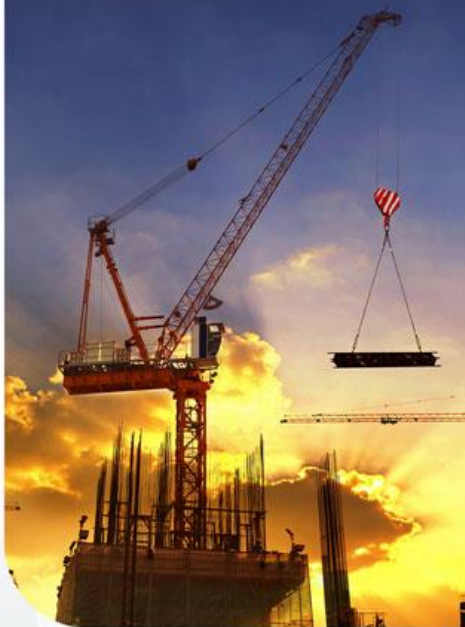




GRUPO FINANCIERO

monex

ANNUAL REPORT 2016





BANCO MONEX, S.A., Institución de Banca Múltiple, Monex Grupo Financiero

Paseo de la Reforma No. 284, piso 12, Colonia Juárez, 06600. Mexico City
Telephone: 5231 0870

ANNUAL REPORT

EARLY REPORT FILED IN ACCORDANCE WITH THE APPLICABLE GENERAL PROVISIONS FOR THE ISSUER OF SECURITIES AND OTHER PARTIES INVOLVED IN THE STOCK EXCHANGE MARKET, FOR THE FISCAL YEAR ENDING ON DECEMBER 31, 2016.

SECURITIZATION CERTIFICATES

Number of Securitization Certificates: 10,000,000 (ten million).

Ticker Symbol: BMONEX 15

Date of issue: July 17, 2015

Maturity Date: July 13, 2018

Issuance's Maturity Term: 1,092 days, or approximately 3 years.

Interests and procedure for calculation: Counting from the date of issue, and while they have not been fully amortized, Securitization Certificates shall cause a gross annual interest on their par value at the rate referred to in the paragraph below, which the Common Representative shall calculate with 2 (two) Business Days of anticipation at the beginning of the first period for the payment of interests of 28 (twenty-eight) days (the "Interest Period") in accordance with the payment schedule appearing below (each of the Business Days prior to the "Calculation Date of the Gross Annual Interest Rate"), calculated from the date of issuance of the Securitization Certificates and the beginning of each Interest Period, respectively, and which shall govern precisely during this Interest Period, calculating in each case the respective interests for the number of calendar days effectively elapsed until the corresponding Interest Payment Date. The Annual Gross Interest Rate shall be calculated by adding 0.90 (zero point ninety percentage points) to the Interbank Interest Rate ("TIIE" or the "Reference Interest Rate") for the term of 28 (twenty-eight) days and, if the TIIE is not published for the term of 28 (twenty-eight) days, the TIIE to be used is the closest term disclosed by the Bank of Mexico through the determined communication media or through any other mean authorized for that purpose by the Bank of Mexico, on the Calculation Date of the corresponding Annual Gross Interest Rate, or, otherwise, within 30 (thirty) Business Days prior to the same, in which case the interest rate communicated on the closest Business Day to said Calculation date of the Annual Gross Interest Rate shall be taken as the base. If the TIIE ceases to exist or be published, the Common Representative shall use as a substitute rate to calculate the Annual Gross Interest Rate, the rate officially communicated by the Bank of Mexico as the substitute of the TIIE at a term of 28 (twenty-eight) days. The Reference Interest Rate shall be capitalized, or, where appropriate, must be equaled to the number of calendar days effectively elapsed during each Interest Period. The numbers calculated must be rounded to hundredths. In order to calculate the capitalized interest rate or, as the case may be, the equivalent to the number of calendar days effectively elapsed in the corresponding Interest Period, the Common Representative shall use the following formula:

$$TC = \left(\left(1 + \frac{TR}{36000} \times PL \right)^{\frac{NDE}{PL}} - 1 \right) \times \left(\frac{36000}{NDE} \right)$$

Where:

TC= The capitalized Interest Rate or, as the case may be, the equivalent to the number of calendar days effectively elapsed to the corresponding Interests Date of Payment.

TR= TIIE or Reference Rate.

PL= TIIE term in days.

NDE = Number of calendar days effectively elapsed to the corresponding Interests Payment Date.

The ordinary interests derived from Securitization Certificates shall be paid every 28 (twenty-eight) days on the dates indicated in the payment schedule included in Section "I.- The Offer-Periodicity in the Payment of Interests" of the Supplement or, if any of these days is a non-business day, on the immediately following business day.

To determine the amount of the ordinary interests payable in each Interest Period incurred until the Bank Securitization Certificates are amortized, the Common Representatives shall use the following formula:

$$I = VN \left(\frac{TB}{36,000} \times NDE \right)$$

Where:

I= Gross Interest for the corresponding Interest Period

VN= Par Value of outstanding Securitization Certificates

TB= Annual Gross Interest Rate

NDE=Number of calendar days effectively elapsed until the corresponding Interest Payment Date.

Starting each Interest Period, the Annual Gross Interest Rate calculated for each period shall not suffer any changes during the same. The Common Representative, no later than 2 (two) Business Days prior to the corresponding interests payment date, shall inform in writing to the Indeval and the CNBV through STIV-2 and the BMV, through the Electronic System for the Sending and Disclosing of Information (SEDI) and / or through any of the means determined by said entities, the amount of interests to pay in accordance with the Bank Securitization Certificates and the Annual Gross Interest Rate applicable to the following interest period.

If in any Interest Period had not been fully covered, the Indeval shall not be obliged to deliver the corresponding proof for said payment, until it is completed.

Securitization certificates shall cease to accrue interest as of their due date or the indicated for payment, provided that the issuer has constituted the deposit of the total amortization amount and, where applicable, the corresponding interest, in the offices of Indeval, no later than 11:00 a.m. (Mexico City time) of that day..

Under the terms of article 282 of the Securities Market Law, the Issuer determines that the title that covers the Bank Securities Certificates shall not hold coupons attached, using instead the records issued by Indeval.

The Issuer is not obliged to pay additional amounts with respect to withholding taxes or any equivalent tax, applicable in relation to the payments made in relation to the Bank Securitization Certificates.

Frequency of interest payments: The ordinary interests accruing on the Bank Securitization Certificates shall be paid each 28 (twenty-eight) days, according to the schedule included in the Frequency section in the Interest Payment of the Supplement and in the Title documenting the Issuance.

Place and form of payment for the Principal and Interests: The principal and ordinary interests caused by Securitization Certificates will be paid on the corresponding date of payment, through wire transfer, at the Indeval, in their offices located in Avenida Paseo de la Reforma number 255, 3er piso, Col. Cuauhtémoc, 06500, Mexico City, upon delivery of the proofs issued for such effect by the Indeval. The Indeval will distribute these funds, through wire transfer, to the corresponding brokers.

Amortization of principal: The principal of the Bank Securitization Certificates shall be amortized in a single payment on the due date, namely on July 13, 2018 (the "Expiration Date"), upon the delivery of the Title. If the Expiration Date is not a Business Day, the principal of the Bank Securitization Certificates must be paid on the immediately following Business Day.

Voluntary Advanced Amortization: The Issuer will have the right to amortize in full, but not less than all of the Securitization Certificates, in accordance with the provisions of Section "I.- Offer-Voluntary Advanced Amortization" of this Supplement. No premium payment shall apply in case of advanced amortization.

Security: Issuer is unsecured, that is to say, Securitization Certificates hold no specific security whatsoever.

Rating granted by Standard & Poor's, México, S.A. de C.V.: 'mxA' This rating indicates that debts rated as "mxA" are more susceptible to the negative effects caused by circumstantial changes or economical conditions than debts graded with higher categories. However, the Issuer's ability to pay for the compliance of financial liabilities is strong in relation to other Issuers in the national market. The rating granted to the Issuance does not constitute an investment recommendation, and therefore may be subjected to updates or modifications at any moment, according to the methodologies of Standard & Poor's México, S.A. de C.V.

Rating granted by Fitch Mexico, S.A. de C.V.: 'A (mex)' This rating indicates that the expectation represents a low risk of default in relation to other issuers or liabilities in the same country. However, changes in economic circumstances or situations may affect the ability to pay to a greater extent, in case of financial liabilities with higher ratings. The rating granted to the Issuance does not constitute an investment recommendation and therefore may be subjected to updates or modifications at any time, according to the methodologies of Fitch México, S.A. de C.V.

Common Representative: Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero

Depository: Indeval, in accordance with the provisions of article 282 and other applicable of the Stock Market Law ("LMV")

Tax regime: This section contains a brief description of certain applicable taxes in Mexico to the acquisition, ownership and disposal of debt instruments, such as Bank Securitization Certificates, but it is not intended to be an exhaustive description of all tax considerations that may be relevant to the decision to acquire, maintain or dispose Bank Securitization Certificates. The current tax regime may be modified during the term of the Program and / or this Issuance. Investors should consult their tax advisers independently and periodically regarding the provisions applicable to the acquisition, ownership and disposal of debt instruments, such as Bank Securitization Certificates, including the application of specific rules in their particular situation, before making any decision to invest in them. The Issuer does not assume the obligation to inform regarding the changes in the applicable fiscal dispositions throughout the term of the Program or of this Issuance, nor to make gross payments or additional payments to cover eventual new taxes. The withholding rate applicable to the interest paid in accordance with the Bank Securitization Certificates is subject (i) in the case of individuals or legal entities residents in Mexico, to the provisions set forth in articles 54 and 135 of the Income Tax Law, Income and other complementary provisions, and (ii) for individuals and legal entities non-Mexican-residents as provided in articles 153 and 166 of the Income Tax Law and in other complementary provisions, and shall depend on the effective benefit of the interests. The precepts quoted can be modified in the future by other parties involved.

Said securities have been registered in the National Securities Registry and are listed in the Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange), the registration in the National Securities Registry does not imply certification of the quality of the certificates, the Issuer's solvency or on the exactness or veracity of the information contained in the report, or confirms the validity of the acts, which, accordingly, may have been carried out against the law.

Affirmative/Negative Covenants of the Issuer before Holders

Affirmative Covenants of the Issuer before Holders

In accordance with the terms of the Bank Securitization Certificates and until they are fully paid, unless the Holders of the majority of the Bank Securitization Certificates authorize otherwise, the Issuer is obliged to:

1. **Financial Statements.** Simultaneously to the disclosure of the quarterly or annual information to the CNBV, the BMV and the investors in accordance with the provisions of Article 33 of the Circular or any other applicable provisions or their substitute, sending a complete copy of said information by email to the Common Representative.
2. **Other Reports.** Comply with all the requirements for the submission or disclosure of information to which the Issuer is bound in accordance with the provisions of the Securities Market Law and the applicable provisions, including providing the CNBV, the BMV and the investors with financial, economic, accounting and administrative information indicated by the Circular. Additionally, upon written request of the Common Representative, the Issuer must provide a Certificate indicating the compliance by the Issuer and its Subsidiaries of the Affirmative and Negative Covenants contained in this Supplement and in the Title. Likewise, the Issuer must deliver to the Common Representative any information requested, acting in a responsible manner, with respect to the financial information of the Issuer and its Subsidiaries.
3. **Use of Resources derived from Issuance; Registration of Securitization Certificates.**
 - (a) Use of resources derived from the placement of the Securitization Certificates for the purposes established herein and (b) maintain the inscription of the Securitization Certificates in the National Securities Registry kept by the CNBV and in the list of BMV values.
4. **Legal Status; Accounting and Authorizations.**
 - (a) The Issuer must preserve its legal status and remain as an operating business, with the exception of the provisions of paragraph (3) (Mergers and Splits), the Section of "Negative Covenants" below, and (ii) if the Issuer determines in good faith that it is convenient to dissolve or liquidate any Subsidiary in order to streamline the corporate structure and the operations of the Issuer and its Subsidiaries provided that such dissolution or liquidation does not adversely affect the operations or the financial situation of the Issuer and any of its Subsidiaries in a consolidated manner in such a way that Monex's payment capacity and solvency are affected.
 - (b) Maintain its accounting, in accordance with the applicable legal provisions.
 - (c) Maintain all the authorizations, permits, licenses or concessions necessary for the proper functioning and exploitation of its activities and the activities of its Subsidiaries, except for those authorizations, permits, licenses or concessions which, if lost or revoked, do not have a negative effect in the operations or financial situation of the Issuer and any of its Subsidiaries in a consolidated manner in such a way that Monex's payment capacity and solvency are affected.
5. **Assets; Insurance.** Maintain the assets necessary for the performance of its activities and those of its Subsidiaries in good condition (with the exception of normal wear and tear), and make the necessary repairs, replacements and improvements.

For the purposes of the provisions of the preceding paragraph, the "necessary assets" shall only be understood as those whose loss, deterioration or lack of maintenance adversely affects the operations or the financial situation of the Issuer and its Subsidiaries in a consolidated manner in such a way that the payment capacity and the solvency of Monex are affected.

6. **Payment Preference.** To take all the necessary actions and measures so that the payment obligations covered by the Bank Securitization Certificates have the same preference in the payment as any other unsecured Debt of the Issuer.
7. **Registration and Listing.** To maintain the registration of the Bank Securitization Certificates in the National Securities Registry and in the BMV's list of securities.

Negative Covenants

In accordance with the terms of the Securitization Certificates and until they are fully paid, unless the Holders of the majority of the Securitization Certificates representing at least 51% (fifty-one percent) of all outstanding Securitization Certificates (calculated at par value) at that moment authorizes in writing otherwise, the Issuer is bounded to:

1. **Business Line.** Do not change its main business line and that of its Subsidiaries.
2. **Limitations in relation to Encumbrances.** The Issuer and its Subsidiaries must refrain from causing any Encumbrance, unless (i) simultaneously to the creation of any Encumbrance, the Issuer guarantees in the same manner its liabilities with respect to the Securitization Certificates, or (ii) should these be the Allowed Encumbrances (according to the definition of this term below).
3. **Mergers and Splits.** The issuer may not merge as a merged (or otherwise consolidated) or split, unless (i) the company or entity resulting from the merger or split expressly assumes the obligations of the Issuer pursuant to the Bank Securitization Certificates, (ii) there is no Cause of Early Maturity or any other event that over time or by notification, would become an Early Maturity Cause, as a result of such merger, consolidation or split, and (iii) the merger and excision do not adversely affect the operations or the financial situation of the Issuer and its Subsidiaries in a consolidated manner in such a way that Monex's payment capacity and solvency are affected.
4. **Payment of Dividends.** To not pay dividends or make any other distribution to its shareholders if (i) the Issuer is in breach of its obligations under the title documented by this Issuance and reproduced in this Supplement, or (ii) if making this payment Monex incurs in a default under the Title.

This annual report is also available online: www.monexsab.com > Investor Relation > Banco Monex > Annual Reports

For the year ending on December 31, 2016
Mexico City, this 28th day of April, 2017

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GENERAL
INFORMATION

Annual report · 2016

a) Glossary of Terms and Definitions

Below, we present a glossary with the definitions of the main terms and abbreviations used in this Annual Report.

