016.

Weightings involved in the calculation of the countercyclical capital supplement of the institutions.

As of December 31, 2016, the weightings involved in calculating the institutions' countercyclical capital supplement is zero.

(Continued)

At December 31, 2016, the Bank raised the ratings of the following rating agencies:

National scale (Caval)	Long term	Short term	Perspective
Fitch Ratings	AAA(mex)	F1+(mex)	Stable
Standard & Poor´s	mxAAA	mxA-1+	Stable

(f) Capital management-

To evaluate the capital adequacy, the Bank starts from its Exposition Plan to obtain a prospective vision of the institution that allows to identify risks which is exposed and to make decisions when monitoring key metrics and indicators, such as: Capital, Liquidity, Profitability and Credit Losses.

The Exposition Plan has been structured based on a view of the country´s macroeconomic scenario and plans of the diverse business lines.

At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, the Bank has documented an Action Plan for the Conservation of Capital and Liquidity, which aims to implement early warning indicators, that are the base for the Liquidity and Capital Management Committee, carry out assessments and monitoring in accordance with the policies, as the impact and magnitude of the stress event.

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and estimates of Capital Index.

Likewise annual stress tests as established by the Banking Commission under various scenarios are performed, in order to ensure that the Bank has the sufficient capital to continue receiving funding and granting loans with these stress scenarios and business strategies. Additionally, an analysis of internal stress scenarios starting from the Plan of Exhibitions as base scenario, that integrate various adverse macroeconomic conditions is performed, in order to disclose exposure of the Bank at different risks.

The institution carried out its Capital Adequacy Assessment Exercise during 2016, this exercise was carefully planned and executed to evaluate the adequacy of capital and liquidity under conditions of stress in internal scenarios. The result of the exercise led to the conclusion that the institution's liquidity and capital would enable it to cope with the risks arising from defined stress scenarios, maintaining its capital ratio and liquidity indicators above minimum requirements.

(Continued)

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(22) Memorandum accounts-

(a) Securities on repurchase / resell agreements on behalf of customers-

At December 31, 2016 and 2015, the repurchase/resell transactions of customers are comprised as follows:

	2016		2015	
	Number of Securities	Fair value	Number of securities	Fair value
BG91	8,384,906	838	53,869,898	$ 5,395
BPAG	1,500,000	150	17,121,622	1,707
CBBN	-	-	576,671	58
CBUR	1,794,435	180	9,149,102	912
CTIM	444,987,327	4,387	2,403,899,451	23,795
IPAS	21,260,586	2,153	-	-
LBON	359,854,632	35,888	257,750,990	25,720
MBON	52,753,700	5,128	9,111,148	1,000
PRLV	241,071,385	240	142,251,637	142
UDIB	1,059,138	614	-	-
		$ 49,578		$ 58,729

(b) Securities lending transaction on behalf of customers-

At December 31, 2016 and 2015, the securities lending transaction on behalf of customers, are as follows:

	2016		2015	
	Number of securities	Fair value	Number of securities	Fair value
CEMEX	737,127	$ 12	-	$ -
NAFTRAC	450,000	21	482,200	21
OMA	300,000	27	-	-
NEMAK	150,000	3	-	-
MEXCHEM	138,375	6	-	-
ALFA	130,000	3	130,000	4
PINFRA	103,170	17	-	-
SIMEC	40,000	4	-	-
ALPEK	35,000	1	-	-
GMEXICO	14,600	1	-	-
FCX	5,000	1	-	-
AAPL	500	1	-	-
CEMEX CPO	-	-	432,622	4
ICH B	-	-	23,400	1
ALPEK	-	-	130,000	3
Other equity shares	-	-	315,698	11
		$ 97		$ 44

(Continued)

(Millions of Mexican pesos)

(c) Collateral received in guarantee by customers-

The collateral represented by government, private and banking debt securities and on behalf of customers in guarantee for the Group, at December 31, 2016 and 2015, are analyzed as follows:

	2016		2015	
	Number of securities	**Fair value**	**Number of securities**	**Fair value**
Government:				
CTIM	262,975,588	$ 2,591	1,233,284,259	$ 12,207
LBON	179,927,316	17,944	129,430,204	12,915
MBON	26,376,850	2,567	4,555,574	500
IPAS	10,630,293	1,077	-	-
BG91	4,192,453	419	28,148,270	2,818
CBUR	1,794,435	179	4,759,869	475
UDIB	529,569	307	-	-
BPAG	750,000	75	10,840,411	1,081
		25,159		29,996
Banking:				
CBBN	-	-	576,671	58
PRLV	241,071,385	240	142,251,637	142
		240		200
Private:				
CBUR		-	4,389,233	438
		$ 25,399		$ 30,634

(d) Customer's securities received in custody-

The funds managed by the Group for investing in various instruments on behalf of its customers at December 31, 2016 and 2015 are recorded in memorandum accounts. The funds provided by these transactions are analyzed in the following page.

(Continued)

(Millions of Mexican pesos)

Custody transactions		**2016**	**2015**
Mutual funds	$	63,182	53,214
Government securities		61,384	71,390
Equity shares and other		177,413	174,296
	$	301,979	298,900

(e) Collaterals delivered in guarantee by customers-

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2016 and 2015, are comprised as follows:

		2016	**2015**
Government securities	$	24,231	28,113
Equity shares and holding companies certificates		61	48
Margin credits		3,880	3,284
	$	28,172	31,445

Income earned from assets under custody during the years ended December 31, 2016 and 2015 amounted to $60 and $57, respectively.

(f) Investment banking transactions on behalf of third parties-

As of December 31, 2016 and 2015 funds managed by the Group following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2016	**2015**
Private equity	$	1,846	1,623
Government securities		41,114	36,081
Mutual funds		40,935	41,296
Bank securities not issued by the Bank		6,166	5,515
	$	90,061	84,515

The amount of funds invested in the Group's own funding instruments, if any, is included in the consolidated balance sheet.

(Continued)

(Millions of Mexican pesos)

Transactions for own behalf-

(g) Credit commitments -

Credit facilities:

As of December 31, 2016 and 2015, the balance of authorized credit facilities not withdraw amounted to $130,573 and $ 336,479, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $4,973 and $15,924 in the same year, and other credit commitments by $5 in 2016.

Letters of credit:

As of December 31, 2016 and 2015, the Bank has issued letters of credit for $20,234 and $9,872, respectively.

As of December 31, 2016 and 2015, the allowance created for credit letters amount to $135 and $77, respectively, and are included in the allowance for loan losses.

(h) Assets in trust or under mandate-

The Group's trust activity, recorded in memorandum accounts as of December 31, 2016 and 2015, is shown as follows:

		2016	2015
Trust:			
Administrative	$	164,693	155,455
Guarantee		4,668	4,624
		169,361	160,079
Mandates		28,985	29,082
	$	198,346	189,161

Trust revenue accrued for the years ended December 31, 2016 and 2015 amounted $227 and $234, respectively and were recorded in the caption "Commission and fee income".

(Continued)

(Millions of Mexican pesos)

(i) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

Collaterals received and collaterals sold or delivered by the Group at December 31, 2016 and 2015 are analyzed below:

		2016	2015
Collaterals received by the entity:			
Repurchase / resell agreements:			
BG91	$	1,867	3,552
M BONOS		2,006	3,150
BPAG		2,790	2,276
CTIM		1,000	173
IPAS		2,001	354
LD BONDES		14,258	4,692
CBIC		491	989
		24,413	15,186
Guarantees received for derivate operations		2,188	309
Equity instruments		148	137
Guarantees received for credit operations		27,728	27,223
Total collateral received by the entity	$	54,477	42,855
Collaterals received and sold or pledged by the entity:			
LD BONDES	$	17,141	3,843
M BONOS		3,465	3,153
BG91			3,551
CTIM		1,000	(173)
CBIC		491	989
IPAS		2,001	354
UDIB		307	-
BPAG		-	2,274
		24,405	13,991
Net equity instruments		66	65
	$	24,471	14,056

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(j) Assets in custody or under management-

In this account, the Group records securities received in custody, guarantee or under management. At December 31, 2016 and 2015, the securities are analyzed as follows:

		2016	2015
Securities in custody:			
Securities vault	$	113	92
General vault		103	104
Investment transaction		1,129	4,333
Management of securities		8,802	8,802
Shares pledged as warranty		12,620	–
Other		35	5
		22,802	13,336
Securities under management:			
Securities		273,254	253,313
Transactions with derivative financial instruments on behalf of third parties:			
Futures		74,014	55,572
Swaps		256,320	33,115
Options		9	7
		330,343	88,694
	$	626,399	355,343

Income arising from securities in custody or management, for the years ended December 31, 2016 and 2015 amounts to $60 and $1, respectively.

(23) Additional information on operations and segments-

(a) Segment information-

The Group's operations are classified in the segments "Credit and services" (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), "Treasury and trading" (securities, derivatives and currency transactions) and "Others". For the year ended December 31, 2016 and 2015, income by segment is analyzed in the following page.

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	Credit and services	Trading and treasury	Others	Total
December 31, 2016				
Intereses ganados, neto	$ 16,965	1,199	(369)	17,795
Commissions and fees, net; result from trading and other operating income (expenses)	5,579	479	2,010	8,068
Net operating revenues	22,544	1,678	1,641	25,863
Allowance for loan losses	(3,935)	–	–	(3,935)
Administrative and promotional expenses	(13,872)	(519)	(986)	(15,377)
Income before current and deferred income taxes	$ 4,737	1,159	655	6,551
Equity in the results of operations of associated companies				2
Current and deferred income taxes, net				(1,535)
Net income				$ 5,018
December 31, 2015				
Interest income, net	$ 15,261	1,045	(354)	15,952
Commissions and fees, net; result from trading and other operating income (expenses)	4,732	273	1,619	6,624
Net operating revenues	19,993	1,318	1,265	22,576
Allowance for loan losses	(3,690)	–	–	(3,690)
Administrative and promotional expenses	(12,513)	(557)	(878)	(13,948)
Income before current and deferred income taxes	$ 3,790	761	387	4,938
Current and deferred income taxes, net				215
Net income				$ 5,153

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(b) Financial margin-

For the years ended December 31, 2016 and 2015, the financial margin in the consolidated statements of income consists of the elements shown as follows:

Interest income:

Interest income for the years ended December 31, 2016 and 2015 is analyzed as follows:

		Credit and services	Trading and Treasury	Others	Total
December 31, 2016					
Cash and cash equivalents	$	–	849	–	849
Margin accounts		–	5	–	5
Investment securities		–	2,442	256	2,698
Securities on repurchase / resell agreements		–	699	154	853
Current loan portfolio		21,111	–	–	21,111
Past-due loan portfolio		119	–	–	119
Loan origination fees		555	–	–	555
Premiums from securities lending transactions		–	–	7	7
Gain on currency translation		–	17	–	17
	$	21,785	4,012	417	26,214
December 31, 2015					
Cash and cash equivalents	$	–	600	–	600
Margin accounts		–	3	–	3
Investment securities		–	1,963	289	2,252
Securities on repurchase / resell agreements		–	663	90	753
Current loan portfolio		18,025	–	–	18,025
Past-due loan portfolio		140	–	–	140
Loan origination fees		517	–	–	517
Premiums from securities lending transactions		–	–	5	5
Gain on currency translation		–	127	–	127
	$	18,682	3,356	384	22,422

(Continued)

(Millions of Mexican pesos, except otherwise indicated)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2016 and 2015:

	2016		2015	
	Current	**Past-due**	**Current**	**Past-due**
Commercial	$ 5,186	37	3,485	67
Financial institutions	1,153	−	790	−
Government entities	364	−	252	−
Consumer	6,466	82	6,597	73
Residential mortgages	8,497	−	7,418	−
	$ 21,666	119	18,542	140
	$21,785		18,682	

For the year ended December 31, 2016, commissions that represent a yield adjustment of 0.13%, 0.62% and 0.16% for 2016, as well as 0.13%, 0.67% and 0.16% for 2015, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2016 and 2015, total interest income includes interest denominated in foreign currency amounting to 25 and 26 million dollars, respectively.