“ABM”	Means “Asociación de Bancos de México, A.C.” (The Mexican Bank Association)
“Afore”	Means retirement funds administrator.
“AMIB”	Means “Asociación Mexicana de Intermediarios Bursátiles, A.C.” (The Mexican Financial Intermediaries Association)
“Basel III”	Means the capital agreement issued by the Basel Committee (Basel III), which has the intention of raising the capacity of international banking institutions to face financial or economic problems through the integration of higher and better-quality capital.
“BMV” or “Mexican Stock Exchange”	Means “Bolsa Mexicana de Valores, S.A.B. de C.V.” (the Mexican Stock Exchange)
“Brokerage Firm”	Means Monex Casa de Bolsa, S.A. de C.V.
“Certificate” or “Securitization Certificate” or “CBBs”	Means all Securitization Certificates issued by the Bank, which are described in this Annual Report.
“Circular Única de Emisoras” or “CUE”	Means “All General Provisions Applicable to the Issuers of Securities and other Parties Involved in the Stock Market” issued by the CNBV and published on the Federation Official Gazette on March 19, 2003, and all amendments made thereto.
“Circular Única de Bancos” or “CUB”	Means “All General Provisions Applicable to Credit Institutions” issued by the CNBV and published on the Federation’s Official Gazette on December 2, 2005, and all amendments made thereto.
“CNBV Accounting Standards”	Means all accounting standards issued by the CNBV, included in all “General Provisions Applicable to Regulated Corporations Controlling Financial Groups, Credit Institutions, Brokerage Firms and Financial Corporations with Multiple Purposes”, and all amendments made thereto from time to time.
“CNBV”	Means the National Banking and Securities Commission.
“CNSF”	Means the National Insurance and Finance Commission.
“Basel Committee”	Means the Basel Committee on Banking Supervision and its supervisory board, represented by central banks and bank supervision authorities from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, South Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and the United States of America.

"CONDUSEF"	Means the National Commission for the Protection and Defense of Financial Service Users
"CONSAR"	Means the National Commission for the Pension System
"Control"	Means the capacity of a Person or Group of Persons to carry out any of the following actions: (a) directly or indirectly impose decisions in general shareholders' meetings, or equivalent bodies, or assign or revoke the majority of the advisors, administrators or their equivalent, from any legal entity, of any nature; (b) to hold the rights allowing them to cast, directly or indirectly, a vote in relation to more than fifty percent of the capital stock of an entity of any nature; (c) to control, directly or indirectly, the administration, strategy or the main policies of an entity of any nature, either through owning stock or through an agreement or any other manner.
"Board of Directors"	Means the Bank's Board of Directors.
"Business Day"	Means any day, except for Saturdays and Sundays or any other day in which banking institutions are authorized or required to close in Mexico, according to the calendar published by the CNBV.
"Dollar", "US\$", "EUA\$", "EU\$" or "EE.UU. \$"	Means Dollars, the currency used in the United States of America.
"Issuance"	Means any Securitization Certificates issued by the Issuer in accordance with the Program.
"Issuer", "Monex Bank", "Banco", "Monex", or "us", "our", "ours", "we" and similar terms	Means Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and its Subsidiaries.
"Government Body"	Means any power, either judiciary, legislature or executive, in any form of action and through anybody or office, any court, department, agency, branch, commission, entity, secretariat, council, bureau or other similar authority, national, state, territorial, municipal or any other subdivision in Mexico (including all officers and their representatives).
"Financial Statements" or "Ruled Financial Statements"	Means the financial statements audited by the Bank as of December 31 of 2016, 2015 and 2014, as well as the Notes included as part of the same.
"United States" or "USA"	Means the United States of America.
"Euro"	Means the currency in use in member countries of the European Union.
"Financial Group" or "Monex Financial Group"	Means Monex Grupo Financiero, S.A. de C.V.
"IASB"	Means the International Accounting Standards Board.
"ICAP"	Means capitalization ratio, understood as the net capital amount of weighted assets by market risk, credit risk and operating risk calculated in accordance with the methodology

	established or implemented at the time by the CNBV, according to the Capitalization Requirements.
“IFRS”	Means International Financial Reporting Standards issued by the IASB.
“Indeval”	Means S.D. Indeval, S.A. de C.V., an Institution for the Deposit of Securities.
“INEGI”	Means the National Institute of Statistics and Geography (In Spanish: Instituto Nacional de Estadística y Geografía).
“INFONAVIT”	Means the Federal Institute for Worker’s Housing.
“Brokers”	Means, jointly, Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, and/or any other brokerage firm authorized by the Issuer to act as broker for each Issuance.
“IPAB”	Means the Institute for the Protection of Bank Savings.
“IPC”	Means the Price and Quotation Index.
“ISR”	Means Income Tax.
“IVA”	Means Value-Added Tax.
“LIBOR”	Means the London Interbank Offered Rate.
“Pound Sterling”	Means the currency of the United Kingdom.
“LIC”	Means the Credit Institutions Law.
“LISR”	Means the Income Tax Law.
“LMV”	Means the Stock Market Law.
“LRAF”	Means the Law for the Regulation of Financial Groups
“MexDer”	Means Mercado Mexicano de Derivados, S.A. de C.V. (Mexican Derivatives Exchange)
“Mexico”	Means the United Mexican States.
“Monex Casa de Bolsa”	Means Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero and its Subsidiaries.
“Monex Europe”	Means Monex Europe, formerly Schneider Foreign Exchange Limited.
“Monex Grupo Financiero”	Means Monex Grupo Financiero, S.A. de C.V. and its Subsidiaries.
“Total Authorized Amount”	Means the amount authorized for the Banking Securitization Certificates Program, which amounts to \$8,000 million pesos or its equivalent in UDIs or other currencies.

"Person"	Refers to any individual or legal entity, company, and limited liability company, joint venture, limited liability corporation, trust fund, corporation and any Government Body.
"Peso" "Ps." o "\$"	Means the currency used in Mexico.
"GDP"	Means the Gross Domestic Product of Mexico.
"Program"	Means the Securitization Certificates Program referred in this Annual Report, authorized by the CNBV through official note number 153/5535/2015 of July 14, 2015.
"Prospect"	Means the Placement Prospect for the Issuance of Securitization Certificates including its attachments.
"Common Representative"	Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero and/or any other credit institution and/or brokerage firm authorized by the Issuer to act as such, as determined in the corresponding supplement.
"Capitalization Requirements"	Means the capitalization requirements for commercial banks, established by the LIC and the Circular applicable to Credit Institutions, which might be modified from time to time.
"RNV"	Means the National Securities Registry kept by the CNBV.
"SAT"	Means the Tax Administration Service of the Ministry of Finance and Public Credit.
"Sofom"	Means Multiple Purpose Financial Institutions.
"Subsidiary"	Means with respect of any Person, any entity owned by said Person or any of its Subsidiaries, or in which said owner has the voting right of more than 50% (fifty percent) of the stock or interest of said entity, thereby having general voting power in order to participate in the election of its Board of Directors.
"Supplement"	Means any supplement accompanying the Prospect prepared in relation to an Issuance, containing the characteristics corresponding to the Issuance of Securitization Certificates in support of the Program.
"Tempus"	Means Tempus Inc., antes Tempus Consulting Inc.
"Holders"	Means the legitimate holders of Securitization Certificates.
"TIIE"	Means "Tasa de Interés Interbancaria de Equilibrio" (Interbank Interest Rate).
"Shares"	Means, equally, each of the global securities supporting the Securitization Certificates issued in support of each Issuance, in accordance with the Program.
"UDI" o "UDIs"	Means "Unidades de Inversión" (investment units).

b) Executive Summary

Unless otherwise is expressed or required by the context, the terms contained in this Report referring to “us”, “our”, “ours”, “we”, or similar terms, refer to Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, acting as Issuer and its Subsidiaries. Below, we include a summary of certain information from our business, as well as the financial and operating information from our competitive sales and strategies. The summary described below does not include all the information that might be relevant for the investors, intending to invest in the Issuer. Therefore, before making any decision, investors must read this Report completely, specifically the information contained in the sections “Risk Factors”, “Business” and “Administration Comments and Analysis regarding the Financial Status and Operations Results”, as well as our Financial Statements. Unless it is specified, all the applicable financial information referred to in this Report has been compiled in accordance with the Accounting Criteria issued by the CNBV.

Monex Bank

We are a credit institution which carry out multiple banking transactions such as commercial credits, deposits, risk management products, in addition to our main services, which include foreign exchange and international payments services.

Monex Bank is a financial entity based in Mexico City with two international subsidiaries: Monex Europe and Tempus. Currently, we offer financial solutions through two main divisions:

Corporate Banking, mainly focused on medium-sized and big corporations with international transactions, such as:

- Foreign Exchange and international payments
- Exchange and interest risk management products
- Credit and commercial lines of credit
- Cash & Management through our digital account
- Investments in banking and credit instruments
- Funds and savings accounts

Private Banking and Markets, offers its products mainly through Monex Casa de Bolsa and is focused on providing services for individual clients who requires asset management, deposits, investment funds and brokerage services.

We offer the following products:

- Accounts and investment
- Asset Management
- Credits loans
- Capital Market
- Risk management products
- Trust services
- Investment Funds
- Money Market and treasury

The Chapter 2. The Issuer of this Annual Report, includes more detailed description on the products and services offered by these divisions, as well as the growth strategies and competitive advantages of the Institution.

Our business model is based on the efficiency of our payment processing capacity, customer service and long term relationships.

Likewise, our international growth has been based on the efficient use of our experience in Mexico in order to expand and diversify our income source. We have seized the synergies in our commercial practices, with sales in general and cross sales. In addition to the successful integration of the transactions from said companies to our group, we have been able to boost their growth and offer a wider range of products.

Among the competitive advantages of Banco Monex, the following stand out:

- Market leadership in the foreign exchange payment services
- Superior execution and service supported by our leading and scalable information technology and payment platform
- Recurring client base of well established and growing large- and medium- sized corporates served by a specialized salesforce
- Proven track record of expanding product offering and market presence organically and through acquisitions
- Increasingly diversified product portfolio that enhances cross-selling and future growth
- Strong risk management and anti-money laundry controls and corporate governance practices
- Experienced management team

These differentiators in the market have allowed Banco Monex to attract an extensive client portfolio, whose continued demand provides a steady revenue and base for growth.

In addition to our operations in Mexico, Banco Monex has two subsidiaries abroad: Monex Europe (with presence in the UK, Spain, the Netherlands and services in the European Union) and Tempus (United States and Canada). Through these companies Banco Monex has been able to access the international markets, offering foreign exchange and international payment services.

Recent Events

i. Investment Authorization

In late 2016, the CNBV authorized the investment of Monex Europe HOLDINGS Limited in MonFX Pte. Ltd., a new company formed on April 26 of 2016 in the Republic of Singapore which is currently a filial of Monex Europe Limited, with authorizations before the Monetary Authority of Singapore currently being processed.

ii. Selling of part of Tempus' shares

On October 30, 2015, Monex Negocios Internacionales, S.A. de C.V., (a Bank's subsidiary) signed a purchase agreement in order to transfer 17% of the total shares of the Tempus subsidiary to Monex, S.A.B. (formerly "Holding Monex") (part related to the Bank) at market prices based on a study carried out by an independent consultant. This transaction has been authorized by the Commission through Official communication No. 312-3/14049/2015.

iii. Issuance of Securitization Certificates

The bank carried out its first public offer of Securitization Certificates under the ticker symbol "BMONEX15", which has been registered in the RNV and listed in the BMV based on the long-term revolving Securitization Certificate program for up to \$8,000 million pesos.

The first issuance was carried out on July 14, 2015 for an amount of up to \$1,000 million pesos represented in 10 million Securitization Certificates with a face value of 100 pesos each, authorized by the Commission through Official Communication No. 153/5535/2015. The term is of 1,092 days, equivalent to 3 years, placed at a TIIE rate of 28+90 pb.

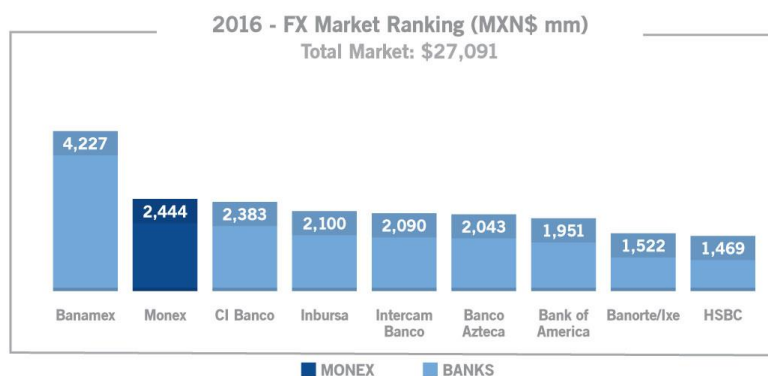
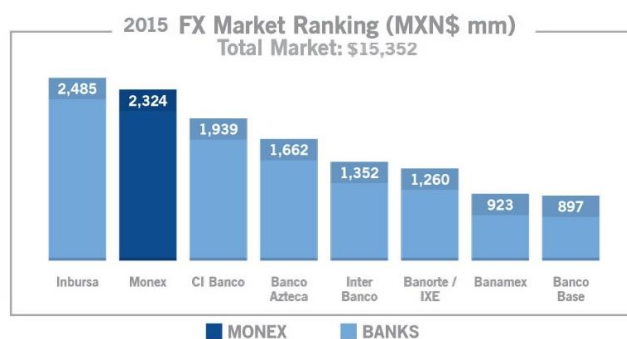
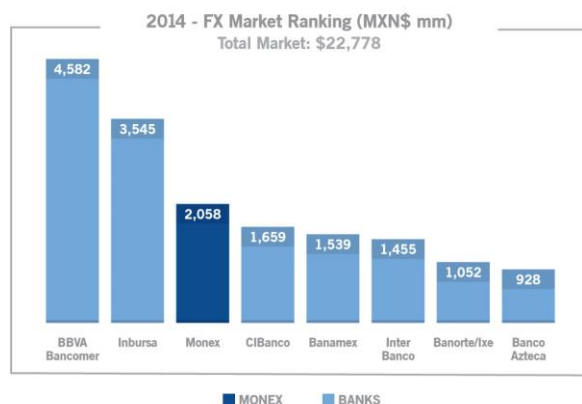
iv. Selling of the Subsidiary Monex Servicios

On October 15, 2014 the bank signed a purchase and sale agreement for shares to transfer all of the shares from Monex Servicios, S.A. de C.V. to Gentera, S.A.B. de C.V., which shall be subject to authorization from the corresponding regulating Authorities on December 31, 2014. Said transaction was authorized by the CNBV through Official Communication No. 312-3/13774/2015 on March 27, 2015, being the effective date for all legal, accounting and tax purposes.

Market Participation

i. Foreign Exchange Income

According to internal calculations made with information published by the CNBV, during 2016 we had a foreign exchange market share calculated based on our total income of \$2,444 million pesos*, which represented a total market share of 9.02%, of \$2,324million pesos for 2015, which represents 15.14% of the total market, and \$2,058 pesos during 2014, which represented 9.04% of the total market. Below, we show the income ranking in the foreign exchange market based on detailed information resulting from brokerage, including the section "Financial Status Information, Multiple Banking" taken from the CNBV's website. Figures were obtained for the years ending on December 31st of 2016, 2015 and 2014.

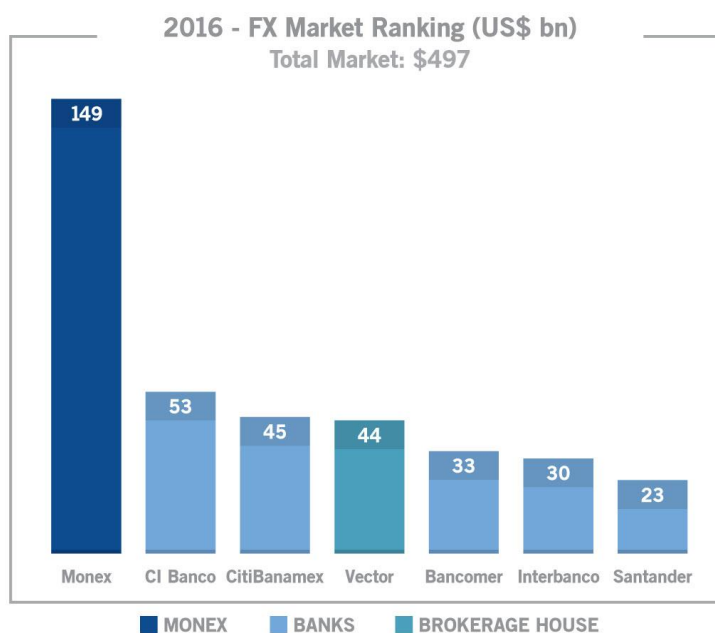
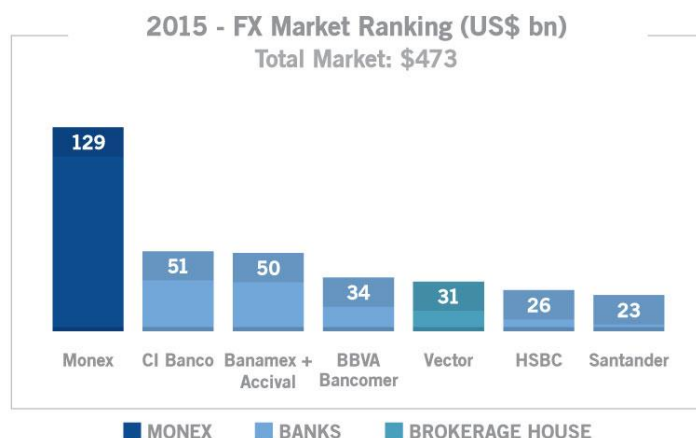


Source: Monex, based on CNBV's statistics (<http://portafoliodeinformacion.cnbv.gob.mx/bm1/Paginas/infosituacion.aspx>). They are considered as income without currency position valuation.

(*) Information obtained from the CNBV on January 25, 2017 (information from Monex Bank without Subsidiaries)

ii. Foreign Exchange Market Volume

The total volume of our foreign exchange transactions in Mexico with non-financial non-governmental clients as of December 31, 2016 was equivalent to USD \$ 149 thousand million (3,077 thousand million Pesos, at an exchange rate of \$20.6194 Pesos per US Dollar, published by the Bank of Mexico on December 31st, 2016), and USD \$129 thousand million (\$2,230 thousand million Pesos at an exchange rate of \$17.2487 Pesos per US Dollar, published by the Bank of Mexico on December 31st, 2015) in 2015 and USD \$139 thousand million (\$2,050 thousand million Pesos at an exchange rate of \$14.7414 Pesos per US Dollar, published by the Bank of Mexico on December 31st, 2014) for 2014, respectively. Below, we show a comparison of the volume of our transactions in the market, defining said market as non-financial private domestic clients, based on statistics from the Bank of Mexico:



Source: Internally prepared based on statistics from the Bank of Mexico. Information in thousands of millions of US Dollars.

iii. Loan Portfolio

According to ruled financial information, the total loan portfolio of the Monex Bank amounted on December of 2016 to \$18,285 million pesos, an increase of 46.6% in relation to December of 2015. The above has placed Monex in the 17th place of multiple banking financial institutions with the biggest loan portfolios in Mexico, according to information published by the CNBV.

iv. Income Composition by Line of Business

During the last years we have increased and diversified our client base and increased our income sources by adding new traditional banking products and services to our portfolio.

During 2016 we carried out over 4.3 million payment transactions for our clients (0.88 million international transactions and 3.42 million domestic transactions).

We have boosted the credit and deposits activities, which are reflected in the substantial increase of our net loan portfolio. This line of business is mainly oriented to the financing of the working and investment needs of medium-sized corporations. We seized of the existing relationships and the knowledge we have gained from our clients through our foreign exchange and international payment services, in order to identify and benefit from credit business opportunities. We believe that we have maintained a conservative business strategy, giving priority to moderate risk profile in relation to an accelerated portfolio growth.

During 2016, we have provided services for more than 40,205 clients in Mexico and more than 11,592 clients in the United States, Canada, Spain and the United Kingdom through our Tempus and Monex Europe subsidiaries.

We offer our products and carry out our activities indirectly and through our Tempus and Monex Europe subsidiaries, as international foreign exchange and payment services companies. Monex Bank has identified the opportunity to innovate in these markets as all current products offer *plain vanilla* foreign exchange transactions.

Our branch network in Mexico has given us the possibility of having nationwide coverage and presence in the main financial and business centers. From the total income of the Monex Bank as of December of 2016, 68% came from our transactions in Mexico and the rest from our international line of business.

We were able to start our business in Mexico through the power of specialized promotion, having 698 agents in Mexico, which, proactively seek for new business opportunities through the creation of new relationships with new clients and through cross-sales of products from our different business segments. Our sales agents have a solid system platform, on which we have made substantial investments with the purpose of improving the speed, efficiency, reliability and profitability of our payment processing and offering new purchase and sales solutions for foreign exchange and transfers for our clients.

Total income from transactions of the year ending on December 31, 2016, 2015 and 2014 were of \$5,960, \$4,596 and \$3,777 million pesos, respectively. The Monex Bank has identified the operating segments from each of its different activities, taking into consideration each of them as a component within its internal structure, with specific performance risks and opportunities. These components are periodically reviewed with the purpose of assigning adequate monetary resources for their operation and performance evaluation.

Our total income from transactions in 2016 has increased by 29.7% in relation to 2015, and by 21.7% in 2015 in relation to 2014. This increase is mainly due to the incorporation of income from our abroad subsidiaries; an increase in credit lines and attraction, as well as stock market products. Likewise, the net profit increased by 60.6%, passing from \$670 million pesos in 2015 to \$1,076 million pesos in 2016.

Our revenue margins show the strength of our business model in the foreign exchange and international payment market of the Mexican financial sector.

For further detail, see the section "Transaction Results by Business Segment – Financial Information" of this Annual Report for detailed description of the main variations of our activities per segment.

Relevant Indicators

The following chart shows the Return on Average Equity (ROAE) as of December 31, 2016 of Banco Monex:

(in million pesos)	2016	2015	2014
Net Result (majority)	931	562	460
Shareholders' Equity			
as of December 31 (current year)	7,749	6,697	5,119
as of December 31 (previous year)	6,697	5,119	4,246
ROAE (per year)	12.89%	9.51%	9.82%

Source: Internally compiled with information from Banco Monex, figures in millions of Pesos except for the ROAE.

The performance of the Bank is the result of an effective business model focused on the provision of efficient and reliable financial services for highly profitable market segments.

Below, we present the Relevant Indicators, with samples from Banks with assets above \$10,000 million pesos, excluding foreign bank subsidiaries without retail activity as of December 31, 2016.

Institution	ROE
Bancoppel	34.04
Compartamos	32.20
BBVA Bancomer	21.77
Banregio	20.19
Inter Banco	20.03
Interacciones	18.86
Banca Mifel	16.66
Banorte	14.37
Monex	14.27
CIBanco	13.85
Banco del Bajío	13.73
Santander	13.65
Banco Azteca	12.93
Market	12.65
Banco Base	12.08
Invex	11.87
Scotiabank	11.46
Bansi	10.09
Inbursa	9.49
Multiva	8.47
Afirme	7.14
Banamex	7.01
Ve por más	4.79
Banco Ahorro Famsa	3.84
Actinver	3.50
HSBC	2.43

Institution	ICAP
Compartamos	27.51
Banco Base	24.15
Inbursa	18.48
Bancoppel	17.63
Bansi	17.15
Afirme	17.10
Multiva	16.36
Santander	15.74
Intercom Banco	15.44
Interacciones	15.40
Banco Azteca	15.34
Banorte	15.30
Market	14.90
Monex	14.77
Invex	14.66
Banca Mifel	14.48
Banamex	14.36
Scotiabank	13.82
BBVA Bancomer	13.73
Actinver	13.04
Ve por Más	13.03
CIBanco	12.88
HSBC	12.88
Banregio	12.45
Banco Ahorro Famsa	12.22
Banco del Bajío	12.09

Institution	Operating Efficiency
Interacciones	42%
Inbursa	47%
Banregio	48%
Bansi	56%
Santander	57%
BBVA Bancomer	58%
Bancoppel	60%
Banco del Bajío	60%
Banorte	60%
Banca Mifel	63%
Compartamos	67%
Scotiabank	70%
Multiva	76%
Banamex	77%
Monex	77%
Invex	78%
Banco Base	81%
Inter banco	86%
Afirme	87%
Ve por Más	87%
CIBanco	89%
HSBC	92%
Banco Azteca	92%
Actinver	96%
Banco Ahorro Famsa	96%

* Operating Efficiency: Internally compiled with information from the CNBV (Administrative Expenses / Operating Income)

Internally compiled with figures obtained from the CNBV. Figures do not include subsidiaries.

Financial Structure

The following chart reflects the consolidated General Balance with audited figures for the years ending on December 31, 2016, 2015 and 2014 in millions of Pesos.

Concept	Figures for the years ending on December 31 st of:		
	2016	2015	2014
Assets			
Funds available	15,825	15,607	16,148
Margin accounts	722	379	521
Investment in securities and repurchase agreements	34,543	22,035	10,770
Derivatives	3,956	1,400	1,889
Loan portfolio (net)	17,987	12,295	7,928
Other receivables (net)	17,227	13,580	12,197
Long-lived assets held for sale	-	-	38
Deferred taxes and profit sharing (asset)	615	224	81
Other assets	2,680	2,299	2,016
Total Assets	\$93,555	\$67,819	\$51,588
Liabilities			
Deposits	27,994	18,748	14,560
Bank and other loans	1,422	880	792
Liabilities arising from sale and repurchase agreements	21,754	15,577	6,643
Collaterals sold or pledged in guarantee	436	440	-
Derivatives	2,691	1,055	1,380
Other liabilities	31,509	24,422	23,094
Total Liabilities	\$85,806	\$61,122	\$46,469
Stockholders' equity			
Capital contributed	2,741	2,741	1,725
Earned capital	3,903	3,007	2,677
Non-controlling interest	1,105	949	717
Total Stockholders' equity	\$7,749	\$6,697	\$5,119
Total Liabilities + Stockholders' equity	\$93,555	\$67,819	\$51,588

Internally compiled with figures as of December 31· 2016, 2015 and 2014. Figures in millions of pesos.

As of December 31st, 2016, this institution has assets equivalent to \$93,555 million Pesos, liabilities amounting to \$85,806 million Pesos and a shareholders' equity of \$7,749 million pesos. For further detail on the main variations, please see the Section "Changes in the main balance accounts – Chapter 3. Financial Information" of this Yearly Report.

Rating

As of December 31st of 2016, the Bank had the following ratings from Fitch Ratings and Standard and Poor's:

FitchRatings [*]			STANDARD ^{**} & POOR'S			
Long-Term	Short-Term	Perspective	Long-Term	Short-Term	Perspective	Rating***
'A+(mex)'	'F1'	Stable	'mxA+'	'mxA-1'	Stable	Banco Monex (NS)
-	-	-	'BB+'	'B'	Stable	Banco Monex (GS)
'A+(mex)'	-	-	'mxA+'	-	-	MONEX 15 (NS)

* Verified by Fitch Ratings on November 24, 2016

** Verified by Standard & Poor's Rating Services on March 30, 2017

*** NS: National Scale/ GS: Global Scale

Market Opportunity

Our main business is to provide banking services for companies with both domestic and international operations. The foreign exchange market has been and remains being influenced mainly by the foreign trade flow. We carry out the majority of our business activities in Mexico, the country that has registered an important increase in its international commercial operations due to the North American Free Trade Agreement (NAFTA) and the ratification of other international treaties that have contributed to strengthen the operations of foreign trade for Mexico.

Based on our experience, we consider that the European Market represents great opportunities for the financial services we currently offer, with offices in the United Kingdom, Spain and the Netherlands, through our subsidiary Monex Europe.

c) Risk Factors

Investing in our securitization certificates involves risks. Investors must carefully analyze and take into consideration the following risk factors, in addition to all other information contained in this Yearly Report, and in the prospects, supplements and placement notifications corresponding to each issuance. The occurrence of any of the risks described below may significantly and adversely affect our business, financial condition and/or operating results. Consequently, the Bank's capacity to pay main and interest amounts in support of our Securitization Certification might be materially and adversely affected by the risks described below, being the same that we currently consider as relevant and which might have an effect on us. Our business, financial condition and/or operating results might also be affected due to additional risks, to those that are currently known to us, or which we currently do not consider as relevant.

The description of the risks inherent in the Bank's activities, its business and transactions, as well as certain quantitative information on different risks, with data referring to the fiscal years 2016, 2015 and 2014 are included in Chapter 7 "Annexes" of this Annual Report. Also this chapter contains a report from the Audit Committee of Banco Monex and the independent auditors' report as well as the consolidated financial statements for the years ending on December 31· 2016, 2015 and 2014.

d) Other Securities

On the date of this Annual Report, the Bank does not hold additional securities to those represented in the Mexican Securitization Certificates Program (BMONEX15) registered in the RNV or listed in the BMV, or any other market.

In terms of Articles 33, 34, 50 and others applicable of the CUE, the Issuer has the obligation to deliver to the BMV and the CNBV, annually and quarterly, financial, economic, accountable, administrative and legal information, including annual financial statements issued by external auditors. Likewise, the Bank has to disclose any event or occurrence considered as relevant, in terms of the LMV, the CUE and other applicable regulations.

During the second half of 2015, Banco Monex carried out the first issuance of Securitization Certificates in support of the first Program approved and was obliged to reveal the aforementioned periodic information. In light of the above, the Bank has delivered in full and in a timely manner the reports required by the Mexican law in relation to periodic information and relevant events, both to the BMV and the CNBV in compliance with the CUE and is up to date in the obligation payments.

Quarterly financial information must be published within the 20 business days following the end of each of the first quarter of the fiscal year and within the 40 business days following the fourth quarter.

For the quarterly reported information it should be presented cumulatively and the comparison with the information corresponding to same period from the last year. Likewise, Banco Monex has timely delivered all reports in full, required by the applicable legislation, in relation to the relevant events and periodical information.

Monex Bank does not have securities registered in the RNV or lists from other markets, different to those indicated in this section.

e) Material changes to the rights pertaining to securities before the Registry

On the date of this Annual Report no significant changes have been made to the rights on any type of security that have been registered in the RNV.

f) Intended use of proceeds

Net funds obtained from the placements of Securitization Certificates with the ticker symbol "BMONEX15" amount to approximately \$992'974,623.34 (nine hundred and ninety-two million nine hundred and seventy-four thousand six hundred and twenty-three Pesos 34/100 National Currency). See section "IV. Offer-Related Distribution-Expense Plan" of the Supplement. Net funds obtained from the placement of the Securitization Certificates referred to in the Supplement shall be used mainly to (i) improve and maintain the liquidity and funding profile of the Issuer's balance in an approximate percentage of 45% (forty-five percent), (ii) continue with the Issuer's loan portfolio growth in accordance with the regulations of the Credit Institutions Law and others applicable regulations in an approximate percentage of 45% (forty-five percent) and (iii) corporate uses in general, within the ordinary course of action of the Issuer's line of business in an approximate percentage of 10% (ten percent), which shall not include the financing for the acquisition of other businesses or the partial or full amortization of a debt.

g) Public Documents

All of the Bank's public information and documents included and/or referred in this Report might be accessed by all investing general public and Holders through the BMV at their offices located in Avenida Paseo de la Reforma 255, Colonia Juárez, Postal Code 06500, Mexico City, or in the BMV's webpage (www.bmv.com.mx), or in the CNBV's webpage (www.cnbv.gob.mx), or in Monex, S.A.B.'s webpage (www.monexsab.com).