Loan origination fees for the years ended December 31, 2016 and 2015 are comprised as follows:

	2016	**2015**
Commercial	$ 172	146
Consumer	240	242
Residential mortgages	143	129
	$ 555	517

Amortization term for the fees are from 12 to 360 months.

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Interest expense:

Interest expense for the years ended December 31, 2016 and 2015 is comprised of the following:

		Credit and services	Trading and treasury	Others	Total
December 31, 2016					
Demand deposits	$	(1,184)	–	–	(1,184)
Time deposits		(3,275)	–	–	(3,275)
Debt securities issued		–	(531)	–	(531)
Bank and other borrowings		–	(569)	–	(569)
Subordinated debt issued		–	(157)	–	(157)
Securities under repurchase/resell agreements		–	(1,480)	(784)	(2,264)
Premiums paid on securities lending transactions		–	–	(2)	(2)
Discount on debt issuance		–	(8)	–	(8)
Discount on debt issuance		–	(68)	–	(68)
Residential mortgages loan origination fees and expenses		(361)	–	–	(361)
	$	(4,820)	(2,813)	(786)	(8,419)
December 31, 2015					
Demand deposits	$	(708)	–	–	(708)
Time deposits		(2,373)	–	–	(2,373)
Debt securities issued		–	(504)	–	(504)
Bank and other borrowings		–	(327)	–	(327)
Subordinated debt issued		–	(157)	–	(157)
Securities under repurchase/resell agreements		–	(1,289)	(735)	(2,024)
Premiums paid on securities lending transactions		–	–	(2)	(2)
Discount on debt issuance		–	(4)	–	(4)
Discount on debt issuance		–	(31)	–	(31)
Residential mortgages loan origination fees and expenses		(340)	–	–	(340)
	$	(3,421)	(2,312)	(737)	(6,470)

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(c) Commission and fee income-

For the years ended December 31, 2016 and 2015, commission and fee income are analyzed as follows:

	2016	2015
Letters of credit with no refinancing	$ 99	66
Account management	307	306
Trust activities	227	234
Fund transfers	145	109
Electronic banking services	104	287
Credit transactions	1,037	1,631
Management services	1,576	1,097
Other fees and commissions collected	1,753	983
	$ 5,248	4,713

(d) Financial intermediation income -

For the years ended December 31, 2016 and 2015, financial intermediation income is analyzed as follows:

	2016	2015
Valuation result:		
Investment securities	$ 35	(16)
Derivatives:		
Trading	397	(489)
Hedging	12	5
Securities available for sale in hedge	–	(5)
Foreign currencies and precious metals	(176)	642
Subtotal to the following page	$ 268	137

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		2016	2015
Subtotal, brought forward	$	268	137
Brokerage result:			
Investment securities		(122)	(285)
Financial instruments:			
Trading		(83)	668
Transaction costs		(10)	(31)
Foreign currencies and precious metals		735	(167)
		520	185
	$	788	322

(e) Other operating income (expenses)-

For the years ended December 31, 2016 and 2015, other operating income (expenses) is analyzed as follows:

		2016	2015
Recoveries of loan portfolio	$	261	395
Dividends		31	27
Donations		(17)	(15)
Income on sale of foreclosed assets		197	232
Income from securitization		4	36
Taxation		25	5
Other recoveries		30	387
Income from credit insurance		905	848
Armored transportation fees		16	15
Loans to employees		86	69
Food stamps		268	269
Loan write-offs and losses		(316)	(187)
Others, mainly Servicios de Apoyo		1,319	219
	$	2,809	2,300

(Continued)

(Millions of Mexican pesos)

(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Group as of and for the years ended December 31, 2016 and 2015:

	2016			
	Fourth	**Third**	**Second**	**First**
Defaulting index	2.6%	2.6%	2.9%	2.9%
Coverage of past-due loan portfolio index	120.4%	119.7%	111.7%	115.2%
Operating efficiency (administrative and promotional expenses / average total assets)	4.4%	4.5%	4.3%	4.2%
ROE (annualized net income for the quarter / average stockholders' equity)	12.2%	9.2%	8.5%	18.0%
ROA (annualized net income for the quarter / average total assets)	1.5%	1.1%	1.0%	2.1%
Net capital / Assets at credit risk	16.92%	16.71%	16.05%	16.06%
Net capital / Assets at credit, market and operational	13.80%	13.61%	13.02%	12.45%
Liquidity (liquid assets / liquid liabilities)	48.0%	57.6%	62.0%	74.5%
Financial margin after allowance for loan losses / Average earning assets	4.5%	4.3%	4.5%	4.0%

	2015			
	Fourth	**Third**	**Second**	**First**
Defaulting index	2.9%	2.8%	2.9%	3.0%
Coverage of past-due loan portfolio index	113.5%	119.5%	120.0%	129.6%
Operating efficiency (administrative and promotional expenses / average total assets)	3.8%	4.5%	4.4%	4.6%
ROE (annualized net income for the quarter / average stockholders' equity)	26.7%	8.1%	13.4%	7.7%
ROA (annualized net income for the quarter / average total assets)	3.0%	0.9%	1.5%	0.9%
Net capital / Assets at credit risk	15.99%	16.24%	17.22%	16.91%
Net capital / Assets at credit, market and operational.	12.33%	12.48%	12.49%	12.59%
Liquidity (liquid assets / liquid liabilities)	72.2%	80.6%	96.2%	89.9%
Financial margin after allowance for loan losses / Average earning assets	4.4%	4.0%	4.5%	4.0%

(Continued)

(24) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2016 and 2015, amounted to $1,081 and $1,029, respectively.

(b) Claims and trials-

In the normal course of the operations, the Bank is involved in some claims and trials, which are not expected to have an important negative effect in the future financial situation and in the results of its operations. In such cases that represent a probable loss or make a cash outflow, the Bank has made necessary provisions. As part of such trials, to the main judgments of nullity and claims against Servicio de Administración Tributaria (SAT-Mexican Internal Revenue Service) for fiscal years: 2000, 2004, 2005, 2006, 2007 and in respect of which, to date, the Bank has decided to desist from these, in order to initiate a process of administrative reconsideration to the SAT based on article 36 of Código Fiscal de la Federación, whose claims are mainly from differences in criteria applied in deduction for loan portfolio sale, deductible allowance for loan losses, Value Added Tax and ESPS. At December 31, 2016, the estimated amount updated with inflation, surcharges and fines corresponding to these judgments aforementioned amounts to $3,803.

(c) Responsibility agreement-

The Group has entered into an agreement with each of its subsidiaries, whereby it undertakes to be jointly and severally responsible for compliance with the obligations that according to the applicable provisions are inherent to the activities of each financial entity that conforms the Group. In addition, the Group agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(25) Risk management (unaudited information)-

Certain amounts and/or percentages calculated in this note may vary slightly against the same amounts or percentages indicated in any other note to the consolidated financial statements due to rounding of the amounts.

The purpose of the comprehensive risk management function is to identify and measure risks, follow up on the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of the risk culture in daily transactions.

According to the General Provisions applicable to credit institutions in terms of risk management issued by the Banking Commission, the Board of Directors assumes responsibility over the Group's risk management objectives, guidelines and policies.

(Continued)

At least once a year, the Board of Directors should approve the objectives, guidelines and policies as well as the limit structure for the various types of risk.

Pursuant to the policies in force, the Board of Directors entrusts the implementation of the risk policies and the setting of specific limits by risk factor as well as the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR).

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. Likewise, the UAIR has policies whereby guidelines are established for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Group’s Comprehensive Risk Management Unit is represented by the Assistant General Risk Management (Risk DGA) and relies for the management and administration of the different types of risk (i.e. credit, liquidity, interest rate, market and operational, among others), on the Risk Vice-presidency, which in turn constitutes the UAIR of Crédito Familiar and Globalcard, and is organized into 6 managements designed to monitor and reduce the risks to which the institution is exposed.

The UAIR is responsible for reviewing and submitting for the approval of the Risk Committee and/or the Board of Directors the different methodologies used to manage the risks to which the institution is exposed as well as the risk appetite framework, management policies for the different types of risk, global and specific exposure limits and the corresponding risk tolerance levels.

It is highlighted that proper management of the different types of risks seeks compliance with the risk profile desired and defined by the Board of Directors as well as improvement of quality, diversification and composition of the different portfolios, thus optimizing the risk-return relationship.

The UAIR is also responsible for providing Senior Management with reliable and timely information to support decision-making and provide tools and clear and sufficient information to other areas for monitoring, management and administration of the different lines of business.

Finally, risk management is based on the best international practices because it has a regulatory framework that allows not only to comply with local regulations but also with corporate standards and guidelines established by the Parent Company (The Bank of Nova Scotia).

(a) Market risk-

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest, exchange rate, stock market price and index fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Group maintains business positions for its own account.

(Continued)

The Group's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures, foreign exchange forwards and options, interest rate swaps, interest rate options and foreign currency swaps. For each portfolio, there are established and approved limits.

The market risk limits framework contemplates volumetric or notional amounts for value at risk, sensitivity, concentration, "stress" limits and due dates, among others.

Market Risk Management includes monitoring that the risk mitigants are up to date and accurate, In this regard the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Furthermore, the models used to manage market risk are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the Market Risk indicators. It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

For market risk management, the information is extracted from the different applications and systems the institution has, and also the related market risk estimates such as risk value and sensitivity are conducted through specialized systems.

Market risk management in securities trading activities - The Group's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds an inventory of financial instruments of capital, interest rate and currency. Access to market liquidity is available through offers to buy from and sell to other intermediaries. Although these two activities represent transactions the Group carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Group has treasury positions invested in the money market so that surplus cash generates the maximum yields. In general, trading positions are taken in liquid markets which avoids high costs at the time such positions are liquidated. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis.

Among market risk measuring and monitoring methodologies, the Value at Risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. The VaR is calculated daily on all of the Group's risk-exposed financial instruments and portfolios using the Riskwatch risk management software.

The VaR is calculated using the historical simulation method, with a 300-working day time span. The Group´s policy to calculate the VaR considers a 99% confidence level and a 1 day holding period.

(Continued)

The Group's observed average global VaR during the fourth quarter of 2016 was $7.31 MM. At December 31, 2016, the global VaR was $7.79 MM.

The average values and VAR exposure to market risk of the securities trading portfolio in the period of October to December 2016 and 2015 were as follows:

December 2016	**Position**		**VaR[1]**	
	Average	**Closing**	**Average**	**Closing**
Group	**737,175**	**701,445**	**7.31**	**7.79**
Money market	7,803	5,902	2.73	2.19
Interest rate swaps	632,089	608,494	3.88	9.19
CETES Forwards	-	-	-	-
Rate Forwards / 3	168	-	2.19	-
Caps & Floors	29,452	29,696	3.62	3.26
Market interest rates and rate derivatives	**669,512**	**644,092**	**6.80**	**7.54**
Equity shares	15	-	0.26	-
Capital derivatives (national underlying) / 2	734	718	2.03	3.14
Capital derivatives (international underlying)	10,657	9,854		
Equity shares derivatives	-	-	-	-
IPC Futures / 3	-	-	-	-
Equity shares portafolio	**11,406**	**10,572**	**2.15**	**3.15**
FX Forwards / 4,5,6	1,379	850	0.78	0.41
FX trading / 4, 5	- 0	0	0.23	0.08
Currency Options / 5	639	661	2.65	2.46
Dollar forwards / 5	-	-	-	-
Currency Swaps / 5	710	757	0.26	0.37
Metal Forwards / 5	-	-	-	-
FX trading, currency and Metals derivatives / 5	**2,728**	**2,268**	**2.90**	**2.89**

(1) The VaR is expressed in millions of pesos

(2) Includes IPC warrants, IPC equity shares and international

(3) Includes MexDer´ equity shares derivatives.

(4) The forwards position is gross (long + short) while the exchange position is net (long – short)

(5) The position is expressed in millions of US dollars

(6) Includes the net position of Treasury foreign exchange forwards.

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December 2015	**Position**		**VaR (1)**	
Product	**Average**	**Closing**	**Average**	**Closing**
Grupo	**584,596**	**566,070**	**12.74**	**7.07**
Money market	31,997	27,883	16.41	10.23
Interest rate swaps	432,640	431,057	10.72	3.49
CETES Forwards / 3	-	-	-	-
Rate Forwards	8,096	149	4.14	1.66
Caps & Floors	14,680	15,755	1.91	2.65
Market interest rates and rate derivatives	**487,413**	**474,844**	**11.73**	**6.76**
Equity shares	33	61	0.43	5.31
Capital derivatives (national underlying) / 2	4,145	3,790		
Capital derivatives (international underlying)	10,888	10,117	4.71	1.92
Equity shares derivatives	-	-	-	-
IPC Futures / 3	-	-	-	-
Equity shares portafolio	**15,065**	**13,968**	**4.74**	**1.92**
FX trading / 4, 5	4,147	3,690	1.12	2.18
Currency Options / 5	0	0	0.42	0.24
Dollar forwards / 5	169	253	1.03	2.96
Currency Swaps / 5	-	-	-	-
Metal Forwards / 5	445	536	0.59	0.16
FX trading, currency and Metals derivatives /5	-	-	-	-
Grupo*	**4,761**	**4,479**	**1.18**	**0.28**

(1) The VaR is expressed in millions of pesos

(2) Includes IPC warrants, IPC equity shares and international

(3) Includes MexDer´ equity shares derivatives.

(4) The forwards position is gross (long + short) while the exchange position is net (long – short)

(5) The position is expressed in millions of US dollars

(6) Includes the net position of Treasury foreign exchange forwards.

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(Continued)

(Millions of Mexican pesos)

For interpretation purposes and as by way of example, the average one day VaR for the Group is $7.31 MM. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be $7.31 MM.

Positions for the fourth quarter of 2016 (number of contracts) are shown as follows:

Contracts operated in MexDer

Underlying asset	**Average**	**Close**
US Dollar futures	-	-
Rate futures	666	-
IPC futures	-	-
Total futures [1]	666	-

(1) The position and the limit are in number of contracts operated in the MexDer.

Positions for the fourth quarter of 2015 (number of contracts) are shown as follows:

Contracts operated in MexDer

Underlying asset	**Average**	**Close**
US Dollar futures	-	-
Rate futures	80,971	1,492
IPC futures	-	-
Total futures [1]	80,971	1,492

(1) The position and the limit are in number of contracts operated in the MexDer.

Given that the VaR measure is used to estimate potential losses under normal market conditions, stress testing is performed daily (*"stress testing"*), with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved *"stress testing"* limits.

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The *“stress testing”* during the last quarter of 2016 shows a maximum loss of $214.10 MM, which compared with the $2,000 limit, is within the acceptable parameters. Scenarios used for stress testing are the 1994 and 1998 crises as well as hypothetical scenarios.

The market risk limits structure foresees volumetric or notional VaR, sensitivity and concentration amounts, “stress testing” limits and term, among other.

Also, back-testing is performed monthly for comparing the theoretical losses and gains to the observed VaR and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS). As for back-testing performed during the fourth quarter of 2016 show acceptable levels under the BIS approach.

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price supplier "Valuación Operativa y Referencias de Mercado, S. A. de C. V."

Sensitivities

Qualitative information on sensitivities

The Group has a specialized area on trading risk analysis, which maintains systematic and continuous oversight of the valuation and risk measurement processes as well as of the sensitivity analysis. Such area has permanent contact with responsible traders in the different markets.

On a daily basis, the risk area calculates the market risk sensitivities for each portfolio to which the Group is exposed. During 2016, no changes were made to the assumptions, methods or parameters used for this analysis.

In the next page is a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products.

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Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on the estimating the behavior of the portfolio's value in response to a change in the market interest rates. Regarding to market interest rates, we refer to the yield curve (not the zero-coupon curves) because it is the yield curve which is listed in the market and best explains the behavior of losses and gains.

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument. In all cases, there are 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, only the changes in 1 bp is reported. The values estimated based on the duration and convexity methodology are a good approximation to the values obtained using the complete or full-valuation methodology.

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread. In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

Interest rate derivatives

Below is a brief explanation of sensitivity modeling for the Group's interest rate derivatives.

TIIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIIE swaps a 1 bp change is made in each of the relevant points in the yield curve and a 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes. In this case, the change in 1 bp is reported.

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Quantitative information on interest rate sensitivities

The following table shows the sensitivity of one bp at December 31, 2016 and 2015:

Sensitivity of 1 bp	**December** 2016	**December** 2015
Fixed rate	-0.089	0.334
Reviewable rate	0.039	0.064
Subtotal – interest rates	-0.049	0.398
Futures	0.000	-0.119
Swaps	0.446	-0.362
Caps & Floors	0.087	0.197
Subtotal – interest rate derivatives	0.533	-0.285
Total	0.462	0.113

(1) Figures in million pesos.

At December 31, 2016, the Group presents sensitivity in the interest rate portfolio of $0.462 MM, which means that for each bp the interest rate decreases, a profit of $0.462 MM would result.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Group's results of operations.

The following table shows statistics for the fourth quarter of 2016, maximum, minimum and average. In average, the sensitivity was $ 0.02 MM. During this period the portfolio of interest rate derivatives and covered long positions.

Sensitivity of 1 bp	**Average**	**Maximum**	**Minimum**
Interest rate	-0.05	0.14	-0.32
Rate derivatives	0.07	0.69	-0.32
Total	0.02	0.83	-0.64

(1) Figures in million pesos.

(Continued)

Stock portfolio and IPC derivatives

Stock equity

Operations are performed through the Brokerage Firm and the Bank. For stock position purposes, the sensitivity is obtained by calculating the issued delta within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the underlying value.

Equities derivatives

Through its Brokerage Firm, the Group participates in stock derivative transactions using IPC futures, IPC index futures and options listed on the MexDer. Sensitivity is calculated using the Delta. This portfolio has limits expressed in notional terms. In the Over the Counter or OTC market the Brokerage Firm participates with IPC index Warrants and IPC index Options.

For futures, the calculation of the sensitivity is the Delta, defined as the change in the portfolio's value in response to a change in the value of the underlying asset. Furthermore, Rho is defined as the sensitivity in response to changes in interest rate. In the case of future contracts, this sensitivity may be estimated based on the available market information. The Group defines Rho as the change in the portfolio's value in response to a 100 bp change (parallel) in the reference interest rates.

In the case of non-linear products such as warrants and options, the Delta and the "Greek" measures are deemed as sensitivity measures. The calculation of sensitivities is based on the formula for modeling options on futures known as the Black (1976) Option Pricing Formula.

The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant.

Gamma is supplementary to the Delta risk and is another sensitivity measure of the value of an option with respect to the value of an underlying asset. Gamma measures the change rate of Delta in response to a change in the underlying asset level, and similar to the change of Delta, it may be interpreted analytically, as the second partial derivative of the Black & Scholes model with respect to the underlying asset.

Rho: is the sensitivity measure of an option portfolio to changes in interest rates. Mathematically, Rho is the first partial derivative of the Black & Scholes function with respect to interest rates. Rho is defined as the change in value of an options portfolio before an increase of 100 base points (+1%) in interest rates. Overall, the sensitivity of an options portfolio to the interest rate is less compared to the sensitivity of the price of the underlying (delta) or of the implied volatilities (vega).

(Continued)

Theta is the sensitivity measure of an options portfolio that indicates the change in the portfolio's value with the passage of time. Theta is calculated for information purpose only and for the loss and gains analysis, given that it represents a real fact, predictable and quantifiable and not a credit risk.

Vega is the name given to the sensitivity measure of the value of an options portfolio in response to changes in the market volatilities of the underlying asset. In general, a long position in options benefits from an increase in the volatility of the underlying assets and a short position has the opposite effect, with a few exceptions such as with binary options.

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound dividend rate. Dividends, however, are an estimate and, therefore, an unknown variable, which represents a risk factor for valuation and the resulting analysis of gains and losses from transactions with options.

There is no Greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock in the Group, measurement is made by increasing the dividend rate 0.01% (i.e. from 1% to 1.01%).

Sensitivities for the portfolio of stock and IPC derivatives

The following table shows the sensitivity at December 31, 2016 and 2015:

Sensitivity of 1 bp	**December** 2016	**December** 2015
Equity shares	0.000	0
Subtotal	0.000	0
Warrants	-0.014	-0.023
Subtotal	-0.014	-0.023
Total	-0.014	-0.023

(1) Figures in million pesos.

(Continued)

At December 31, 2016, the equity shares front-office continued its strategy of conducting intraday transactions. As to the IPC index position the Group has a hedge strategy new issues of Warrants and arbitrating between the capitals market and the IPC index futures.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Group's results of operations.

The Group's portfolio of capitals only comprises equity shares and position the IPC index portfolio. The sensitivity is positive and for the fourth quarter of 2016 it average -$0.010 MM. During the quarter the sensitivity and stock position decreased.