Engineer Alfredo Gershberg Figot, Corporate Director of Planning and Relations with Investors is the person in charge of all relations with Monex's investors and may be reached at the headquarters of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, located at Avenida Paseo de la Reforma 284, piso 15, Colonia Juárez, 06600, Mexico City or the telephone (55) 5231 0870 or in the following email address: agershberg@monex.com.mx

GRUPO FINANCIERO

monex

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THE ISSUER

Annual Report • 2016

a) History and Development of the Issuer

Company name and business name of the issuer.

Company name: Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero
Business name: "Banco Monex".

Date, place of incorporation and duration of the issuer.

The Issuer was incorporated on July 10, 2007 in Mexico City, Mexico. The duration of the Issuer is indefinite.

Address and phone numbers of the headquarters.

Paseo de la Reforma No. 284, level 15 Colonia Juárez, C.P. 06600, Mexico City, Mexico.
Phone: +(5255) 52300200

Our Bank

By expanding its business areas, Banco Monex has ventured into various businesses which are explained in detail further in this chapter.

Our financial group began operating over 31 years ago, doing business both nationally and internationally, with commercial and financial entities, through Casa de Cambio Monex, S.A. de CV, a company authorized by the SHCP to operate as a foreign exchange brokerage house, in order to provide foreign exchange and international payment services both to individuals and corporations, in an efficient, reliable and high quality way, at competitive prices.

- **1997.** Comerica Bank México, S.A., Institución de Banca Múltiple is incorporated.
- **2006.** Grupo Financiero Monex acquires Comerica Bank México, S.A., Institución de Banca Múltiple, changes its name to Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and incorporates it as a subsidiary of Monex Grupo Financiero.
- **2010.** Acquisition of Tempus, Inc., an independent non-bank company incorporated under the laws of the State of Delaware, United States, dedicated to providing foreign exchange and international payment services in the United States, with headquarters in Washington D.C.
- **2012.** Acquisition of Schneider Foreign Exchange Limited, a company incorporated under the laws of the United Kingdom, dedicated to providing foreign exchange and international payment services in the United Kingdom, with headquarters in London. Currently the company name is Monex Europe, it also has the capacity to offer its services throughout the European Union.
- **July 2015.** Banco Monex issued its first stock of banking securitization certificates identified with a "BMONEX15" ticker symbol for a total of \$1,000 million pesos. The validity period of these titles was established for 3 years and they were placed at a rate of TIIE 28 days + 90bp.
- **October 2015.** Monex Negocios Internacionales, S.A. de C.V. (a Bank subsidiary) signed a share trade agreement to transfer 17% of the total shares of its subsidiary Tempus Inc. ("Tempus") to Monex, S.A.B. (formerly "Holding Monex") (the Bank's related party) at market prices based on a research conducted by an independent consultant. This operation was authorized by the Commission in Official Note No. 312-3/14049/2015.

We are a credit institution which carry out traditional banking transactions such as commercial credits, deposits, risk management products, foreign exchange and international payments services. However, we mainly focus on the foreign exchange and international payment services, for non-financial clients in Mexico, related mainly to foreign trade activities and commercial transactions carried out by our clients, among others.

During 2012 we continued our international expansion by the acquisition of Monex Europe, one of the main specialists in foreign exchange in the United Kingdom, a company through which we also have presence in Spain and the Netherlands, and the capacity to offer our services in the rest of the European Union. Additionally, Banco Monex sees an opportunity to innovate in these markets because our current product offered is *plain vanilla* foreign exchange service.

In addition to the acquisition of the aforementioned subsidiaries, we currently have a presence in the United States, Canada, the United Kingdom, Spain and the Netherlands, besides of Mexico.

Due to the acceptance of the European market on the range of financial services offered by Monex, we are convinced that this new office shall represent a value added for the Financial Group and allow us to have a greater reach in our segment of clients.

During the last few years we have increased and diversified our clients base and increased our sources of income by incorporating new traditional banking products and services into our portfolio. We have strongly boosted credit activity, which is mainly aimed at financing the working capital and investment needs of medium-sized enterprises. We get benefit from the relationships and knowledge we have with our clients through our foreign exchange and international payment services to identify and use the opportunities in the credit business. We believe that we have maintained a conservative credit strategy, prioritizing a moderate risk profile over accelerated portfolio growth.

b) Business Description

I. Main Activity

Over the past years we have focused on maintaining our leading position in services for international companies and continue to strengthen our trade operations, foreign exchange and international payment service, while promoting the diversification of our activities to have different and attractive sources of income. Over the past years we have increased our efforts in offering traditional banking products and our private banking services. Through the diversification of operations, we seek to continue the good relationship with our current clients and attract new clients to increase our volume of operations and revenues in Mexico, the United States, Canada and Europe. One of our main goals is to continue providing services and offering products in an efficient manner to our clients.

To achieve this goal, we organize our business operations in the following activities:

- Foreign exchange and international payment in Mexico
- Foreign exchange and international payment In the United States, Canada and Europe
- Foreign exchange and interest rate coverage
- Traditional banking services (focusing on our credit loan products) and trust services
- Brokerage service and financial assets management

Our strategy

As part of our strategy we seek to maintain our leadership in the Mexican foreign exchange and international payment services market while offering other financial services as part of our diversification strategy with the purpose of improving and increasing our clients' deposit base and our loan portfolio, seeking to continue operating as a profitable financial institution. For these purposes, we have developed the following business strategies which, we believe, would allow us to achieve our growth and profitability objectives.

To channel our efforts in the growth of Banco Monex, we group our services into two divisions: Corporate Banking and Private Banking. The following description contains the details of the businesses that are carried out within each one:

Corporate Banking

We have a diversified range of products intended for our Corporate Banking division, among others we distinguish:

- Foreign exchange
- Exchange and interest risk management products
- Credit products
- Cash management through our digital account
- Investments in banking and credit instruments
- Funds and savings accounts

During 2016 the number of clients that operate some type of credit derivative or use some electronic banking service, in addition to operating foreign exchange and sending or receiving international payments, has increased.

The hedge that our executives offer to clients along with support of product specialists in each one of our services, has allowed us to increase the revenue per client and to retain these clients through these new services.

During the second half of 2016 we detected the potential of each client in each one of our products, based on different variables that allow us to channel and potentialize our hedge efforts. We have established a monitoring methodology to ensure the proper product offer based on the client requirements.

Foreign Exchange Market

Monex started operations with the foreign exchange and international payment business in Mexico, focused mainly on small and medium-sized Mexican non-financial companies, mostly related to commercial trade. We are the largest service provider in this field in Mexico based on revenues. In 2016, we carried out a total amount of 4.3 million payment operations (0.88 million international operations and 3.42 million domestic operations).

Due to the relevance of the foreign exchange business at Monex, internal figures show that approximately \$2,444 million Mexican pesos were generated from the company's total revenues in 2016 in this business segment, which represents 42% of Monex's total revenues in 2016. We will focus the first part of the activities description on the foreign exchange service.

A typical foreign exchange transaction involves the following steps:

- Sales agent quotes, negotiates and closes a telephone operation with a client
- Sales agent creates a record of the operation in the computer system
- The operation is confirmed to the client by e-mail
- The operation is verified to ensure its compliance with the requirements
- Client delivers funds to one of our bank accounts, either in pesos or dollars or other currencies
- Bank delivers funds to the client's account or the person indicated by client, either in pesos or in dollars or other currencies

Our revenues from foreign exchange operations depend on the number and size of operations we process, and come from the margin above the cost of foreign exchange transactions, that we charge our clients.

The margin we earn on each foreign exchange transaction is the difference between the exchange rate quoted by our trading desk and the exchange rate we charge our clients, which is determined by each sales agent. Our trading desk provides real-time exchange rates to our sales agents, who have the option of adding the margin to that price. To determine the amount of margin in each transaction, our sales agents take into consideration the currency in question, the size of the transaction, the volatility and our costs of providing additional services, such as the transfer of funds and delivery. Our sales force also uses our information system to determine the appropriate margin for each transaction. Generally, high volatility increases our earnings due to higher operating margin.

Currently, very few trading transactions and foreign exchange are carried out via Internet or in markets of virtual auctions. In our opinion, clients give greater importance to the relationship they have with the supplier and to the quality of the service provided to them, rather than to the price, particularly for small and medium-sized enterprises, where trading transaction and foreign exchange operations are small. However, we will continue to consider appropriate technology and strategies to anticipate changes in clients' demand, which will allow us to operate more efficiently.

We maintain long-term relationships with our clients, whose continuous foreign exchange needs allow us to have a stable operation base. Currently, the volume traded by foreign exchange operations with companies is approximately 91.9%, and with financial clients, natural persons conducting a business activity and individuals is approximately 8.1%. We do not engage in operations with proprietary positions, although we take intraday positions, regarding the processing of orders of our clients.

Currently, our strategy to maintain our market positioning consists in maintaining operation lines with important banks worldwide, as well as active and constant participation, with the purpose of offering the best prices to our clients. These synergies have allowed us to place ourselves in an important ranking mainly for foreign banks, which allow us to use excellent technological instruments for exclusive prices.

International expansion

Through our subsidiaries we pretend to provide services for corporate clients who have a single contact point to satisfy all their trading and payment needs. Relationship managers are experienced industry professionals, both at Tempus and Monex Europe, focused on the understanding of all aspects of the business, as well as relevant knowledge of foreign exchange operation and international payments services to meet the payment needs of the clients.

Tempus

Tempus is focused on serving around 2,800 corporate clients through our offices in the USA (one office in Los Angeles, one in Washington, DC and one in New York), and an office in Toronto, Canada. Its main business is to process transactions between the USA and Canada. In 2016, it processed over \$1.5 billion dollars in import and export operations. Tempus provides only the foreign exchange operation service therefore, concentrates all its resources in being a specialist in this area offering services that allows it to stand out in the market.

Monex Europe

Monex Europe is a company incorporated under the laws of the United Kingdom (England and Wales) and operates as an Authorized Payment Institution. Monex Europe is engaged in foreign exchange transactions, international payments and money transfers, being authorized to operate as such, under the heading of Money Remittances, issued by the Financial Services Authority ("FSA").

In 2016, the internal figures reflect that the operating income amounted to \$1,563 million pesos, which represents a 44.2% growth compared to the revenues of 2015.

Our office in London remains the center of operations and this year contributed with 96% of net income. In our office in Madrid there are already 12 employees integrated to the team, we observe a significant increase in the number of operations and we are currently in the process of consolidating our position in that country. In our Amsterdam office, we currently have 10 employees and plan to increase the team in the future.

Monex Europe allows us to offer payment services to all the countries of the European Union. Currently we have offices in London, Madrid, Asturias and Amsterdam.

Other Financial Products and Services

Risk management products

Within our risk management area, we offer options, forwards, swaps, futures, among others, with the following underlying assets:

- nominal interest rates
- real interest rates
- shares
- certificates of participation (COP) on shares, currencies, prices or stock indexes

In this matter, Banco Monex is oriented to cover the investment and hedge needs of its clients, both individuals and corporations.

Within the derivatives operation, there are several structured products tailored to the client's need of hedge.

In 2016, the issues of structured notes amounted to a total of 2,175 "J's" and 398 "F's" issues for a notional of \$73,408 million pesos (certificates of deposit and bank bonds) which places us as the main issuer in Mexico.

In addition, a total of 31,335 derivative transactions related to the peso-dollar exchange rate were carried out in both recognized and "OTC" markets during 2016, which amounted to a total of \$10,741 million US dollars.

Regarding the issuance of structured products, in 2016 in the city of Boston, *Structured Retail Products* rewards Banco Monex for the fifth consecutive year as the main issuer of structured notes in Mexico, this time the awards are:

- Best Distributor in Mexico
- Best Distributor in Latin American

Banking Products

Credit Loans

In 2016 we continued our strategy of increasing the granting of loans to our clients and the deposits. These traditional banking services are a fundamental part of the revenue diversification strategy in addition to our core foreign exchange and international payments services.

Banco Monex's credit activity continues to be mainly focused on financing the working capital and capital investment needs of companies. We get benefit of the relationships and knowledge that we have of our clients through the transactionality in foreign exchange and international payments to identify new opportunities in the credit business. We maintain a conservative granting loans culture, giving priority to a moderate risk profile without neglecting the growth rates that we have set for the portfolio. The duration of our loan portfolio remained stable around 2.5 years, with 49% of the portfolio showing maturities of less than 1 year. The chart below shows the performance of the performing loan portfolio and non-performing loan portfolio in the last 3 years.

Date	Performing Loan Portfolio	Non-Performing Loan Portfolio	TOTAL	Increase
Dec. 2016	18,212	73	18,285	46.6%
Dec. 2015	12,363	108	12,471	55.1%
Dec. 2014	8,031	9	8,040	85.5%

Internally compiled with amounts as of December 31, 2016, 2015 and 2014. Figures in millions of Mexican pesos.

At the end of 2016, our total loan portfolio reflected a balance of \$18,285 million pesos showing an increase of 46.6% over 2015. This variation stems from continued progress in the penetration of our client base with credit product, as well as Monex's participation in syndicated transactions with other banks.

The "Mejoravit" program, created by INFONAVIT, which began to be offered in August 2016, and at the end of December its balance was \$180 million pesos. It is expected to continue growing during 2017.

Monex's origination policies and strategies are consistent with Banco Monex's capabilities and takes into consideration the industry, segment, type of credit, maximum levels of granting by type of credit, as well as the type of allowed transactions.

Given the profile of our market, a significant proportion of our loans are granted to medium-sized corporations with a manufacturing, commercial or financial spin, seeking in most cases to add credit risk mitigators.

The main risk mitigators used are the following:

- Insurance and guarantees issued by ECAs (Export Credit Agencies) from developed countries (i.e., Export-Import Bank of the United States, "Ex-Im Bank", etc.)
- Private credit insurance
- Guarantees and / or government agencies programs and / or development banks of Mexico (FIRA, Nafinsa, Bancomext, etc.)
- Inventory guarantees
- Liquidity protection
- Mortgage guarantees
- Stock market pledge
- Committed cash flow guarantees

Banco Monex has a credit manual that contains the processes, methodologies and additional information for the origination and administration of the credits. Banco Monex's lending activity is conservative, with a greater emphasis on a moderate risk profile than on accelerated portfolio growth.

Different types of loan and credit we provide can be broken down as follows:

Product	Information as of December 31,
	2016
Loans with other guarantees	12,172
Real Estate Loans	2,422
Loans with pledge of securities	1,552
Nafin Clusters (Supply Chains)	1,034
Non-Nafin Clusters (Supply Chains)	508
Foreign exchange Liquidity Loans	321
Infonavit Loans "Mejora tu Hogar"	180
Eximbank-guaranteed loans	23
Performing Portfolio	18,212
Non-Performing Portfolio	73
Total Loan Portfolio	\$18,285

Internally compiled with amounts as of December 31, 2016. Figures in millions of Mexican pesos.