Sensitivity of 1 bp	**Average**	**Maximum**	**Minimum**
Equity shares	0.000	0.000	0.000
Warrants	-0.010	0.093	-0.028
Total	-0.010	0.093	-0.028

(1) Figures in million pesos.

Sensitivities for warrants and capital options, "Greek"

Greek	**Delta**	**Gamma**	**Vega**	**Dividend Risk**	**Rho**
Total	3.677	6.356	0.043	0.005	0.004

(1) Figures in million pesos.

(Continued)

The following table shows the maximum, minimum and average of sensitivities for warrants and capital options:

	Delta	Gamma	Vega	Dividend Risk	Rho
Minimum	1.63	3.16	0.02	0.00	0.00
Maximum	26.06	10.98	0.56	0.01	0.01
Average	5.51	7.30	0.26	0.00	0.01

(1) Figures in million pesos.

Currency portfolio and currency derivatives

Currency

The portfolio is comprised of various currencies operated by the currencies desk for trading purposes. The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel 1 bp change along the respective yield curves, with all other factors remaining constant. Also, a change, non-parallel to the yield curves is applied by time gaps, all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one bp change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 bp is made. In addition, a one bp change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, it is only reported the sensitivity for 1 bp.

(Continued)

Sensitivities for the portfolio of Fx and swaps [(1)]

The following table presents the sensitivity at December 31 2016 and 2015:

	December 2016	**December 2015**
Sensitivity of 1 bp	Close	Close
Spot Currency	0.000	0.000
Spot Metals	0.000	0.000
Subtotal	0.000	0.000
DEUA forwards and futures	0.001	-0.021
OTC MXN/USD options	0.000	-0.001
Swaps	-0.009	0.018
Subtotal	-0.008	-0.003
Total	-0.008	-0.003

(1) Figures in million pesos.

At December 31, 2016, a change in the sensitivity to the Exchange rate was recorded at -$0.008 MM, mainly due to the increase of positions of currency Forwards and Swaps. Currently, the Group participates in the OTC market of peso-dollar exchange rate options for hedging purposes and to serve its customers. The foreign Exchange (spot/forward) desk does not register material exposures.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Group's results of operations.

(Continued)

In average, the quarterly sensitivity of the portfolio of currencies and currency derivatives was -$0.004 MM.

Sensitivity 1 pb	Average	Maximum	Minimum
Currencies	0.000	0.000	0.000
Currency derivatives	-0.004	0.019	-0.013
Total	-0.004	0.019	-0.013

(1) Figures in million pesos.

Sensitivities for peso-dollar exchange rate options, "Greek".

Below we present the position and sensitivities of the currency options portfolio at December 31, 2016:

Griegas	Delta	Gamma 1%	Gamma 5%	Vega
Currency exchange rate (MXN/USD) options	0.10	0.56	0.23	0.10

(1) Figures in million pesos.

(b) Liquidity and interest rate risk-

The Group assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the Group will be able to meet the totality of its obligations as they become due and payable. To such end, the Group applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Group manages its liquidity and interest rate risk exposure in accordance with the applicable regulatory provisions and the best sounding practices. In addition, the Group has established contingency plans.

(Continued)

Liquidity and interest rate risk management includes monitoring that the risk mitigants are up to date and accurate, for which the limits set and approved for the management of these risks are reviewed annually and monitored periodically. Furthermore, the models used to manage liquidity and interest rate risks are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the liquidity and interest rate risk indicators.

Limits related to liquid assets, liquidity gaps, margin sensitivity and economic value sensitivity are among the limits applicable to the management of liquidity and interest rate risk. These limits are reviewed at least annually in order to validate that they are aligned with the institution’s risk appetite. The structure of liquidity and interest rate risk limits contemplates volumetric or notional amounts.

It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution’s Risk Appetite.

For liquidity and interest rate risk management, the information is extracted from the different applications and systems the institution has, and also the related liquidity risk estimates are conducted through specialized systems.

Additionally, it is important to indicate that there are prospective metrics for liquidity and interest rate risk management, which are incorporated in the annual exercise of the Institution’s Exposure Plan and Enterprise Wide Stress Testing.

The liquidity risk is monitored and controlled through accumulated liquidity gaps. These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, creating thus a daily gap corresponding to the differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Group (incoming and outgoing cash).

For measuring liquidity risk, the cumulative liquidity gaps at December 31, 2016 and the average of the fourth quarter were as follows:

	December 2016 (2)
10-day cumulative gap (MXN+UDIs) (1)	-1,363
30-day cumulative gap (MXN+UDIs) (1)	-18,302

(1) It includes the Bank, the Brokerage Firm and the Fund Management Company.

(2) Figures in million pesos

Accumulated liquidity gaps for Crédito Familiar at December 31, 2016:

	December 2016 [1]
30-day cumulative gap (MXN+UDIs)	(640)

(1) Figures in million pesos

Accumulated liquidity gaps for Globalcard at December 31, 2016:

	December 2016 [1]
30-day cumulative gap (MXN+UDIs)	166

(1) Figures in million pesos

Cumulative liquidity gaps have implicit contractual maturities, including hedge derivatives positions.

Interest rate risk arises from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, and occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities. This risk arises as a result of funding activities, placement and investment of the Financial Group and materializes due to a change in interest rates such as a variance in financial margin.

Indicators such as sensitivity of economic value and margin sensitivity are used to measure interest rate risk. To calculate such indicators, repricing gaps are used, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date. The methodology for calculating the indicators considered assumptions of stability of demand deposits and prepaid mortgages. The first is an analysis of crops while the second considers credit recency segmentation to assign it a prepaid rate.

Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points (bp) on interest rates and considers the maximum loss expected by currency. This measurement is taken weekly and reported to the members of the Assets and Liabilities Committee, the Risk Committee and the Board of Directors in their respective sessions.

(Continued)

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a window of 20 years and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

The measuring of interest rate risk, economic value and margin sensitivity, of the Financial Group, at the end of December and on average for the fourth quarter of 2016, is as follows:

	2016 (2)	
	December	**Average**
Economic value(1)	369	235
Margin sensitivity(1)	379	344

(1) It includes the Bank, the Brokerage Firm and the Fund Management Company.

(2) Figures in million pesos.

The variation in the estimated economic value and in the estimated financial revenues for Crédito Familiar, at the end of December and on average for the fourth quarter of 2016 variation is as follows:

	2016(1)	
	December	**Average**
Economic value	23.2	24.9
Margin sensitivity	4.4	4.7

(1) Figures in million pesos

The variation in the estimated economic value and in the estimated financial revenues for Globalcard, at the end of December and on average for the fourth quarter of 2016 variation is as follows:

	2016(1)	
	December	**Average**
Economic value	59	102
Margin sensitivity	417	500

(1) Figures in million pesos

(Continued)

(Millions of Mexican pesos)

Treatment for securities available for sale- Below is the valued position for the Financial Group's available for sale investments at December 2016 and 2015:

	December 2016	December 2015
Bank	3,104	2,468
Corporate	451	369
Government	28,721	30,462
Other *	2	2
Total	32,278	33,301

* Includes non-maturity assets such as shares and funds.

Being an integral part of the Financial Group's balance sheet handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity). At December 31, 2016, the Financial Group has liquid assets for $26,960 MM[(1).]

The liquidity risk limits framework contemplates volumetric or notional amounts, sensitivity, liquid assets, concentration of deposits and liquidity gaps.

The following page shows a summary of hedging derivatives at closing of December and average of the fourth quarter used by the Financial Group for interest rate and foreign exchange risk hedge purposes. These positions are excluded from the VaR calculation because their purpose is to hedge the structural balance of the Group and the risk factor sensitivity is measured within the Economic Value of the Group and Margin Sensitivity.

(1) Includes liquid assets positions of the Bank and the Brokerage Firm, in pesos.

(Continued)

(Millions of Mexican pesos)

Strategy	Average Q4 2016 Notional	Average Q4 2015 Notional
Interest rate swaps paid at fixed rate (cash flows)	**15,350**	**14,850**
0y - 3y	10,090	6,130
3y - 5y	200	3,460
5y - 10y	5,060	5,260
Interest rate swaps paid at floating rate (cash flows)	**500**	**1,750**
0y - 3y	500	1,750
Interest rate swaps paid at fixed rate (fair value)	**10,264**	**7,006**
0y - 3y	3,284	4,655
3y - 5y	2,131	2,002
5y - 10y	4,849	349
Interest rate swaps paid at fixed rate (fair value in USD)	**12**	**26**
0y - 3y	11	24
3y - 5y	1	2
CCIRS paid at fixed rate (fair value in EUR)	-	-
0y - 3y	-	-
CCIRS paid at fixed rate (fair value in USD)	-	-
0y - 3y	-	-
CCIRS paid at fixed rate (fair value in UF)	-	-
0y - 3y	-	-
Interest rate swaps paid at fixed rate (fair value – Crédito Familiar)	-	-
0y - 3y	-	-

Globalcard has a Forward of 8.5 million dollar for structural balance sheets management, which covers the funding of the entity against movements in the exchange rate.

Bank's rating downgrade

As a conservative measure and in order to be prepared for a possible increase in liquidity requirements as a result of a possible downgrade of the Bank (because a downgrade of the Bank would trigger an increase in collateral required in derivative transactions), the Risk Management group periodically measures the impact and the consequences this scenario would have on liquidity measures and liquid assets. A summary of the requirements a downgrade of the institution would have on 3 levels at the end of December 2016 and the average of the fourth quarter of 2016 are shown in the next page.

	2016	
	December MXN MM	**Average MXN-MM**
Downgrade (3 levels)	1,331	1,081

(c) Credit risk-

Credit risk is defined as the potential loss due to default by a borrower or counterparty in transactions carried out by the Group. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and foreign exchange transactions.

The Group's credit risk management is based on the application of defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, credit analysis, strict supervision and a credit risk rating model, management incorporates financial instruments.

The Group has three different levels of credit resolution: the Board of Directors, the Credit Committees and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

For credit risk management, the information is extracted from the different applications and systems the Group has, and also the related credit risk estimates such as the expected and unexpected loss, and possible future exposure (PFE) for the credit risk of the counterparty are made through specialized systems.

This section focuses on managing commercial loan portfolios and consumer and mortgages loan portfolio belonging to the Financial Group through subsidiaries the Bank, Globalcard and Crédito Familiar.

In the case of the Bank, particularly in commercial loans, business areas continually evaluate the financial position of each client, by exhaustively reviewing and analyzing the risk of each loan at least once a year. If any impairment of the financial position of the client is detected, the rating is changed immediately. Thus, the Financial Group determines the changes in the risk profiles of each client. These reviews consider the global credit risk, including operations with financial instruments, derivatives and changes, Complementary reviews are conducted more frequently on identified risks.

(Continued)

There are origination models that evaluate the credit quality of the borrowers for the case of mortgage and consumer portfolio, and there are also policies and procedures established to manage the authorization processes of new loans.