Deposits

One of the Banco Monex Acquisition strategies is the costs reduction by the online concentration of the reception and delivery media, and / or referenced deposits in other banks, providing attractive rates in return.

We offer our clients the services of funds concentration, investment, foreign exchange and payment dispersion as an integral cash management solution.

As of December 31, 2016, demand deposits amounted to \$27,994 million pesos, which represented a 49.3% growth compared to the figure reported at the end of 2015, which was \$18,748 million pesos and \$14,560 million pesos in 2014.

Currently we offer three deposits products:

- Digital account (cash deposit on demand agreement)
- Certificates of deposit
- Promissory notes with yield payable at maturity (PRLV). This service has limited distribution and is not available to general public

Demand deposits**E-banking (Electronic banking)**

The main objective of the e-Banking and deposits department is to define and develop value added and innovative solutions in terms of functionality to meet the new market needs and the commercialization of use of all means of access to e-services.

The Banco Monex deposits business has focused on the Digital Account product. Deposits balances in this product grew 81.1% during 2016.

Digital Account Demand Deposits as of				
December 31, 2016	December 31, 2015	December 31, 2014	Increase 2016	Increase 2015
15,384	8,495	7,985	81.1%	6.4%

Internally compiled with amounts as of December 31, 2016, 2015 and 2014. Figures in millions of Mexican pesos.

Monex Digital Account is a multi-currency account that pays attractive returns on average monthly balances in pesos and dollars. It allows, via e-banking, the administration of resources in national currency or other currencies, transfers in Mexico or other countries, using the facilities of dispersion of funds individually or massively manner. The types of clients who operate with Monex digital account are corporations, individuals and natural person conducting a business activity.

The Digital Account has the following characteristics:

- Deposit on demand agreement
- Order generation for cash withdrawals, Sistema de Pagos Electrónicos Interbancarios "SPEI" ("Interbank Electronic Payments System), Sistema de Pagos Electrónicos Interbancarios en dólares "SPID" ("Electronic Interbank Payment System in Dollars") or e-transfer for deposits Multi-currency operation, being able to maintain balance in the main currencies
- Yield performance rates in main currencies
- Federal Tax Payment
- Identification services of depositors for resources concentration
- Foreign exchange trading
- No administration fees or minimum balance requirements

In addition, we have the Monex HUB (Host to Host) service that allows accounts registration to transfer, receive and execute transfer instructions of our clients automatically through their ERP.

Monex Certificate of Deposit (term deposits)

The "Monex Certificate of Deposit" is a product launched on the market in 2011. This product is a traditional certificate of deposit in pesos and dollars, which main feature is its attractive yield rate of return. The product has had a good acceptance among our clients showing a balance at the end of 2016 of \$10,733 million pesos.

The deposits due to this product as of December 31, 2016, 2015 and 2014 is presented below.

	CEDES deposits				
	December 31, 2016	December 31, 2015	December 31, 2014	Increase 2016	Increase 2015
General public	10,733	4,984	5,483	115.3%	-9.1%

Internally compiled with ruled figures. Information as of December 31, 2016, 2015 and 2014.

The digital account is the key account for foreign exchange, forwards and loans, and has had a great acceptance among our clients.

Trust services

During 2016, Banco Monex signed 684 new trusts for a total income of \$94 million pesos and over \$88,932 million pesos in asset management. We also continue providing execution services and securities management in stock market pledge agreements, maintaining us as market leader; real estate valuation, mandates, conditional deposits and other trust services.

Common Representation

The purpose of Monex's Common Representation service is to supervise the fulfillment of the obligations assumed by each related party in an agreement, with the purpose of safeguarding and facilitating the exercise of each holders' rights.

The Common Representation service continues to be the characteristic product in this area. Our participation in 618 issuances allowed us to have the leadership as a Common Representative at the end of 2016 with a 45.6% of market share of the new issuances, and placed us as the only Common Representative in the market which maintained its rating higher than the standard with stable outlook after the amendment of the Circular Única de Emisoras.

Integral Risk Management

Organizational Structure of Risk Management

The "risk management" function is delegated to a Risk Committee appointed by the Board of Directors of Banco Monex, Monex Casa de Bolsa and Monex Fondos, which has the support of the Integral Risk Management Unit. We believe that risk management is a competitive element of a strategic nature, which ultimate purpose is to maximize the value generated for the Monex's shareholder. Risk management is defined, in a conceptual and organizational sense, as the integral treatment of the different quantifiable risks (market risk, liquidity risk, credit risk, operational risk, legal risk and technological risk) that we are exposed to in the normal course of our activities. Managing the inherent risks in our business is essential to understanding and determining our financial situation and creating long-term value.

The Risk Committee is directly dependent on the Board of Directors of each financial entity belonging to Monex Grupo Financiero and its responsibilities, among others, are:

- I. To submit the Integral Risk Management manual to the Board of Directors for its approval
- II. To approve the general criteria to identify, measure, limit, monitor, control, report and disclose the different type of risk to which we are exposed
- III. To designate the responsible person for the Integral Risk Management Unit
- IV. To review and approve the individual risk decisions for each business unit, as well as the reports, parameters and models used for the measurement of risks
- V. To approve the models proposed by the Integral Risk Management Unit to value the different type of risks
- VI. To verify the compliance with the risk exposure limits in each business unit
- VII. To approve temporary exceptions to risk limits when deemed appropriate to the market conditions

We have a Risk Committee at Banco, Casa de Bolsa and Monex Fondos. The members corresponding to our main subsidiary (Banco) are:

RISK MANAGEMENT COMMITTEE

Mauricio Naranjo González
Corporate Banking Managing Director
(Participates with voice and vote)

CHAIRMAN

Moisés Tiktin Nickin
Asset Management and Markets Managing Director
(Participates with voice and vote)

Grocio Soldevilla Canales
Corporate Director of Risk Management
(Participates with voice and vote)

Hernando Carlos Luis Sabau García
Deputy Director
(Participates with voice and vote)

David Aaron Margolin Schabes
Independent Director
(Participates with voice and vote)

José Luis Orozco Ruiz
Director of Internal Audit
(Participates with voice but without vote)

Erik A. García Tapia
Corporate Legal Subdirector
(Not a member of the Committee)
SECRETARY OF THE COMMITTEE

The Integral Risk Management Unit is responsible for identifying, measuring, limiting, monitoring, controlling, reporting and disclosing all types of risks in our business units, as well as preparing the executive reports to the CEO, other business units' directors, the Risk Committee, the Audit Committee and the Board of Directors.

Integral Risk Management involves both the compliance with the regulations on Integral Risk Management matter and the regulations established by the Issuer, which ultimate objective is the generation of value for its shareholders, maintaining a conservative profile regarding the risks exposure in the organization.

The recognition of fundamental precepts is essential for the efficient and effective integral risks management, both quantifiable discretionary (credit, market and liquidity) and non-discretionary, operational risk (technological and legal), and under the premise of satisfying basic identification processes, measurement, monitoring, limitation, control and disclosure.

The Bank's risk management framework begins with the Board of Directors, whose main responsibility is the approval of the objectives, guidelines and policies related to this subject, as well as the determination of the risk exposure limits, supported by the constitution of the Assets and Liabilities Committee and the Risk Committee.

Also, we have a technical manual for Integral Risk Management that describes the valuation models, aimed to:

- Carry out the market valuation of the transactions and / or instruments held by different business units
- Determine the profits or losses by flow and the surplus value or disability, derived from the valuation to market

The market value of a position reflects the potential loss or gain that would occur if it decided to close the position on the valuation date. The most important elements for valuation are:

- Risk factors affecting the instruments value
- The financial characteristics of the instruments
- Mathematical procedures to calculate the instruments price

The evaluation of the financial results implies to recognize the profit or loss realized (flow of resources) for each business unit and, on the other hand, the variation in the market value of the positions (valuation result). This information is used by the heads of the business units to determine their profitability, and by risks area to establish "stop loss" limits, or to compare the assumed risk with the efficiency obtained.

Even though each business unit knows the daily and accumulated monthly results generated by its operations and the market value of its positions, the Integral Risk Management Unit permanently supervises the consistency of the procedures used with the accounting criteria established by the authorities.

The importance of risk management products to the financial position and results of the Issuer

The Issuer uses hedging risk management products to manage its exposure to market risks, particularly the exchange rate and interest rate risk, and maintaining them within the guidelines set by the Board of Directors and the applicable regulation.

The risk management products operation with certain counterparties may involve margin calls in certain circumstantial, which must be hedged with cash and / or highly liquid securities. The Issuer cannot anticipate possible losses arising from the use of risk management products as these can be the result of a wide variety of factors related to significant changes in the exchange rate, interest rates, capital markets and perception of sovereign risk, among others.

The Issuer is authorized to operate exchange risk, rate risk and IPC management products.

a) Normative

This section is included in addition to the obligation to disclose information regarding its policies, procedures, methodologies adopted for the risk management, as well as information on potential losses by of risk and market.

The administration board has manuals on policies and procedures that follow the guidelines established by the CNBV and the Banco de México to prevent and control the risks to which the Bank is exposed through the operations it carries out.

Assessments of policies and procedures, functionality of risk measurement models and systems used, the compliance with risk measurement procedures to carry out the risk measurement, as well as the assumptions, parameters and methodologies used in the information processing systems for the risk analysis, are entrusted to an independent expert, as established by the regulations issued for this purpose by the CNBV.

The results of the evaluations are presented in the reports entitled "*Risk management prudential regulation*" and "*Review of valuation models and risk measurement procedures*", which are submitted to the Board of Directors, the Risk Committee and to the CEO.

b) Environment

The Issuer identifies, measures, monitors, controls, discloses and reports its risks via the Integral Risk Management Unit and the Risk Committee, jointly analyzing the information provided by the business areas.

The Issuer has technological instruments for the calculation of Value at Risk (VaR) to carry out the measurement and evaluation of the risks taken in its financial transactions, completing the evaluation with the analysis of sensitivity and stress testing. In addition, there is a plan that aims to allow the continuity of operations in the event of a disaster.

The Integral Risk Management Unit distributes daily risk reports and monthly presents information on the risk situation to the Risk and Audit Committee and, on a quarterly basis, presents executive risk reports to the Board of Directors.

c) Responsible Divisions for risk management

The responsibility for establishing risk management policies rests with the Board of Directors. The Board of Directors also delegates to the Risk Committee and to the CEO the responsibility of implementing the procedures for identification, measurement, supervision, control, information and disclosure of risks, in accordance with established policies.

The policies approved by the Board of Directors are documented in the "Integral Risk Management Manual", which includes the objectives, goals and procedures for risk management and the maximum tolerances of risk exposure.

The Risks Committee conducts its monthly meetings and supervises that the operations comply with the objectives, policies and procedures of operation and control approved by the Board of Directors. The Risk Committee, in its turn, delegates to the Integral Risk Management Unit responsibility to carry out the integral monitoring and follow-up of the risks.

For emergencies, such as temporary authorizations to exceed these limits, extraordinary meetings of the Risk Committee are held depending on the market conditions or specific needs of the different business units.

Risk lines for the foreign exchange operations are evaluated on a weekly basis at the Risk Lines Committee sessions.

d) Organizational Structure of the Risk Management

The main purpose of the Risk Management Committee is to manage the risks to which the Issuer is exposed and to ensure that the operations are carried out in accordance with the objectives, guidelines and policies for integral risk management, as well as the global limits of risk exposure that have been previously approved by the Board of Directors of the Issuer, at the proposal of the aforementioned Committee.

In addition to the above, the Risk Management Committee will be responsible for approving:

- I. Specific limits of risk exposure and levels of risk tolerance
- II. The methodology and procedures to identify, measure, monitor, limit, control, inform and disclose the different type of risk transactions, products and services that the Issuer intends to offer to the market
- III. It shall have the power to appoint and remove the person responsible of the Integral Risk Management Unit

The Risk Management Committee shall report to the Board of Directors of the Issuer:

- I. The risk profile and the negative effects that could occur in the Issuer's operation
- II. The result of the effectiveness tests of the business continuity plan
- III. Any non-observance of the limits established by abovementioned administrative division and corrective actions implemented and proposed by the Issuer's CEO

The permanent members of our Risk Committee are described in Section 4 "Management - Managers and Shareholders".

e) General internal control

Derivative transactions in OTC and organized markets are governed by the following set of regulations issued by Banco de México, CNBV, MexDer and Asigna of the BMV. The function of Internal Audit is to verify the proper and correct compliance with these provisions.

- Internal Regulation of the Derivatives Market (MexDer)
- Internal Regulation of Asigna
- General provisions issued by the CNBV (Circular Única de Emisoras)
- Additional amendments to any of the above regulations
- Circular 4/2012 of the Banco de México
- Ley del Mercado de Valores

Likewise, Monex Casa de Bolsa and Banco Monex staff must at all times comply with the following regulations:

- Policy and Procedures Manual for derivative transactions in organized and OTC markets
- Code of Ethics of Monex Grupo Financiero
- Code of Ethics of the stockmarket community

The need to evaluate transactions with derivative financial instruments arises since it is an important risk management instrument for Monex Casa de Bolsa, Banco Monex and the clients. A reliable and representative sample is extracted from the universe of derivative transactions that are agreed in recognized and OTC markets, the analysis and evaluation of that sample allows us to conclude whether the transactions are correct, efficient, timely and secure.

Currently MexDer transactions are electronic, being concentrated on the Electronic Trading System, Registration and Allocation "SENTRA-Derivados". Traders enter their positions and the system does not reveal their identity, which makes it an anonymous market. Once the transaction is agreed upon, MexDer sends the data to the Compensation Chamber (Asigna), and at that moment it becomes the counterparty assuming the credit risk.

To be able to conclude whether the derivative transaction is efficient, timely and reliable, the operation of each market must comply in a reasonably correct manner with the established in the manual and with the applicable disposals.

f) Risk Control Function:

The risk control activities mainly consist of:

- To supervise compliance with the policies and procedures approved by the Risk Committee
- To propose to the Risk Committee, for its authorization, the methodology to identify, measure, supervise, limit, monitor, report and disclose the different risks and the procedure for determining the limits of risk exposure
- To monitor market, credit and liquidity exposure on a daily basis. Also, monitor the market risk of the Brokerage House and the Bank in an intraday way
- To monitor compliance with global and specific exposure limits, as well as levels of risk tolerance
- To promote an integral risk management
- To report to the Risk Committee, the CEO and the Board of Directors regarding:
 - The global exposure by type of risk, as well as the specific of each business unit. Reports should include sensitivity analyzes and tests under different scenarios, including extreme ones
 - Deviations from the established risk exposure limits
 - Proposals for corrective actions required as a result of an observed deviation
 - The historical evolution of the risks assumed by the institution
- To investigate and document the causes of deviations from the established risk exposure limits, informing in a timely manner the Risk Committee, the CEO and the Internal Auditor
- Propose to the CEO and to the heads of business units the reduction in risk exposure to make it compatible with the limits previously approved by the Board of Directors
- Propose to the derivatives operations area the closing of client positions, if they do not constitute guarantee calls
- Determine the amount of the derivatives line, as well as the initial guarantee percentages for each client
- Enter into the corporate system the information of the line of derivatives in pesos, the percentage of initial guarantees and the nature of the client (if he is a hedge or speculator)

Likewise, the following areas comply with the activities described below:

Accounting - Its function is to comply with the derivatives accounting rules, based on the criteria established by the CNBV, specifically in Articles 138, 141 and 170 of the Circular Única de Casas de Bolsa and B-5 "Derivative financial instruments and hedging transactions" of the Circular Única de Bancos. In addition, it seeks to obtain in a daily manner the accounting valuation of the transactions, based on the transaction information generated by the MXG 2000 system and to verify daily its records versus those of the operators and comparing both bases.

Guarantees - The operation and control manuals include written procedures that allow to define, where appropriate, the guarantees to be established in this type of operations, as well as the procedure of margin calls.

Legal - Its task is to review the content of the intermediation framework agreement, securities bonds, among others, in order to reduce the legal risk to which the Brokerage House is exposed, as well as the contracts that the clients sign to operate derivatives at Banco Monex and the International Swaps and Derivatives Association, Inc. (ISDA) contracts signed by Banco Monex with financial counterparties. It will also be responsible for the preparation and custody of the minutes of the Board of Directors meeting and the minutes of the Integral Risk Management Committee.

Transactions with Derivative Financial Instruments

Overriding trading policies for risk management products

The Issuer's policies allow the use of derivative financial products for hedging and / or negotiation purposes. The main objectives of the operation of these products are the hedge of risks and the maximization of profitability.

The instruments used are: forwards, futures, options, interest rate swaps and foreign exchange swaps.

Trading markets are listed on organized and OTC markets where eligible counterparties may be nationals that meet the requirements established by the Banco de México.

The designation of calculation agents is established on the legal documentation signed with the counterparties. For the valuation of derivative instruments in organized markets, we use the prices published by the prices providers, which the source is generated in the derivatives stock exchanges. For the valuation of the OTC derivatives, the prices are calculated by the derivatives system, using the information of the risk factors published by the price provider.

The main conditions or terms of the contracts are based on the International Swaps and Derivatives Association, Inc. (ISDA) or the local framework contract, based on the guidelines outlined in the ISDA. The specific policies for margins, collateral and lines of credit are detailed in the Derivatives Manual and any changes thereto must be approved by the Risk Committee.

Banco Monex and Monex Casa de Bolsa act as an intermediary in the market for risk management products, with the following objectives:

- Provide services to clients, for whom operations represent financial instruments that enable them to manage the risk they are exposed to
- Cover the market risk of the transactions carried out by the different business units
- Comply with risk limits at all times

Monex negotiates risk management products at the following markets:

- 1) OTC markets
- 2) MexDer
- 3) CME Group

The instruments used are:

Risk management products in OTC markets:

- Foreign exchange forward
- Forward rates and stock indexes
- Nominal interest rate swaps, with a nominal interest rate as a reference
- Subyacent European options on exchange rate
- American options on exchange rate

Risk management products in recognized markets:

- Stock index futures
- Euro and dollar futures in MexDer
- Foreign exchange futures traded on the Chicago Mercantile Exchange
- Options on the price index and quotes
- Options on Euro and dollar in MexDer
- Options Rates

The general and particular policies of our activities with derivative financial instruments are contained in the single derivative manual. In general terms, we can point out that the objectives of operating derivative financial instruments are the transactions coverage we carry out with clients, as well as the interest coverage rate and exchange rate risk of active or passive positions held in the different business units. These products are traded on OTC markets and in organized markets and are documented in contract frameworks, based on the clauses mentioned in the International Swaps and Derivatives Association, Inc. (ISDA).

All counterparties wishing to trade derivatives, being financial or non-financial clients, must be approved by the Lines Committee or by the Credit Committee. The back-office area controls strictly all the transactions conditions, through their validation and monitoring of confirmations and strict application of the regulation of derivatives, the points required by the Banco de México.

The internal control procedures for managing the risk exposure are detailed in the derivatives manual and the risk manual, and comply with the current legislation on derivatives. The valuation and risk models used for derivatives at Monex are periodically audited by an external auditor and are a part of the internal audit plan of the relevant area.

Regarding to the guarantees management received from clients and those delivered to organized exchanges and financial counterparties, this monitoring is performed daily by the operational control area. The guarantees funding provided by Monex for these operations is carried out by the treasury department, through an adequate process of optimization of liquidity needs.

Given the nature and characteristics of the derivative financial instruments we operate at Monex, these transactions are subject to market risk, credit risk, liquidity risk and operational risk. The positions of derivative financial instruments are exposed to the following risk factors:

- Exchange rate
- Interest rates, mainly in pesos and dollars
- Exchange rate volatility
- Interest rates volatility
- IPC

The sensitivity and stress analysis of financial derivative transactions considers jointly the transactions we make with our clients, the transactions we carry out with financial intermediaries and those carried out at MexDer and the Chicago Mercantile Exchange.

Operational Strategies

Trading

By strategic policy of Monex, transactions with risk management products are only carried out as a hedge to the transactions carried out by clients with this kind of instruments.

The proprietary positions are allowed only with special authorization of the Risk Committee. In this case, the way potential losses are estimated over a given period of time is by calculating the value at risk "VaR", which mainly reflects the volatilities of risk factors and the sensitivities of positions to changes in risk factors such as delta, gamma, rho, etc.

The Value at Risk measures the maximum potential loss that the position can experience in a certain period of time with a certain level of confidence. For example, if the value at risk with 99% confidence at one day is \$100 pesos, the above means that the estimated loss for the next day with a 99% probability is at most \$100 pesos.

As a complementary measure to the Value at Risk, the sensitivity and stress analysis of risk management products is performed. This process has the following stages:

- a) Identification of the risk factors that affect the market value of the positions
- b) Risk factors are defined depending on the nature of risk management products in particular and financial in general. Considering the characteristics of these, the risk factors that are affected by the stress and sensitivity scenarios are defined
- c) Definition of the sensitivity and stress scenarios previously approved by the Risk Committee
- d) The stress analysis is performed for different variations in risk factors, considering probable variations (variations based on risk factors), possible and stress, which implies higher levels for risk factors
- e) In the same way, the sensitivity analysis is performed considering lower variations in risk factors, either in base points or percentages established for this effect. The above parameters are established considering past events in financial markets that have been experienced
- f) Revaluation of the position with the new risk factors, where the change in the market value of such changes is measured
- g) Once the appropriate risk factor and the stress parameters to be used are defined, the effect of these changes in market value or capital gains or losses on the business units and on the Issuer level is evaluated. The stress results are compared daily with the limits established for this effect by the Risk Committee

Hedge

The sensitivity and stress of hedging risk management products are performed in conjunction with sensitivity and stress for the underlying assets or benchmark variables. Considering the parameters previously determined, its effect is assessed on the market value of products for risk management and the original or underlying position being hedged.

In addition to this activity, hedge effectiveness is performed by comparing the variations in the valuation of the risk management product against variations in the valuation of the underlying asset. With this procedure, the effectiveness of hedging is being periodically measured.

Counterparts

Clients authorized to operate with by the Lines Committee or the credit risk area. It will not be possible to carry out operations with individuals and / or corporations that have not previously been authorized by the corresponding instances, and with financial intermediaries (banks or brokerage houses), who do not get authorization from the Banco de México to carry out operations of products of risks management.

For each entity authorized as counterparty (intermediaries or clients) of the Bank and of the Brokerage House, the credit risk area or the Credit Lines Committee determines the line of operation and the maximum loss amount, according to the case, expressed in pesos; the first, it limits the net amount of the position (to avoid risk of high concentration) and the second, the maximum loss that Monex can have with that counterpart at any point of time before making a margin call. These amounts are ratified at the next session of the corresponding Risk Committee.

The clauses of the corresponding contracts include the designation of calculation or valuation agents, which are negotiated in a particular way with each counterparty.

Main terms of contracts and policies for margins and lines of credit

Any individual or legal entity acting as client of the Brokerage House and the Bank in the operations of OTC risk management products shall follow the procedure established in the flow to contact the clients, in addition to complying with the following requirements, before carrying out any operation:

1. To sign the deposit agreement, loans and foreign exchange transactions and the framework agreement for risk management products with Banco Monex. To have signed the framework agreement for risk management products, the supplement and the annexes, as well as have signed the brokerage agreement (CIB, for its acronym in spanish) with the Brokerage House.
2. To deliver all the documentation required for the hiring and for the corresponding loan study.
3. To have an operation line or maximum loss amount, as well as the initial margin percentage determined by the Risk Department and ratified by the Risk Committee or determined by the Lines Committee, for those with zero margin.

If the client wishes to operate OTC risk management products, the Risk Department defines the information that the promoter will request from the client and performs the credit analysis.

OTC risk management products

- All clients may carry out transactions, provided that the net amount of the operations in force does not exceed the operation line ratified by the Risk Committee or as long as the amount of the loss does not exceed the maximum loss amount authorized by the Risk Committee
- Clients must provide initial guarantees for each operation, in cash for the Bank's case and in securities eligible for Brokerage House, following the procedure established for the guarantees management. For these purposes, the Risk Department presents to the Risk Committee a report with all authorized lines of credit and transactions and the percentages of initial margins determined
- Clients must comply with the OTC risk management product warranty control procedure authorized by the Risk Committee. This mechanism allows us to ensure that the customer has covered daily the losses generated in each operation and not incurred in default

The margin policy is determined on a case-by-case basis. The minimum margin in risk management products is 5%, and may be up to 10%. In these cases, the authorized lines are not of credit, but of transaction. Only in exceptional cases, a margin of zero with a maximum loss or margin less than 5% is authorized by the Lines Committee.

To reduce credit risk in these operations, Monex has established a daily or even intraday margin calls scheme, which avoids default in the transactions to be carried out by Monex and, at the same time, represents an effective means of prevention against significant movements in the financial market and adverse in risk factors.

Risk management products in recognized markets

- All clients may carry out transactions, without exceeding the limit of transaction set by the liquidating partner
- Clients must provide minimum initial contributions for each transaction, either in cash or in value, which are established by the clearing and settlement chamber
- Clients must be subject to the contribution control mechanism defined by the settlement partner, which allows the Bank and the Brokerage House to ensure that the client will cover daily the losses generated in each operation and that no default is incurred

The Credit Lines Committee has the following functions directly related to the operation of risk management products:

1. Be informed of changes in the financial situation of clients
2. Authorize exceptions to the percentages of initial margins for the operations of risk management products
3. Authorize extension to the lines of operation

Designation of Calculation Agents

The designation of calculation agents is established in the legal documentation signed with the counterparties. For the valuation of derivative instruments in organized markets, the prices published by the price provider are used, the source of which is generated in the derivatives exchanges. For the valuation of the OTC derivatives, the prices are calculated by the derivatives system, using the information of the risk factors published by the price provider.

The main conditions or terms of the contracts are based on the International Swaps and Derivatives Association, Inc. (ISDA) or the local framework contract, based on the guidelines outlined in the ISDA. The specific policies of margins, collateral and credit lines are detailed in the derivative manual and any changes thereto must be approved by the Risk Committee.

Processes and authorization levels

In terms of internal regulations, all derivative financial products or services associated with derivative products that are marketed by Monex are approved by the Risk Committee. Those products or services that undergo modifications or additions to their original authorization also require the approval of the Risk Committee, where all the areas that participate in the operation of the product or service are present, depending on its nature, including the ones responsible for accounting, legal instrumentation, tax treatment, risk assessment, among others.

Independent Reviews

Banco Monex is under the supervision and observation of the CNBV and Banco de Mexico, exercised through follow-up processes, inspection visits, information and documentation requirements and reporting. In addition, periodic reviews are carried out by internal and external auditors.

Valuation methodologies

1. For trade purpose:

Organized Markets. The valuation is performed at the closing prices of the respective market, provided by the price provider.

OTC Markets. The valuation of the OTC derivatives carried out with clients, are performed by the derivative system, using the standard methodologies for the different instruments. Inputs for valuation are provided by the price provider.

The valuation of the OTC derivatives made with financial intermediaries and used to hedge those that are made with the clients, are made by the entity designated as calculation agent in the corresponding agreement of International Swaps and Derivatives Association, Inc. (ISDA). In all cases, the Issuer performs the valuations of its positions and the value obtained is recorded, according to the accounting criteria for this purpose.

2. Reference variables. The most relevant reference variables are foreign exchange, interest rates, stocks, and stock indexes.
3. Valuation frequency. The frequency of valuation of the derivative financial products for trading purposes is daily. It has also been established that derivative financial products for hedging purposes are valued at the end of each month.
4. For hedging purposes. The valuation of derivatives for hedging purposes is carried out in accordance with the guidelines and policies indicated in the accounting criteria which form part of the legal requirements.

Internal and External Liquidity Sources

The following list contains the main sources of financing obtained through the areas of the Treasury:

- Clients deposits
- Issuance of debt certificates
- Interbank funding
- Cash flow guarantees
- Own capital

Market risk

We are exposed to foreign exchange risk with respect to our trading and foreign exchange transactions with our clients. To ensure that fluctuations in the exchange rate do not affect our income, we have policies that allow us to identify exposure to foreign exchange risk and implement daily limits to such risk. To ensure that open positions are not held for hours and non-business days, we require all our current assets and current liabilities to be hedged or protected in accordance with exposure limits during such non-working hours and days.

Our exposure to market risk derives mainly from our operations with our proprietary position in debt instruments (mainly government securities). Our exposure to market risk depends on various financial market conditions. We control market risk by the daily valuation of our positions, using the Value-at-Risk (VaR) method in conjunction with the stress analysis, in accordance with certain parameters approved by the Risk Committee. The total Value at Risk (VAR) of Banco Monex at the close of 2016 was \$29.5 million pesos. For the current position in the Treasury portfolio was of \$18.7 million pesos, portfolio MDIN of \$15.2 million pesos, MDIN PROP portfolio of \$1.3 million pesos, portfolio Derivatives of \$5.3 million pesos and changes of \$0.27 million pesos, in a period of 1 business day, using a confidence level of 99%. In case of any excess over these limits, this situation is immediately reported to those responsible for each business unit. During 2016, Banco Monex's average Value at Risk for transactions in the treasury portfolio, MDIN, MDIN PROP portfolio and derivatives of \$24.5 million pesos, \$5.4 million pesos, \$2 million pesos and \$3.5 million pesos, respectively. As of December 31th, 2016, we were not significantly exposed to market risk in our other business areas.

The exposure of derivatives is subject to market risk, which is basically due to variations in the main risk factors such as the exchange rate, interest rates and volatilities. Since the position of derivatives accepted by the derivative trading desk is primarily used to hedge the promoters' operations with non-financial clients, the changes in the market value of derivatives are neutralized because it's aimed to ensure that, at all times, the global delta of derivatives remains at moderate levels. Changes in market value and results from cash flows (due to natural maturities or anticipated maturities of derivatives), given the nature of the derivatives we operate, are recorded in the Bank's income statement.

Liquidity risk

Liquidity risk is related to our ability to finance our obligations in reasonable market terms, as well as to carry out our business plans with stable sources of financing. Factors that influence liquidity risk may be external, such as liquidity crises, or internal, like excessive concentrations of close positions. We are sometimes forced into early or forced sales of debt instruments at unusually low prices to meet financial needs or to acquire or hedge a closing position. As of December 31th, 2016, we maintain a significant portfolio of liquid assets, which allows us to be well above the regulatory limit of the liquidity ratio.