In the case of Crédito Familiar, the business model propose that decisions are given on a centralized basis as the decision engine applies equally to 100% of branches and no discretion on the part of the same, that is, both the placement (grant) as collection (recovery) supplemented by central support, this is, the placement and the collection are based on its branches and is supported by central area under specific conditions. All branches operate base of knowledge of the policy and procedures of business credit. The policies cover from credit granting, administration and control to collect of it. There is also a central area dedicated to recover credit, which is based on own efforts and external collection agencies. There is also an area totally dedicated to fraud management, which has established processes for prevention, detection and recovery operation with suspected fraud. Furthermore, the methodology used for measuring and controlling credit risk is based on score models (binary logistic regressions) that calculate the probability that a customer falls into default in a certain time horizon; this probability of default is associated with a level of expected loss.

In the case of Globalcard, the control of the origination and management of the loans is stipulated in articles 20 and 21 of the General Provisions applicable to Credit Institutions, this control is carried out through periodic reviews within Credit Policies area and has as objective the verification of the fulfillment of all the requirements established in the Credit Manual, as well as the correct documentation of it. Among the functions of the consumer Loan Portfolio Policy area are: verifying compliance with all the requirements established in the Credit Manual for origination of loans, verifying the loans documentation and authorized officers approval, keep a log with the events, recording the operations performed and the relevant data; and corroborate that the corresponding areas provide individual and permanent monitoring of each of the loans and compliance with the different stages established in the Credit Manual and during the term thereof. The evaluation of the applicants through the parametric models, considers demographic and credit variables to which they are attributed a score. The loan portfolio rating is calculated by a monthly process and it it is rated using the probability of default, loss given default and exposure to default as indicated in the General Provisions applicable to Credit Institutions; in addition, the transfer to past-due loan portfolio also follows this Provisions.

Credit risk concentrations- The Group has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are submitted annually to the Board of Directors for approval and their behavior is monitored and reported to the Risk Committee on a monthly basis.

(Continued)

(Millions of Mexican pesos)

Methodology to identify, quantify, manage and control credit risk - The process to set exposure limits for each type of portfolio subject to credit risk contemplates the analysis of the information and identification of the risks inherent to each borrower, documented policies based on an authorization process and ongoing review. All exposures are monitored by the UAIR through the Associate Director of Credit Risk and Counterparty for each type of portfolio (commercial including derivative instruments, mortgage,consumer, Globalcard and Crédito Familiar), the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of limits, the excesses observed and the strategies implemented to restore parameters. Also, the Board delegates to the Risk Committee the power to authorize limits and updates to policies and methodologies for managing credit and counterparty risk.

Methodology used to determine allowances for loan losses - The Group uses a credit risk classification system approved at the institutional level, it also has processes and systems that allow portfolio grading and estimating allowances and losses.

Commercial loans

As of July 31, 2016, the Bank applies the Standard Models determined by the Banking Commission; at December 31, 2016 the portfolio is comprised as follows:

Group	Appendix CUB	% Total Portfolio
States and Municipalities	Appendix 18	1.15%
Investment Projects with own source of payment	Appendix 19	2.13%
Financial Sector Entities	Appendix 20	14.37%
Corporations and Individuals with business activities with income or sales less than 14MM UDIS *	Appendix 21	11.33%
Corporations and Individuals with business activities with income or sales greater than 14MM UDIS	Appendix 22	62.26%

** It includes trustees who act under trusts and "structured" loan schemes with modification of net worth that allow for the individual assessment of the related risk.*

The Bank uses the following Rating Agencies in the standard method: S&P, MOODY'S, FITCH, HR RATINGS y VERUM, based on Appendix 1-B of the Banking Commission "Mapping of rating and degrees of risk".

The grade of rating agencies is used by the Bank to Calculation of Probability of Default of clients as shown in the next page.

(Continued)

- States and Municipalities
- Admissibility of guarantors with a global large-term risk level of 1 and/or 2.
- Clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and/or 2 and have no information of payment experience within the domestic Credit Information Companies.

Allowance for commercial loans is based on the individual assessment of the credit risk of debtors and their rating, in compliance with the general provisions.

In accordance with the rules for rating of Loan Portfolio of Multiple Banking Institutions, the portfolio guaranteed or in charge of the Federal Government, the Central Bank and the Institute for the Protection of Bank Savings are exempt from being rated.

Cancellation of the Internal Methodology for calculation of allowance for credit risks of a portion of the Commercial Portfolio.

The Bank with authorization from the Banking Commission applied internal methodology for calculation of allowance in commercial loan portfolio for Corporations and Individuals with Business Activity with net sales equal to or greater than 14 MM UDIs. In July, the Banking Commission was informed that the standard model would be used in accordance with the Banking Commission methodology. As a result of this change in methodology, the ratings of some creditors in this portfolio showed variations.

Credit risk hedging management and recognition process.

The Bank has policies implemented for the evaluation of guarantees, which implies the review of each one of the elements and risks related, depending on the type, considering both the Guarantee policies and those corresponding to the Analysis and Evaluation of Credit, for which the Bank applies controls on the assessment of the guarantor/liable party, identifying the detail of the corporate structure and any significant aspect of subordination affecting the support provided.

The credit rating of the guarantor or liable party must be determined continuously and consistently during the term of the loan.

Control mechanisms for rating systems, including an analysis of independence, accountability and evaluation

The Group has an application, “ScotiaCred”, used to control rating systems for Commercial loans in which credit application and authorization processes as well as the proper and complete record of the characteristics and requirements of each guarantee are described, defined in the institutional Guarantee catalog and are updated in time, including further amendments, if applicable.

(Continued)

This record enables the Group to identify the collateral in their custody and maintain a clear separation from its own assets.

The ScotiaCred system classifies the portfolios and rates credits under the standard rating methodologies determined by the Banking Commission.

Mortgage and consumer portfolio of the Group

With regard to the allowances for borrowers related to consumer and mortgage portfolios, in addition to the commercial loan portfolio, including Crédito Familiar and Globalcard, the Financial Group uses the regulatory methodologies published in the CUB, based on the calculation of the Expected Loss for each of the loan portfolios using the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (ED) are based on specific information and characteristics of the assessed borrowers and loans.

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model carried out in a specialized tool and based on the methodology of CreditMetrics.

- The expected loss represents an estimate of the probability of default, loss given default and exposure at default in a 12-month period.
- The unexpected loss is a measure of dispersion around the expected loss and is calculated on the basis of risk parameters.
- Additionally, stress tests are performed for determining its impact on the portfolio's expected and unexpected loss, which are presented to and analyzed by the Risk Committee. These tests comply with internal standards and Provisions.

At the end of December 2016 and 2015 and in average for the fourth quarter of 2016 and 2015, the expected and unexpected loss over the Group's total portfolio, commercial and consumer portfolio, was as follows:

	2016		2015
(Figures in million pesos)	**December**	**Average**	**December**
Expected loss			
The Bank	3,265	3,400	4,444
The Brokerage Firm[1]	-	-	2
Crédito Familiar	424	443	511
Globalcard[2]	5	5	-
Unexpected loss			
The Bank	20,378	20,441	25,796
The Brokerage Firm[1]	-	-	2
Crédito Familiar	798	815	945
Globalcard[2]	11	12	-

***Includes only traditional loan portfolio (commercial, mortgage and consumer portfolio).**

1/ Excluded since 2016, as it does not include traditional credit portfolio.

2/ Globalcard consolidates in Grupo since 2016.

(Continued)

(Millions of Mexican pesos)

To interpret the expected and unexpected loss as an example, the expected average loss during the fourth quarter of 2016 for the Group was $3,848, which represents the amount that the Group expects to lose on average during the next twelve months for defaults, given the characteristics of its portfolio, while the average unexpected loss was $21,268 and represents the economic capital needed to keep the Group solvent in case of a large adverse event impacting loan portfolios.

Exposure of the loan portfolio by type of portfolio - At the end of December 2016, the total (current and past-due) and average quarterly exposure of the loan portfolio for 2016 corresponds to the following:

	2016		**2015**
	December	**Average**	**December**
Mortgage loans	92,616	91,337	80,302
Auto loans	16,617	16,127	13,984
Non-revolving personal loans	2,386	2,308	1,872
Revolving personal loans	8,400	8,470	7,897
Commercial loans *	152,099	147,060	120,700
Total	272,118	265,302	224,755
Crédito Familiar	3,645	3,696	4,154
Globalcard[1]	52	53	-

*** It includes loan commitments.**

1/ Globalcard consolidates in Grupo since 2016.

Risk Parameters (PD, LGD and ED) of the credit portfolio (December 2016)

Loan portfolio	Exposure to Default (EI)[1]	Probability of Default (PI)[2]	Loss Given Default (SP)[2]
Mortgage loans	90,875	1.6%	22.6%
Non-revolving consumer loans	18,660	4.2%	65.0%
Revolving	18,065	7.4%	72.5%
Commercial Portfolio[3]	151,797	3.1%	41.6%
Investment Projects[4]	2,969	1.8%	45%
Revolving Crédito Familiar	98	18.7%	72.9%
Non-revolving Crédito Familiar	3,596	28%	65%
Revolving Globalcard[5]	74	14.7%	74.1%
Non-revolving Globalcard[5]	0.28	36.9%	65%

(Continued)

1/ Determined under regulatory methodology. (Exclude defaulted portfolio).
2/ Weighted risk parameter from exposure to default. (Exclude defaulted portfolio).
3/ Excludes investment projects.
4/ PI determined implicitly upon considering reserve determined under regulatory methodology between SP (45%).
5/ Globalcard consolidates in Grupo since 2016.

Exposures by portfolio type and geographical distribution for the Group, broken down by subsidiary, the Bank (commercial loans, consumer loans and residential mortgages), Crédito Familiar and Globalcard (revolving and non-revolving consumer loans) are shown as follows:

Credit risk management information for the portfolio (figures in thousands pesos except otherwise indicated).

a. Total amount of gross exposures to credit risk at the end of December 2016 broken down by major types of portfolio, is shown as follows:

Commercial portfolio

Scotiabank Commercial portfolio total exposures (Segment)	Exposures (disposed amount) December 2016 (MXN MM)
Government	8,512
Global Banking & Markets	72,197
Corporate Baking	71,251
Small and Medium-sized entities (SMEs)	139
Total	**152,099**

Note: It includes letters of credit.

Consumer and mortgages Loan Portfolio

Scotiabank Loan portfolio *(Figures in million pesos at December 31, 2016)*	Mexican Pesos	US Dollar	Total
Residential mortgages	92,430	186	**92,616**
Non-revolving / [1]	19,003	-	**19,003**
Revolving	8,400	-	**8,400**

[1]/ Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts

(Continued)

Crédito Familiar, total loan portfolio

Crédito Familiar **Loan portfolio** ***(Figures in million pesos at December 31, 2016)***	**Total**
Non-revolving	3,596
Revolving	49
Consumer loans	3,645

GlobalCard, total loan portfolio

Exposures by portfolio type	**December (MXN M)**
Non-revolving [1/]	479
Revolving [2/]	51,866
Total	**52,345**

1/ It includes non- revolving personal loans (Open market)
2/ It includes Credit Card (TDC)

b. Distribution of exposures by economic sector.

The distribution of exposures by economic sector broken down by major types of exposures, including the list of current, past-due and nonperforming loans, preventive reserves for credit risks is summarized in the next page.