During 2016, our main liquidity source were repurchase agreements and the holding of a portfolio of liquid assets, aimed at maintaining assets that are easily realizable, that can be sold at reasonable prices in conditions of unexpected outflows of client resources and that allows us to fulfill in a comfortable way with the coefficient of liquidity. A significant rise in interest rates may mean a decrease in the value of our repurchase position and thereby restrict access to short-term capital to finance intermediation. To control liquidity risk, we monitor and measure the associated risk (GAP) to assets and liabilities denominated in pesos, foreign exchange or UDIs and evaluate the diversification of our sources of funding. Given our conservative nature, and the fact that we operate primarily with very liquid government instruments, we believe that liquidity risk is minimal, in the event of a significant change in interest rates.

Additionally, the liquidity hedge ratio is monitored daily, which compares the amount of liquid assets against the net outflows of resources in the following 30 days, according to CNBV regulation, based on the criteria indicated by Basel.

Credit risk

Credit risk is defined as the potential losses caused by the total or partial default of a debtor or a counterparty in its obligations to us.

Our credit risk in foreign exchange transactions is considered as liquidation or closing risk and in our operation of derivative financial instruments as counterparty risk. The first risk refers to the risk that certain clients, whom we pre-approved a line in the Lines Committee to carry out trading and exchange of currencies, do not liquidate or close the corresponding transaction, leaving us exposed to exchange rate positions open the possibility of not being able to collect them. Counterparty risk refers to the risk that our counterparties in the operation of financial derivative instruments cannot meet their contractual obligations due to changes in market conditions that have a negative impact on such counterparties. Our exposure to liquidation or closing risk and counterparty risk is calculated through the mark-to-market of the open positions of each client or counterparty and the potential loss of expected maturity of each open transaction that is calculated daily with the methodology known as Montecarlo. In order to reduce and monitor risk, we require that each client or counterparty that enters into transactions with us has a risk limit (which considers the credit risk of each client or counterparty) and, in case of transactions with instruments derivatives, make guarantees deposits.

The risk limit for each counterpart is established by our Line Sub-Committee through the analysis and study of the financial information of the counterparty. The risk limit of each counterpart is updated in our system whenever there are changes in the amount of the lines. The risk is also monitored on a daily basis by the Integral Risk Management Unit, considering the foreign exchange and derivative operations of each counterparty. We usually request guarantees deposits when entering into forward transactions or options with counterparties. When long-term rate operations are carried out, a maximum loss amount is established that, in case of being exceeded by the impairment, customers are requested to provide guarantees in cash.

The minimum guarantee deposit established by our Risk Committee is 5% of the face value of the transaction. As of December 31th, 2016, there were no reserves for expenses related to our overdue portfolio associated with our settlement or closing risk and counterparty risk. These risks may increase as our foreign exchange and derivative operations grow and due to the conditions of the markets in which we operate.

We are also subject to credit risk in our financing transactions. Regarding the short-term loans insured or guaranteed by ExIm Bank, we are subject to credit risk of the debtor 2% of each contract (which represents the uninsured portion that we retain) for the financed american export of agricultural raw materials or 10% of each credit (representing the unsecured portion that we retain) for any other product export. All exposure to credit risks requires approval by our Credit Risk Sub-Committee. Our credit risk sub-committee establishes the risk exposure limit through the analysis and study of the financial information of all our potential clients. Once such limit is established, exposure to credit risk is monitored on a weekly basis and each time the client carries out an operation and is reviewed against the risk limit approved for that client.

Credit risk in the corporate bonds position is controlled by explicit limits to the holding of corporate bonds and securitized bonds authorized by the Risk Committee. This limit is monitored by the Integral Risk Management Unit and presented to the Risk Committee.

Operational Risk

Operational risk is defined as the risk of a loss arising from internal processes, personnel or inadequate or failure in internal systems, or external events. This definition includes legal risk but excludes reputational risk and strategic risk.

We have established policies and procedures designed to improve our processes and to mitigate operational risk.

We control our operational risk through our internal control system, which includes maintaining and reviewing a system error log, monitoring and recording legal risks, crossing information regarding the validity of information used to follow up on the markets, internal information crossing before preparing risk reports and daily crossing of information regarding the accuracy of the operations documentation.

For the money, foreign exchange and derivatives markets, the Integral Risk Management Unit has established operational risk indicators that are monitored on a daily basis, allowing to identificate the potential operational risks that could materialize in losses for the Issuer or for clients.

**Summary with Quantitative Information of Derivative Financial Instruments with figures as of December 31, 2016, 2015 and 2014
(figures in million pesos)**

Kind of Derivative value or contract	Purposes of hedging or negotiation	Value of the underlying asset / reference variable	Notional Amount / Face Value			Fair value			Nominal maturity amount	Collateral / lines of credit / securities given as guarantee
			2016	2015	2014	2016	2015	2014		
Futures	Negotiation	CME MXUSD	450,000	628,000	541,000	-8,721	-14,033	-12,210	450,000	Cash
		IPC MEX FUT	456	3,496	3,303	2	-45	152.07	456	Cash
		MXD EURMXP	0	0	3,600	0	0	-1,437	0	Cash
		MXD USD-MX	489,840	299,740	107,090	189,609	8,455	-103,321	489,840	Cash
		M24	0	0	50,000	0	0	1,200	0	Cash
		M24MDIN	0	729	-330,000	0	2,673	-12,850	0	Cash
Forward	Negotiation	EUR/MXN	-3,990	-1,002	-3,275	-177	691	316	-3,990	Cash
		EUR/USD	56	-18	122	-928	1,713	955	56	Cash
		MXN IPC	0	-21	412	0	21	20	0	Cash
		USD/MXN	-718,909	-951,745	-923,375	-195,795	116,965	225,391	-718,909	Cash
		GBP/USD	0	-87	0	70	-80	0	0	Cash
		GBP/MXN	0	0	0	-345	0	0	0	Cash
Options	Negotiation	EUR/MXN	-80	-36	-75	724	116	-60	-80	Cash
		EUR/USD	0	0	0	0	0	0	0	Cash
		MXN IPC	-8,200,579	0	-1,460	767	0	-15	-8,200,579	Cash
		USD/MXN	-9,649	14,899	-52,516	-46,969	48,245	118,449	-9,649	Cash
		MXD DÓLAR	-600	-10	0	-246	-6	0	-600	Cash
		NAFTRAC	-2,462	0	0	218	0	0	-2,462	Cash
Caps Floors	Negotiation	TIE28 UHABMES	-4,515,397	-1,143,603	-1,433,879	-87,221	-7,664	-13,110	-4,515,397	Cash
SWAPS	Negotiation	Received	12,261	6,921	6,039	1,536	295	221	12,261	Cash
			838	0	0	143	0	0	838	Cash
	Hedge	Delivered	-12,323	-7,102	-6,209	-1,598	-476	-391	-12,323	Cash
			-704	0	0	-9	0	0	-704	Cash

Internally compiled in thousands of original currency for the notional amount and in thousands of Mexican pesos for the amount of the fair value.

Bank information as an individual entity.

The fair value is comprised by the valuation of the instruments (including the premium).

Impact on Cash Flow as of December 31, 2016, 2015 and 2014 (Figures in millions of Mexican pesos)

Description	2016	2015	2014
Future Cash Flows	959.73	321.62	(850.82)
Forwards Cash Flows	(101.03)	169.22	937.99
Options Cash flows	174.04	184.43	(20.32)
Swaps Cash Flow	(77.09)	(55.15)	68.89
Total Cash Flows	955.65	620.12	135.74

Internally compiled regarding the format Chart 1 Summary of derivative financial instruments with figures as of December 31, 2016, 2015 and 2014

Sensitivity analysis

The sensitivity methodology allows to estimate the effect of variations in the levels of the most important risk factors on the market value (profits and losses) of the positions held in different business areas. This represents the potential loss in the value of the positions, if the risk factors change in the percentages determined by the Risk Committee. The sensitivity analysis is complemented by stress analysis, which assesses the potential impact on the market value (potential impairment) of the positions of the risk management products and their corresponding hedges, if applicable, produced from very important movements in risk factors.

In terms of the use of risk management products, these can be trading or hedge. When traded, the valuation changes over time, which may represent losses or gains, reflected in the results of the Issuer. In the risk management products operated by the Bank with other counterparties, a threshold is established which implies that only when the accumulated impairment of the open positions of risk management products exceeds the mentioned amount, positions are discarded and the loss is covered with its own resources or, as may be the case, guarantees are provided even for the excess of the loss relative to the threshold.

When operating a hedge risk management product, it is about that product being a mirror of what you want to hedge. The joint valuation involves performing both the valuation of the risk management product and the asset or liability being hedged.

Periodically an efficiency test is performed, comparing the variations in the valuation of the asset or liability against the variations in the valuation of the product of risk management. These joint changes are reflected in the income statement, so that any loss in one position would be offset by the gain in the hedge and vice versa.

The following is a sensitivity analysis with internal figures for transactions with derivatives instruments as of December 31, 2016:

TRANSACTIONS WITH DERIVATIVES					
Underlying USD/MXN	Delta	VAR	Flows	Valuation	Total
Forwards Cash	(2,063)	-	-	(7,220)	(7,220)
Forwards Delivery	(41,536)	-	(182,442)	212,703	30,261
Spot + Overnight	43,594	-	-	(6,901)	(6,901)
OTC options	(4)	-	3,423	14,385	17,808
Imp Not options	-	-	-	-	-
SWAPS					
IRS	3	-	-	3,447	3,447
CS	196	-	-	10	10
Total	190	-	(179,019)	216,424	37,405

Internally compiled with figures as of December 31, 2016

TRANSACTIONS WITH DERIVATIVES					
	Delta	VAR	Flows	Valuation	Total
Underlying EURO/USD					
Forwards Cash	-	-	-	-	-
Forwards Delivery	58	-	(354)	(2,000)	(2,355)
Spot + Overnight	-	-	2,758	-	2,758
Options	-	-	-	-	-
Total	58	-	2,404	(2,000)	403
Underlying EURO/MXN					
Forwards	(3,937)	-	27,548	1,872	29,420
Spot + Overnight	6,795	-	(30,839)	1,440	(29,398)
Options	(2,473)	-	0	688	688
Total	385	-	(3,291)	4,000	710
Underlying IPC					
OTC Options	-	-	(407)	(288)	(695)
Naftac Options	(11)	-	206	(221)	(15)
Total	(11)	-	(201)	(509)	(710)
Underlying other currencies					
FXD					
GBP/USD	-	-	1	(12)	(12)
GBP/MXN	-	-	(14)	(14)	(27)
USD/CAD	-	-		(7)	(7)
Total	-	-	(13)	(33)	(46)
Grand Total	-	-	(180,120)	217,882	37,762

Internally compiled with figures as of December 31, 2016

TRADING TRANSACTIONS WITH DERIVATIVES				
Underlying USD/MXN	Delta	Flows	Valuation	Total
Forwards Delivery	(379,397)	98,725	(181,099)	(82,375)
Spot + Overnight	40,057	-	(762)	(762)
Futures of peso (CME)	(22,010)	(43,261)	41,466	(1,795)
Futures DEUA (Mexder)	493,596	89,823	(27,174)	62,649
Options DEUA (Mexder)	(279)	(53)	140	88
OTC options	(119,741)	(37,192)	38,569	1,377
SWAPS				
IRS	8	81	(265)	(184)
CS	(11,690)	27,535	(934)	26,601
Total	544	135,658	(130,059)	5,600

Internally compiled with figures as of December 31, 2016

TRADING TRANSACTIONS WITH DERIVATIVES				
	Delta	Flows	Valuation	Total
Underlying EURO/USD				
Euro Futures (CME)	-	-	-	-
Total	-	-	-	-
Underlying IPC				
IPC Futures (Mexder)		83	(1)	81
Naftac	-	-	0	0
Total		83	(1)	81
SWAPS				
IRS TIIE	35	7,625	4,247	11,873
Caps TIIE	(2)	(181)	(477)	(658)
Total	33	7,444	3,770	11,215
Grand Total	577	143,185	(126,290)	16,896

Internally compiled with figures as of December 31, 2016

LIMITS WITH DERIVATIVES			
	Limit	Use	Available
VAR	7,000	(5,360)	1,640
Stop Loss	6,000	54,657	60,657
Stress Test	14,000	(5,376)	8,624

Internally compiled with figures as of December 31, 2016

The following chart shows the total consumption of sensitivity as of December 31, 2016:

Sensitivity analysis	Sensitivity (all factors)
Scenario one (1%)	0.49 million pesos
Scenario two (2%)	0.52 million pesos

Stress Test

Scenario One: In this scenario, the risk factors move as follows:

- FX risk factors, multiplied by 1.10, ie change 10%
- Risk factors EQ multiplied by 1.20, ie change 20%

Scenario Two: In this scenario, risk factors move in the following way:

- FX risk factors multiplied by 1.20, ie change 20%
- Risk factors EQ multiplied by 1.40, ie change 40%

The results for these scenarios as of December 31, 2016 are as follows, which show the impact on results if they occurred (unaudited):

Risk Profile	Stress test (all factors)
Scenario one (1%)	(5.4) million pesos
Scenario two (2%)	(10.8) million pesos

The sensitivity analysis estimates the effect on the market value derived from changes in risk factors, which are stressed in different magnitudes.

The following chart shows a summary of the effect of the sensitivity and stress analysis of the derivatives position at the end of December 2016:

Scenarios				
Stress test (mp)	Delta	A (10%)	B (20%)	C (70%)
MXN/USD	731	(3,470)	(6,940)	(24,290)
EUR/USD	58	(127)	(253)	(887)
EUR/MXN	385	(1,675)	(3,350)	(11,724)
Stress test (mp)	Delta	A (20%)	B (40%)	C (70%)
IPC	(11)	(104)	(209)	(365)
Total		(5,376)	(10,752)	(37,266)

Internally compiled with figures as of December 31, 2016

Scenarios				
Sensitivity (mp)	Delta	A (1%)	B (2%)	C (7%)
MXN/USD	731	(151)	(302)	(1,056)
EUR/USD	58	(248)	(25)	(89)
EUR/MXN	385	(84)	(167)	(586)
Sensitivity (mp)	Delta	A (2%)	B (4%)	C (7%)
IPC	(11)	(10)	(21)	(37)
Total		(493)	(515)	(1,768)

Internally compiled with figures as of December 31, 2016

As of December 31, 2016, the Bank had derivatives (interest rate swaps) for hedging purposes, periodically analyzing hedging efficiency, which at the end of 2016 were as follows:

CODESA

Dec. 30, 2016						
SCENARIO	P. DERIVATIVE	P. HYPOTHETICAL	Δ P. DERIVATIVE	Δ P. HYPOTHETICAL	RATIO	.80 <COEF.<1.25?
MTM	16,054,815	-16,054,815				
+1%	16,118,196	-16,118,196	63,381	-63,381	100%	CASH
-1%	15,991,408	-15,991,408	-63,408	63,408	100%	CASH

AUDI

Dec. 30, 2016						
SCENARIO	P. DERIVATIVE	P. HYPOTHETICAL	Δ P. DERIVATIVE	Δ P. HYPOTHETICAL	RATIO	.80 <COEF.<1.25?
MTM	33,404,637	-40,008,383				
+1%	33,507,283	-40,117,619	102,646	-109,236	94%	CASH
-1%	33,301,914	-39,899,064	-102,723	109,319	94%	CASH

PEMEX 11-3

Dec. 30, 2016						
SCENARIO	P. DERIVATIVE	P. HYPOTHETICAL	Δ P. DERIVATIVE	Δ P. HYPOTHETICAL	RATIO	.80 <COEF.<1.25?
MTM	41,964,559	-39,488,934				
+1%	42,137,430	-39,668,116	172,871	-179,182	96%	CASH
-1%	41,791,573	-39,309,630	-172,986	179,304	96%	CASH

PEMEX 13-2

Dec. 30, 2016						
SCENARIO	P. DERIVATIVE	P. HYPOTHETICAL	Δ P. DERIVATIVE	Δ P. HYPOTHETICAL	RATIO	.80 <COEF.<1.25?
MTM	51,578,806	-32,965,145				
+1%	51,769,907	-33,172,056	191,101	-206,912	92%	CASH
-1%	51,387,554	-32,758,063	-191,252	207,082	92%	CASH

PEMEX 10-2

Dec. 30, 2016						
SCENARIO	P. DERIVATIVE	P. HYPOTHETICAL	Δ P. DERIVATIVE	Δ P. HYPOTHETICAL	RATIO	.80 <COEF.<1.25?
MTM	-9,499,855	14,210,964				
+1%	-9,442,719	14,149,142	57,136	-61,821	92%	CASH
-1%	-9,557,019	14,272,815	-57,164	61,851	92%	CASH

Risk policies in derivatives

The market risk in derivative transactions is limited due to the fact that transactions with clients are hedged in organized markets or through reverse transactions with financial intermediaries.