(Continued)

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Commercial portfolio

Scotiabank
Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowances
(Figures in million pesos at December 31, 2016)

Economic sector	Loan Prtfolio		Nonperforming (SAM)			Total exposure	Allowance	Variation of allowance vs. Previous quarter (Jun 16)	Average of days past-due
	Current	Past-due	Current	Past-due	Beginning balance				
Consumer	22,366	-	17	288	305	22,671	571	121	1,137
Financial institutions	16,653	-	-	-	0	16,653	115	8	-
Residential mortgages	12,944	14	3	267	333	13,228	417	-49	899
Financial Intermediaries and Investment- Others	17,652	-	-	111	147	17,764	451	22	982
Agriculture	10,026	-	68	161	297	10,255	288	0	1,420
Other	69,373	9	62	2,086	2,449	71,529	2,337	231	751
Total	**149,013**	**23**	**150**	**2,913**	**3,532**	**152,099**	**4,082**	**332**	

Note: In this period there not was written-off loans.

Consumer loans (the Bank, Crédito Familiar and GloablCard) whereas loans are granted to individuals, a classification by economic sector is not made.

c. Distribution of exposures by region.

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, preventive reserves for credit risks include the following:

Commercial portfolio

Scotiabank
Geographical distribution by region of commercial loans
(Figures in million pesos at December 31, 2016)

Region	Loan portfolio		Impaired loans		Total exposure December 2016	Allowance
	Current	Past-due	Current	Past-due		
Center	16,828	14	86	298	17,226	432
Metropolitan	98,017	-	18	1,255	99,290	2,053
Nort	24,957	-	-	698	25,655	931
South	9,210	9	46	663	9,928	666
Total	**149,013**	**23**	**150**	**2,913**	**152,099**	**4,082**

(Continued)

Consumer loans,

Geographical distribution

The geographical distribution of the exposures in the main states and main exposures to December 31, are as follows:

Scotiabank Financial information by geographical distribution of the loan portfolio *(Figures in million pesos at December 31, 2016)*	**Mortgage loans**	**Non-revolving portfolio /[1]**	**Revolving portfolio**	**Total**
Chihuahua	3,545	1,052	432	5,029
Coahuila	3,680	1,086	338	5,104
Mexico City	25,033	2,898	1,979	29,910
Estado de México	10,580	1,804	984	13,368
Guanajuato	2,846	560	227	3,633
Jalisco	9,517	712	536	10,765
Nuevo León	7,794	1,156	465	9,415
Puebla	2,371	702	255	3,328
Querétaro	5,523	424	213	6,160
Veracruz	2,520	962	387	3,869
Others	19,207	7,647	2,584	29,438
Total	**92,616**	**19,003**	**8,400**	**120,019**

[1]/ It Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts

(Continued)

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Geographical distribution of non-performing loans

Scotiabank Financial information by geographical distribution of non-performing loan portfolio *(Figures in million pesos at December 31, 2016)*	**Mortgage loans**		**Non-revolving portfolio/[1]**		**Revolving portfolio**	
	Balance	Allowance	Balance	Allowance	Balance	Allowance
Chihuahua	52	16	8	6	19	14
Coahuila	95	23	10	7	15	11
Mexico City	350	56	58	41	102	76
Estado de México	227	52	38	28	56	41
Guanajuato	60	9	7	5	11	9
Jalisco	242	69	11	8	29	21
Nuevo León	158	39	18	12	22	16
Puebla	84	22	11	8	16	12
Querétaro	72	17	4	3	9	7
Veracruz	134	40	25	18	29	22
Others	801	269	101	72	157	113
Total	**2,275**	**612**	**291**	**208**	**465**	**342**

[1]/ It Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts
Note: Nonperforming loans is the same that past-due loan portfolio.

(Continued)

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Crédito Familiar (figures in thousands pesos)

Geographical distribution of expositions by the main states as of December 31, 2016.

Crédito Familiar **Financial information by geographical distribution of the Loan Portfolio** ***(Figures in million pesos at December 31, 2016)***	**Non- revolving Portfolio**	**Revolving Portfolio**	**Total**
MEXICO CITY	684,312	12,939	697,251
ESTADO DE MÉXICO	651,159	6,913	658,072
TAMAULIPAS	198,346	2,052	200,398
NUEVO LEÓN	189,910	2,339	192,249
JALISCO	187,927	2,592	190,519
BAJA CALIFORNIA NORTE	145,048	1,329	146,377
VERACRUZ	136,798	2,001	138,799
CHIHUAHUA	132,248	2,431	134,679
SONORA	109,375	1,140	110,515
MORELOS	97,842	773	98,615
OTHERS	1,062,677	14,441	1,077,118
Total	**3,595,641**	**48,950**	**3,644,591**

Crédito Familiar (figures in thousands pesos)

Non-performing loans by main states including the amounts of allowance for loan losses related to each state.

Crédito Familiar **Financial information by geographical distribution of the Loan Portfolio** ***(Figures in million pesos at December 31, 2016)***	**Non- revolving Portfolio**		**Revolving Portfolio**	
	Balance	**Allowance**	**Balance**	**Allowance**
Mexico City	87,660	44,030	1,837	1,462
Estado de México	71,427	35,763	994	797
Tamaulipas	28,608	14,261	248	199
Nuevo León	26,367	11,214	334	267
Veracruz	20,749	12,262	268	230
Jalisco	20,486	9,020	375	315
Chihuahua	15,600	7,418	323	263
Guanajuato	15,403	7,071	147	113
Baja California	15,006	6,474	138	116
Sonora	13,270	6,751	216	171
Others	137,778	69,978	2,073	1,677
Total	**452,351**	**224,242**	**6,952**	**5,611**

(Continued)

(Millions of Mexican pesos)

GlobalCard (%)

The geographical distribution of the exposures in the main states.

The geographical distribution of the exposures in the main states and main exposures to December 31, are as follows:

Credit card

Exposure of the credit portfolio by state	December (%)
Mexico City	27.3%
Jalisco	10.0%
Nuevo León	5.3%
Hidalgo	5.2%
Veracruz	4.6%
Others	47.5%
Total	**99.99%**

For Credit Card, there is a greater concentration in Mexico City.

Personal Loans Open Market

Exposure of the credit portfolio by state	December (%)
Guanajuato	41.0%
Mexico City	27.1%
Tamaulipas	25.7%
Sinaloa	4.7%
Puebla	1.3%
Other	0.0%
Total	**99.8%**

For Personal Loans Open Market, a greater concentration is observed in Guanajuato.

(Continued)

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d. The breakdown of the current and past-due portfolio as of December 2016 by remaining term and loan type is listed below.

Commercial loan portafolio

Scotiabank **Current and past-due portfolio by remaining term** ***(Figures in million pesos at December 31, 2016)***			
Term	**Current**	**Past-due**	**Total exposure**
Past-due loans	0	2,936	2,936
Up to 1 year	70,824	0	70,824
1 to 2 years	10,249	0	10,249
2 to 3 years	14,152	0	14,152
3 to 4 years	18,775	0	18,775
4 to 5 years	16,990	0	16,990
Greater than 5 years	18,172	0	18,172
Total	**149,162**	**2,936**	**152,099**

Consumer loan portafolio

Scotiabank **Financial infomation for the remaining term of the loan portfolio - Current** **(Average term)**	**Months**	**Years**
Residential mortgages	177	14
Non-revolving / [1]	37	3
Revolving	-	-

[1]/ It Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts

(Continued)

Scotiabank **Financial infomation for the remaining term of the loan portfolio – Past-due** ***(Average term)***	**Months**	**Years**
Residential mortgages	146	12
Non-revolving [1]	33	2
Revolving	-	-

[1]/ *Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts*

Scotiabank **Financial infomation for the remaining term of the loan portfolio - Total** ***(Average term)***	**Months**	**Years**
Residential mortgages	176	14
Non-revolving [1]	37	3
Revolving	-	-

[1]/ *Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts*

Scotiabank **Financial infomation status of the loan portfolio** ***(Figures in million pesos at December 31, 2016)***	**Current**	**Past-due**	**Total**
Residential mortgages	90,341	2,275	**92,616**
Non-revolving [1]	18,712	291	**19,003**
Revolving	7,935	465	**8,400**

[1]/ *Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts*

(Continued)

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Crédito Familiar (figures in thousands pesos)
Current and past-due loan portfolio distribution

Crédito Familiar **Financial Information Loan Portfolio Status** ***(Figures in million pesos at December 31, 2016)***	**Current**	**Past-due**	**Total**
Non-revolving Portfolio	3,143,289	452,352	**3,595,641**
Revolving Portfolio	42,002	6,949	**48,950**

Crédito Familiar
Current and past due loan portfolio by residual maturity by Product

Crédito Familiar **Financial information for the remaining term of the Loan Portfolio - Current** **(Average term)**	**Months**	**Years**
Non-revolving Portfolio	23	2
Revolving Portfolio	-	-

Crédito Familiar **Financial information for the remaining term of the Loan Portfolio -Past-due** **(Average term)**	**Months**	**Years**
Non-revolving Portfolio	20	2
Revolving Portfolio	-	-

Crédito Familiar **Financial information for the remaining term of the Loan Portfolio -Total** **(Average term)**	**Months**	**Years**
Non-revolving Portfolio	22	2
Revolving Portfolio	-	-

(Continued)

(Millions of Mexican pesos)

Globalcard
Loan portfolio by residual maturity by Product

Financial Information for the remaining period of the loan portfolio	Month	Years
Non revolving personal loans *	11.25	0.94
Revolving personal loans	NA	NA

** At the end of December 2016, the total number of loans in the portfolio is 5 accounts, of which 20% (1 account) corresponds to past-due loans. The remaining term only corresponds to current loans*

Distribution of current and past due loan portfolio exposures by Product

Current and past due loan portfolio by residual maturity by Product

e. Allowance for loan losses analysis.

The list of credit risk allowances classified according to Article 129 is as follows as of December 2016:

Commercial loan portfolio

Score	Allowances (MXN MM)
A1	475
A2	323
B1	243
B2	195
B3	389
C1	140
C2	37
D	399
E	1,882
Total	**4,082**

(Continued)

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Consumer and mortgages Loan Portfolio

Scotiabank **Allowance for loan losses by credit risk** *(Figures in million pesos at December 31, 2016)*	**Residential mortgages ***	**Non-revolving [1]**	**Revolving**	**Total**
A-1	139	118	257	514
A-2	62	20	140	222
B-1	18	44	54	116
B-2	19	33	35	87
B-3	16	27	41	84
C-1	45	26	79	150
C-2	36	70	124	230
D	331	95	295	721
E	300	265	239	804
Total	**966**	**698**	**1,264**	**2,928**

[1]/ *It Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts.*
* *Mortgages Loan Portfolio excludes MXN 97.2 MM of FOVI allowance.*

Crédito Familiar (figures in thousands pesos)
Personal loans

Crédito Familiar *Figures in million pesos at December 30, 2016*					
Grade of risk	**Probability of default**	**Loss given default**	**Exposure at default**	**Allowance**	**% Allowance**
A-1	0.78%	65.00%	57,823	697	1.21%
A-2	3.91%	65.00%	22,954	2,342	10.20%
B-1	5.56%	65.00%	39,750	2,007	5.05%
B-2	6.97%	65.00%	115,093	6,092	5.29%
B-3	8.52%	65.00%	246,068	15,527	6.31%
C-1	10.69%	65.00%	1,348,812	135,196	10.02%
C-2	15.83%	65.00%	921,349	96,915	10.52%
D	36.14%	65.00%	283,621	67,560	23.82%
E	87.64%	65.00%	560,171	337,250	60.20%
Total	**27.99%**	**65.00%**	**3,595,641**	**663,585**	**18.46%**

(Continued)

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Crédito Familiar (figures in thousands pesos)
Credit Card

Crédito Familiar *Figures in million pesos at December 30, 2016*						
Grade of risk	**Probability of default**	**Loss given default**	**Portfolio exposure**	**Exposure at default**	**Allowance**	**% Allowance**
A-1	3.66%	69.61%	4,846	39,045	1,004	2.57%
A-2	5.38%	73.92%	9,440	14,295	571	3.99%
B-1	7.75%	74.76%	3,666	5,594	323	5.77%
B-2	9.57%	75.00%	2,518	3,923	282	7.19%
B-3	12.04%	75.00%	3,034	4,324	389	9.00%
C-1	16.12%	75.00%	6,071	7,943	956	12.03%
C-2	30.16%	75.00%	6,835	9,009	2,035	22.59%
D	75.84%	75.00%	8,148	9,656	5,714	59.18%
E	100.00%	82.88%	4,392	4,553	3,818	83.84%
Total	**18.65%**	**72.91%**	**48,950**	**98,343**	**15,091**	**15.35%**

GlobalCard (Figures in thousands pesos)
Allowance for loan losses[1]

Grade of risk	Revolving personal loans	Non-revoling personal loans
A-1	560	0.00
A-2	727	0.00
B-1	405	0.00
B-2	240	1.03
B-3	312	0.31
C-1	841	0.00
C-2	1,286	16.56
D	4,114	0.00
E	1,939	181.68
Total	**10,423**	**199.59**

(Continued)

[1] Excludes additional credit card allowance of $4,925 pesos.

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f. The reconciliation of changes in allowance for nonperforming loans as of December 2016 is listed below:

Commercial loan portfolio

Scotiabank **Allowance for loan losses - nonperforming loans** ***(Figures in million pesos at December 31, 2016)***	**Amount**
Balance at beginning of September 2016	**3,769**
Provisions charged to results of operations	281
Provisions charged to results of SMEs operations	3
Charges to results	49
Exchange rate fluctuations	152
Allowance cancellation	(57)
Applications, waivers, repossessions and others	(45)
Balance at end of year 2016	**4,102***
Recoveries from written-off loans	-

* It includes additional reserves (for past-due accrued interest and others)

Consumer and mortgages Loan Portfolio

Scotiabank **Variations in allowance for loan losses** *(Figures in million pesos)*	**Mortgage Portfolio**	**Non-revolving Portfolio [1]**	**Revolving Portfolio**
Allowance for loan losses at September 30, 2016	**629**	**193**	**329**
Releases[2]	(81)	(108)	(162)
Transfer of current to past-due	33	40	76
Transfer of past-due to current	(55)	(16)	(40)
Decreases in the balance of allowance (includes write-offs and debt forgiveness)	(21)	(5)	(5)
Increases in the balance of allowance	107	104	144
Allowance for loan losses at December 31 2016	**612**	**208**	**342**

[1]/ Includes Payroll, Automotive loans, Personal loans, Fairmont, Overdrafts
Note: Nonperforming Loans is similar as Past-due loans.
[2]/ Includes all credits in the quarter no longer appeared for some reason as change of status on the credit card, liquidated credit, etc.

(Continued)

Crédito Familiar (figures in thousands pesos)
Reconciliation of changes in allowance for nonperforming loans as of December 2016

Crédito Familiar Variations in allowance for loan losses (Figures in thousand pesos)	Non-revolving Portfolio	Revolving Portfolio
Allowance for loan losses at September 30, 2016	**240,712**	**6,121**
Releases**	- 183,500	- 3,134
Transfer of current to past-due	155,268	2,790
Transfer of past-due to current	- 1,047	- 309
Decreases in the balance of allowance	- 6,680	- 129
Increases in the balance of allowance	19,489	272
Allowance for loan losses at December 31 2016	**224,242**	**5,611**

*** It Includes Write-offs .*

GlobalCard (figures in thousands pesos)
Change in allowance for credit risks during the period [2]

Risk level	Change in allowance	Write-offs
Non-revolving	25	2.6
Revolving	0	309.78

Credit risk mitigation techniques (applicable to Commercial Loan Portfolio)

The Group has policies and processes that allow it to perform a valuation of guarantees. In general, it can be considered that there are no restrictions regarding the acceptance of guarantees. However, prior to acceptance, the impacts on profitability need to be assessed and determine whether it is feasible for the guarantee to be used as a mitigants in regulatory calculations of:

- Allowance for loan losses, and
- Capital requirement

Based on an identification of the guarantees that are part of the Bank's Guarantee Management System, or if the proposal differs from the standards established in this System. The value of guarantees is determined by accurately identifying the standard valuation methodology at the beginning and during the term of the loan, depending on their type, such as formal appraisals prepared by certified experts, in the case of real estate; in the case of securities, the market value defined by the corresponding Stock Exchange.

(Continued)

[2] Nonperforming loans is the same that past-due loan portfolio.

The types of actual guarantees for Commercial Portfolio accepted by the institution are mainly: Pledge on Chattel, Pledge on Cash Deposits in SBI, Pledge on Inventories in Bonded Warehouse, Pledge on Machinery, Pledge on Vehicle, Pledge on Working Capital Loan (Treasury Guarantees), Pledge on Fixed Asset Loan (Treasury Guarantees), Civil Mortgage, Industrial Mortgage, Guarantee Trust.

The types of guarantors accepted by Commercial Portfolio by the institution are: Jointly Liable, Guarantor, Guarantee, Guarantee Letter, letter of credit standby and development entity guarantee.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As of December 2016 the coverage of the guarantees reported by the Bank in standard methodology, which are applicable to Commercial Portfolio is shown in the next page:

Scotiabank ***Guarantee amount*** *(Figures in million pesos at December 31, 2016)*	
Coverage	**Standard Metodology**
Eligible financial collateral	1,151
Eligible non-financial collateral	23,732
Personal guarantees	652

Scotiabank Inverlat does not have credit derivatives at closing of December 31, 2016.

Policies to ensure real guarantees and establish credit reserves

The guarantees covering loans, depending on their type and characteristics they can contribute to improve the level of credit risk and consequently the amount of required reserves. For these purposes two types of guarantees are considered: Personal guarantees and real guarantees.

Credits that have some of these guarantees, including the two types may adjust their Rating to a higher level of risk. Probability of default with personal guarantees and loss given default (LGD) with real guarantees.

Guarantees used to improve the credit rating in addition to the specific requirements for the type (personal or real) in general must cover the following:

- The guarantee is granted and incorporated in the form and terms established in the applicable legal provisions and internal policies of the Bank.

(Millions of Mexican pesos)

- When a loan is covered by real and personal guarantees: If the real guarantee is granted simultaneously by the same personal guarantor, only one of them can improve the score.
- In syndicated loans with other Credit Institutions, the Group may agree on the following rights in the corresponding credit agreement: First in order to collect on the guarantee; or the same degree of priority in the order to collect as the other participants, in cases where the guarantee is allocated proportionally among all Institutions involved in the credit.

Credit risk of financial instruments

Financial situation of each client is evaluated periodically, and at least once a year an exhausting review and risk analysis is performed. Should any financial situation of the client be detected as impaired, its credit rating is immediately changed. Thus, the Bank determines the changes in the risk profiles of each client. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions. In the case of identified risks, additional reviews are performed more frequently.

In the context of credit risk management performed by the Bank, gathering information, the execution of due diligence procedures, analysis of capacity and financial prosperity of the debtor, the establishment of appropriate structures and interest rates is essential, as well as the foreclosure, rationale and supervision processes.

Credit risk in investment securities - Following is a summary of exposures, credit quality and concentration by risk level of investment securities at the end of December 2016 and 2015:

	2016	%	2015	%
Held to maturity				
the Bank	5,457		3,420	
Subtotal	**5,457**	**12**	**3,420**	**5**
Available- for-sale				
the Bank [2]	32,278		34,949	
the Brokerage Firm	0		324	
Subtotal	**32,278**	**71**	**35,273**	**55**
Trading				
the Bank	4,676		20,323	
the Brokerage Firm	2,870		5,119	
Other business lines and subsidiaries[1]	379		480	
Subtotal	**7,925**	**17**	**25,922**	**40**
Total by Risk			**64,615**	**100**

(1) Includes Globalcard (consolidates in Grupo since 2016), SECOSA and Crédito Familiar.

(2) Includes the Fund Management Company position.

(Continued)

(Millions of Mexican pesos)

Credit risk in derivative transactions- In addition to the risk measures mentioned earlier for derivative transactions, the Bank quantifies its credit exposures in order to control the use of lines granted to its counterparties for the operation of derivative instruments. This control is carried out by calculating future potential exposure (PFE) at the counterparty level through specialized tools, incorporating mitigating risk elements such as netting agreements, collateral agreements and collateral. There are counterparty risk policies and monitoring of established limits that contemplate the process to be followed in the event of excesses occurring in them.

Following is presented the potential future exposure by counterparty credit risk and concentration by type of counterparty is presented for the Group at the end of December 2016 and 2015:

Type of counterparty	Future Potential exposure ($)	Concentration (%)
December 2016		
Financial institutions	4,111	81
Corporations	956	19
Total maximum exposure	5,067	100
December 2015		
Financial institutions	3,280	87
Corporations	485	13
Total maximum exposure	3,765	100

Methodology for setting credit limits for counterparties and capital allocation - The Group, by establishing operating policies, defines capital allocation based on business criteria and risk appetite, i.e., customer eligibility criteria and setting maximum exposure limits are defined through the Credit Committees, considering potential future exposure by counterparty as the main risk parameter, estimated according to the methodology approved by the Risk Committee.

The Group's business line is responsible for analyzing and proposing according to strategy, new counterparties and their respective limits and/or the update thereof. For that, the Credit area has defined well the structure of responsibilities and powers for authorization. All proposals are analyzed considering the level of potential future exposure related to the risk profile of each counterparty and the products required for operation. Once the limits are approved, they are monitored by the UAIR and reviewed annually by the Credit area or with more frequency in case any potential risk is detected or else the line of business requests it so.

(Continued)

(Millions of Mexican pesos)

The capital requirement for operations with derivatives is calculated under regulatory methodology, such is the case of the adjusted value for credit valuation or CVA.

The following table shows the gross fair value, the compensation benefit and the offset exposure at closing of December 2016 and 2015. The Group does not maintain credit derivative positions for hedging (CDS).

Type counterpart	**Gross fair value* ($)**	**Offset exposure ($)**
December 2016		
Financial institutions	19,844	14,749
Corporations	415	363
Total	20,259	15,112
December 2015		
Financial institutions	6,065	2,921
Corporations	322	228
Total	6,387	3,149

** Refers to the positive value of market valuation and also represents the current potential exposure*

The above table shows mainly the exposure benefit as a result of the establishment of compensation agreements with counterparties. Such benefit represents the decrease in exposure to counterparty credit risk. These agreements allow compensating buying and selling positions for each counterparty in transactions with the same characteristics (instrument and underlying).

Also, the deposit guarantees and/or values maintained by the Financial Group at year-end of December 2016 and 2015 amount to 2,917MM and 904MM respectively.

The Financial Group has the guidelines of Bank of Nova Scotia (holding company) to identify the risk of adverse correlation during the credit authorization process for counterparty operations.

(d) Operational risk-

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

(Continued)

The Group has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are mentioned as follows:

Policies for operational risk management

These policies are intended for establishing the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout the Group.

Operational Risk Assessment

The Group has a structured methodology for assessing operational risk, which allows the Group to identify, assess and mitigate the risk inherent in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of inherent operational risk, assessing the effectiveness of controls in such risks, on wich is determined a level of residual risk from which actions are set to mitigate identified risks.

Manual for Operational Risk Data Gathering and Classification.

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics. During 2016 the Group recognized operational risk losses of $256.9, they were more by $97.3 to those recorded in 2015 ($160).

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Group's area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

Key risk indicators.

This process allows the Group to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator's values over time. Admissible thresholds are established for each of the selected indicators.

(Continued)

Calculation of capital.

The Bank calculates its capital requirement for operational risk by the Standardized Alternative Method. For purposes of the the Brokerage Firm, Crédito Familiar and Globalcard the basic indicator method is used to determine the capital requirements for Operational Risk.

Estimate of legal risk losses

The Group has a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

Technological risk

Technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other cannel for transmitting information in rendering services to the Group's customers.

In order to attend to requirements of regulations in terms of technological risk, the Group has technological risk management policies, which describe the guidelines and methodology for assessing technological risks. Furthermore, the DGA of Information Technology has policies, procedures and systems that contribute to compliance of the related requirements.

The technological risk methodology, which assesses vulnerabilities, considers the criticality of the information in terms of completeness, confidentiality, availability and continuity to identify the risks inherent in the technological applications and infrastructure, assess the controls in place and obtain the residual risk. As a result, the methodology sets forth a proposal of controls for mitigating the technological risk at an acceptable level.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

(Continued)

Divestment of the Bank in the Fideicomisos Socios Liquidadores MexDer y Asigna, Compensación y Liquidación, S. A. de C. V. for $268, notwithstanding that the Bank may continue participating in said Trusts and simultaneously an increase in the investment in Scotia Derivados through the issuance and payment of 267,695 representative shares of the Stockholders' equity for $268.

(26) Recently issued financial reporting standards-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the MFRS and improvements listed below applicable to the Group operation. Management believes that the new MFRS and the improvements to MFRS will not generate significant effects on the Group's financial position.

MFRS B-17 *"Determination of fair value"*- is effective for years beginning on or after January 1, 2018, allowing for early adoption. This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS.

MFRS C-2 *"Investment in financial instruments"*- establishes specific rules for the accounting recognition of investments in financial instruments, primarily those held for trading purposes, as well as the classification of financial instruments based on the business model an entity has for all instruments as a whole. This is effective for periods beginning on or after January 1, 2018, with retrospective effects and supersedes Bulletin C-2 *"Financial instruments"* and the Bulletin C-2 Application guidance. Early adoption is allowed starting January 1, 2016, provided that it is done concurrently with the MFRS related to financial instruments whose effective date and possibility for early adoption are under the same terms.

Among the main changes presented are:

- Classification of financial instruments in which investments are made, discarding the concept of intention to acquire and use an investment in a financial instrument to determine such classification, adopting instead, the business management model of investments in financial instruments for obtaining cash flows. This change eliminates the held-to-maturity and available-for-sale categories of instruments.

- Establishing the valuation of investments in financial instruments also according to the business model, indicating that each model will have a different line item in the statement of comprehensive income.

(Continued)

- Not allowing the reclassification of investments in financial instruments among the categories of financial instruments receivable, debt instruments at fair value and negotiable financial instruments, unless the entity's business model changes, which is considered highly unlikely.

- Adopting the principle that all financial instruments are valued upon initial recognition at fair value.

- Limiting certain disclosures to entities that conduct financial operations.

MFRS C-3 *"Accounts receivable"*- is effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of MFRS related to financial instruments whose effective date and possibility for early adoption are under the same terms as those indicated in this MFRS. Some of the primary changes presented are the following:

- provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.

- provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.

- provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.

- requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

MFRS C-9 *"Provisions, Contingencies and Commitments"*- is effective for years beginning on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with the initial enforcement of MFRS C-19 "Financial instruments payable". MFRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this MFRS does not result in accounting changes in the financial statements. Some of the primary aspects covered by this MFRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to MFRS C-19 "Financial instruments payable".

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- The definition of “liability” is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.

- The terminology used throughout the standard is updated to standardize the presentation with the rest of the MFRS.

MFRS C-10 "Derivative financial instruments and hedging relationships"- it sets the valuation, presentation and disclosure standards for initial and subsequent recognition of derivative financial instruments and hedging relationships. MFRS C-10 supersedes Bulletin C-10 and is effective for years beginning on or after January 1, 2018; early adoption is permitted, provided it takes place concurrently with the adoption of MFRS C-2 *"Investment in financial instruments"*, C-3 *"Accounts receivable"*, C-16 "*Impairment of financial instruments receivable"*, C-19 *"Financial instruments payable"* and C-20 *"Financial instruments to collect principal and interest"*.

The principal changes resulting from the adoption of the aforementioned standards are as follows:

- It requires hedging relationships to be aligned with the financial risk management strategy set forth and disclosed by the entity, so that these may be qualified and recognized as such.

- Specific measurements to determine the effectiveness of a hedge are no longer used.

- It permits hedging relationships for hedged items measured at fair value.

- It does not permit the discontinuation of a hedging relationship if it is aligned with the entity's financial risk management strategy.

- If there is ineffectiveness, it requires re-balancing the hedging proportion, increasing or decreasing the hedged item or hedging instrument.

- It does not permit separating embedded derivative financial instruments when the host contract is a financial asset.

- It permits designating a net position of income and expenditure as a hedged item, provided such designation reflects the entity's management strategy.

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MFRS C-16 *"Impairment of financial instruments receivable"*- MFRS C-16 is effective for years beginning on January 1, 2018 and early adoption is allowed as of January 1, 2017 provided that it takes place concurrently with the adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this MFRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.

- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

MFRS C-19 "Financial instruments payable"- MFRS C-19 is effective for years beginning on or after January 1, 2018 with retrospective effects and early adoption allowed provided that they it takes place concurrently with the adoption of MFRS C-9 and the MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main points covered by this MFRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.

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- It includes the provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which was not provided for by the existing standard.

- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.

- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

MFRS C-20 *"Financing instruments receivable"*- MFRS C-20 shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

- The valuation effect of investments in financial instruments is also focused on the business model.

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

MFRS D-1 *"Revenue from contracts with customers"*- establishes standards for the accounting recognition of revenues arising from contracts with customers and is effective for periods beginning on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with the enforcement of MFRS D-2 *Costs from contracts with customers"*. It eliminates the supplementary application of International Accounting Standard (IAS) 18 *"Revenues"*, SIC 31 *"Revenues – Barter transactions of advertising services"*, IFRIC 13 *"Customer Loyalty Programs"*, and IFRIC 18 *"Transfers of assets from customers"*. Additionally, this MFRS, along with MFRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*. Some of the primary changes are the following:

- The transfer of control as basis for the opportunity of revenue recognition is established.
- The identification of the obligations to be fulfilled in a contract is required.
- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.
- The concept "conditional account receivable" is introduced.
- The recognition of collection rights is required.
- Requirements and guidance on how to value the variable consideration and other aspects, upon valuing the income are established.

MFRS D-2 "Costs from contracts with customers"- establishes rules for the accounting recognition of costs of sales of goods or provision of services. This is effective for periods starting on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with MFRS D-1 *"Revenues from contracts with customers"*. Along with this MFRS, it repeals Bulletin D -7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*, except regarding the recognition of assets and liabilities in this type of contracts within the scope of other MFRS.

The primary change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

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2017 MFRS Revisions

In October 2016, CINIF issued a document called "2017 MFRS Revisions" containing precise modifications to some of the existing MFRS. The main revisions that bring about accounting changes are mentioned in the next page.

MFRS B-13 *"Subsequent events as of the date of the financial statements" MFRS B-6 "Statement of financial position"*- These MFRS modify the classification requirements of assets, liabilities and stockholders' equity, mainly to establish that it is appropiate to maintain the classification of an item as long term as of the date of the financial statements, in the case of a financial asset or financial liability that: a) was contracted on a long-term collection or payment basis; and b) even when the borrower is in default as of the date of the financial statements, during the subsequent period between the date of the financial statements and the date on which they are authorized to be issued to third parties if an agreement is reached to maintain collection or payment on a long-term basis. This revision will be effective for periods starting on or after January 1, 2017, allowing early adoption for periods starting on or after January 1, 2016. The resulting accounting changes should be recognized prospectively.

MFRS C-11 *"Stockholders' equity"*- establishes that expenses associated with registration of shares on a stock exchange of shares of an entity that as of the date of such registration were already held by investors and for which the issuing entity had already received the corresponding funds, should be recognized in income when accrued and not in stockholders' equity. This revision will be effective for periods starting on or after January 1, 2017 and the resulting accounting changes should be recognized retrospectively.

MFRS D-3 *"Employee benefits"*- establishes that the interest rate to be used in determining the present value of liabilities for long-term labor obligations must be a market rate free of, or with very low credit risk, representing the value of money over time, such as, the *government bond market rate or the high quality corporate bond market rate in absolute terms in a deep market*, and that the chosen rate should be used consistently over time. Additionally, it allows the recognition of remeasurements in OCI, requiring them to be reclassified to net income or loss or else recorded directly in net income or loss as of the date of origin. These revisions will take effect for years beginning on or after January 1, 2017, although early adoption is allowed. Accounting changes arising from changes in the discount rate should be recognized prospectively and those arising from a change in the option to recognize remeasurements should be recognized retrospectively.

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Changes in the provisions of the Banking Commission

On January 6, 2017, the Banking Commission published in the Official Gazette a resolution that modified various articles of the Provisions applicable to credit institutions, including the change to the methodology of determination of allowance for loan losses for credit risks of non-revolving portfolios and mortgage loans. These changes will take effect as of June 1, 2017. Financial institutions will have 6 months from this date to incorporate the initial financial accumulated effect of the change in methodology.

The Group's Management is in the process of evaluating the financial effects to be derived from this change in the methodology for determining allowance for loan losses for the aforementioned portfolios.