These transactions involve counterparty risk, analyzed by the Integral Risk Management Unit, based on the information in the consolidated balance sheet and in the income statements. The operating amounts, as well as the initial margins, are authorized and / or ratified by the Lines Committee.

The credit risk of these operations is controlled through the guarantee scheme and the implementation of margin calls on a daily basis or when the valuation loss reaches a maximum amount authorized by the Lines Committee.

To monitor the risks inherent in derivative financial transactions, Banco Monex has established, among others, the following control measures:

- A Risk Committee that is informed of the risks in these operations
- A Integral Risk Management Unit, independent of business areas, which monitors day-to-day exposures to different types of risk
- The transactions are carried out mainly with financial intermediaries and non-financial clients approved by the Integral Risk Management Unit and by the Lines Committee
- There are maximum amounts or credit limits according to an initial risk rating given to each possible borrower, which limits the maximum amount that can be operated

Hedging risk management products

The sensitivity and stress of hedging risk management products are performed in conjunction with sensitivity and stress for the underlying assets or benchmark variables. Considering the previously determined parameters, the effect of these measures is evaluated on the market value of products for risk management and the original or underlying position being hedged. In addition to this activity, the effectiveness of hedging is performed by comparing the variations in the valuation of the risk management product against variations in the ablation of the underlying asset. This procedure periodically measures the hedge effectiveness.

Sensitivity is assessed by the effect of changes in risk factors on the market value of the positions in force at a given date. This position considers the derivative financial instruments operated with the clients and the hedging operations made in the spot markets and with OTC derivatives with financial intermediaries, ie the net position in terms of delta.

Non-hedge risk management products

It is important to mention that, according to the Monex strategic policy, operations with risk management products are only carried out as a hedge to the operations carried out by clients with this type of instruments.

The proprietary positions are allowed only with special authorization of the Risk Committee. In this case, the way potential losses are estimated over a given period of time is by calculating the "Value at Risk", which mainly reflects the volatilities of risk factors and the sensitivities of positions to changes in risk factors such as delta, gamma, rho, among others.

The value at risk measures the maximum potential loss that the position can experience in a certain period of time with a certain level of confidence. For example, if the value at risk with 99% confidence at one day is \$100 pesos, the above means that the estimated loss for the next day with a 99% probability is at most \$100 pesos.

As a complementary measure to the Value at Risk, the sensitivity and stress analysis of risk management products is performed. This process has the following stages:

- a) Identification of the risk factors that affect the market value of the positions
- b) Risk factors are defined depending on the nature of risk management products in particular and financial in general. Considering the characteristics of these, the risk factors that are affected by the stress and sensitivity scenarios are defined
- c) Definition of the sensitivity and stress scenarios previously approved by the Risk Committee
- d) The stress analysis is performed for different variations in risk factors, considering probable variations (variations based on risk factors), possible (increasing base levels by 50%) and stress, which implies higher levels for risk factors
- e) In the same way, the sensitivity analysis is performed considering minor variations in risk factors, either in base points or percentages established for this effect. The above parameters are established considering past events in financial markets that have been experienced
- f) Revaluation of the position with the new risk factors, where the change in the market value of such changes is measured
- g) Once the appropriate risk factor and the stress parameters to be used are defined, the effect of these changes in market value or capital gains or losses on the business units and on the Institutional level is evaluated. The results of stress are compared daily with the limits established for this effect by the Risk Committee

Climate change

Due to the nature of Banco Monex's business (financial services rendering), there are no environmental risks or effects resulting from climate change that could have a significant effect on our business. Likewise, and for the reason above mentioned, there are no significant indirect consequences on market trends that Monex can face, arising from climate change.

Technology

The Corporate Systems and Technological Development Division is responsible for providing and supplying the various requirements, implementations and improvements to Monex's technology and communications services both in Mexico and abroad, through the design of processes and global trends that allow Monex to provide the necessary instruments to be able to count on a high competitive level with regard to the different financial groups that offer services similar to Monex.

The aforementioned processes and trends cover not only the Financial Group but also all its subsidiaries.

Currently, the Issuer has 65 employees assigned in the Information Technology unit and 109 external employees. We estimate that our technological infrastructure can process an average of 3.2 million national and international transactions per month. The receipt of resources in national payment services is carried out through SPEI in national currency and SPID for dollars, international payment services are applied through the Society for Worldwide Banking Financial Telecommunication (SWIFT). In order to offer the best level of service in each of its functions, the Corporate Systems and Technological Development Division organizes its internal structure and processes aligned with the best practices worldwide. They have specialized areas and are focused on the functions required in this direction:

- System development and integration
- Infrastructure and telecommunications management
- Project management
- Quality assurance
- Monitoring and support of productive systems

In keeping with the various changes that Monex has implemented in order to offer mainly financial services to companies with national and international transactions, during 2016 significant investments were made in the improvement of our data center, achieving the opportunity to update hardware and telecommunication technology resources as well as new support agreements offered to us, which is reflected in a better performance, support and service for the systems.

At the same time, during 2016, several "in-house technology" projects were developed that have allowed the modeling of the various requisitions of the business units that integrate Monex, as well as being able to optimize the resources available to the Information Technology Unit and focus on the constant improvements demanded by the technological world.

The philosophy and fundamental pillar through which Monex has carried out all the technological innovations is to be at the forefront and in sync with the demands of the financial world. This has allowed us, with the use of multiple instruments, to offer our clients high availability in services and to our personnel to increase productivity in all areas.

Our priority has always been compliance with the prevention of money laundering, during 2016 we worked permanently on the instruments of analysis and detection.

The ability to optimize compliance with internal control and the relevant regulation, as well as facilitating access to necessary input in decision-making, accounting, business management, and customer knowledge are a part of the main objectives around which the Information Technology Unit works.

Finally, the clients' and internal users' need to access services at any time and in any place, has led Monex to continue to the forefront by developing applications that allow access to these services from any mobile device including tablets and smartphones.

Systems Management

Monex has always been characterized by an innovative technological platform that promotes accelerated and robust growth, using state-of-the-art technology and developing products and / or instruments that become a differentiator within the industry in which it participates. This infrastructure is based on the principle of economies of scale, centralizing the common services and processes and particularizing through the experts the services that make the differentiator before the competition.

Monex has a central system called *Monexnet* in which the promotion areas have the ability to operate in real time the various transactions of all products. This real-time operation facilitates immediate access to the best market prices, allowing us to offer greater benefits and business opportunities for our clients.

In 2016, we carried out several improvements to the *Monexnet* system that will help the promotion areas to carry out their activities more efficiently. This system is based on a dispersion module that transmits the transaction to the country of destination and makes the reconciliation with the bank movements made by the client to cover its transaction. We consider that it is a great differentiator within the sector. Monex has a contingency plan called *Business Continuity Plan* with which the Issuer is able to operate on a regular basis the different businesses it serves.

Additionally, in 2016 we carried out improvements and implementations to the existing phases of this program in order to increase the security of the information with which the different users and decision makers operate. Similarly, to continue the operation, an alternate data center has been prepared and redundant voice and data services have been installed that allow Monex to continue working with a minimum delay in operation.

The security of information and transactions of our clients is another of the tasks of high priority that attends the Technology Unit, so that in 2011, Monex was certified in the international standard of information security ISO27001. In 2016, this certificate was endorsed by carrying out activities such as continuous improvement and various measures in the prevention of any type of "attack" that could jeopardize the operation and information of our clients.

II. Distribution channels

Geographical Diversification

Each executive in our sales force has local business relationships and specific knowledge related to the industry, enabling them to compete effectively for clients.

Measuring the performance of our sales force allows us to monitor compliance with our long-term strategic objectives.

Every year we give special recognition to our offices and executives who have demonstrated outstanding performance in each of several indicators.

We have complemented the services we offer to our clients, through the solutions in the management of exchange risk hedge, commercial credit, savings plans for employees and investment funds.

Our digital account allows our clients to concentrate their funds in pesos, dollars and euros, in addition to dispersing their payments. Asset Management services, brokerage and trading services are offered with securities for individuals.

We support promotional efforts with advertising campaigns. We use local radio stations, newspapers, magazines and billboard ads. Advertising is centrally designed in order to maintain a sole corporate image.

We managed to originate our business in Mexico through the sales force composed by 698 executives in Mexico dedicated to the attention and attraction of new clients. Our promotional executives have a solid systems platform, to which we have made substantial investments in order to improve the speed, efficiency, reliability and profitability of our payment processing and to offer new solutions for foreign exchange and transfer to our clients.

Through our Tempus subsidiary, we have presence in the USA (Los Angeles, Washington, D.C. and New York) and Canada (Toronto). As of 2016, Tempus had 45 sales executives in both countries. Likewise, our Monex Europe subsidiary has a presence in the United

Kingdom with a London office and 52 sales executives; In Spain, with an office in Madrid with 10 sales executives and in the Netherlands with an office in Amsterdam with 9 sales executives.



Sales (Mexico)

The promotion of our services is carried out through our offices. Each of them has its own salesforce and client portfolio and generates its own revenue. Through our offices network, we are able to have a local presence, which allows us to provide personalized services. We hire our sales executives locally and we believe that this strengthens our presence and competitive position. We encourage our salesforce to familiarize themselves with our clients and their companies, so that they could provide personalized services according to the needs of each one.

Our salesforce is compensated mainly through commissions per transactions and in some cases for obtaining new accounts. Commissions are determined based on revenues generated from clients' transactions assigned to a specific sales executive, less related costs. In addition, we pay a portion of the commissions on a deferred manner based on the recurring revenue generated, which we believe gives the incentive to our salesforce to stay close to their client in order to increase recurring revenue generated by each client.

Our salesforce has the power to take price decisions, depending on each client, ensuring the maximized profits in each transaction, while remaining competitive in terms of price and services provided. Our salesforce uses our information system to help in determining the profitability of each transaction. We believe that this approach allows us to provide our clients with a more personalized service than our competitors. We also consider that the structure motivates our salesforce to enter into transactions with their clients at attractive prices, as well as contributes to the formation of long-term and profitable relationships with our clients, increasing our foreign exchange volume operated. Our compensation structure and our promotional activities are designed to support our recruitment tasks and our business. We believe that the size we have achieved in our client portfolio and volume of operations is directly related to the efforts of our salesforce.

During the last two years we have strengthened the areas of credit, derivatives and cash management, in order to offer these services to clients who have operated foreign exchange services with us.

In the credit business, we offer various products that are tailored to the financing needs of our clients, get benefit of the knowledge of the transactions they carry out and have credit specialists who support the salesforce.

With the aim of offering the clients the possibility of hedging their exchange rate risks, Monex has strengthened the risk management products area, offering forwards, futures and options. Due to the type of clients that we attend, foreign exchange hedging is a natural service for the client, since a client that participates in international trade, needs to cover its exchange risk. Moreover, with the incursion of the credit business, the demand for interest rate hedging instruments has gradually increased. Monex has achieved a good penetration in the risk management products market for end consumers, both in terms of exchange rates and interest rates.

As part of the funding strategy to further increase our loan portfolio, Monex has strengthened the range of electronic banking services, which are highly valued by our business customers. Our ability to raise both pesos and other currencies and complement with a very agile electronic banking service has allowed us with widely support our growth in the loan portfolio.

In terms of additional service channels, we have a call center and our operation via web. Through the call center, clients have foreign exchange and international payment services as well as transfers and investment options. For online transactions, we have a multi-currency digital account through which our clients can carry out foreign exchange trade transactions, make payments online and maintain accounts in pesos, dollars, euros and other four currencies, while they can obtain interest.

The call center is focused on the attention of small volume clients in foreign exchange and brokerage service, allowing to handle in an agile and profitable manner the transactions of the clients of this segment.

As of December 31th, 2016, the Corporate Banking Division had 107 specialists. The number of sales executives dedicated to foreign exchange and international payment services was 591.

III. Patents, Licenses, Trademarks and other Contracts

Intellectual property

We have the "Monex" brand registered with the Mexican Institute of Intellectual Property. We believe that our brand is essential to our operations since the products that carry it are easily identified by our customers, who associate it with a strong institution, personalized service, flexibility to meet the clients' needs, as well as fast and efficient execution of operations.

We also own the following domain names used for our business, www.monex.com.mx and www.monexsab.com.mx.

Below is a summary of the trademarks registered by Monex Grupo Financiero:

Trademarks Registered by Monex Grupo Financiero					
Brand Number	317497	650403	746660	781541	912246
Distinctive Sign	"Monex"	"Monex" (and design)	Monex1	"Monex" (and design)	"Tu Futuro. Nuestro Presente"
Class	35 y 36	36	35	35	41
Ant-Class	58				
Renew before	February 13, 2026	November 10, 2019	February 26, 2022	February 26, 2022	November 21, 2025
Brand Number	913382	1051845	1115577	1116855	1152426
Distinctive Sign	"Monex" (and design)	"Cuenta Digital Monex" (and design)	"Fondos Verdes Monex"	"Fondos Verdes Monex"	Invermonex3
Class	36	36	36	36	36
Renew before	February 22, 2025	April 16, 2018	July 22, 2019	July 22, 2019	March 16, 2020
Brand Number	1170451	1170452	1170453	1170454	1170455
Distinctive Sign	Monex (and design)	Monex (and design)	Monex (and design)	Monex (and design)	Monex (and design)
Class	36	36	36	36	36

Renew before	May 18, 2020	May 18, 2020	May 18, 2020	May 18, 2020	May 18, 2020
Brand Number	1170947	1170948	1170949	1170950	1170951
Distinctive Sign	Monex (and design)	Monex (and design)	Monex (and design)	Monex (and design)	Monex (and design)
Class	35	35	35	35	35
Renew before	May 18, 2020	May 18, 2020	May 18, 2020	May 18, 2020	May 18, 2020
Brand Number	1187160	1187161	1214836	1214837	1214838
Distinctive Sign	"Monex Net"	"Monex Net"	Gift Card Monex (and design)	Gift Card Monex (and design)	Gift Card Monex (and design)
Class	35	36	35	35	35
Renew before	October 4, 2020	October 4, 2020	December 21, 2020	December 21, 2020	December 21, 2020
Brand Number	1218563	1218564	1218565	1234194	3885346
Distinctive Sign	Gift Card Monex (and design)	Gift Card Monex (and design)	Gift Card Monex (and design)	E-TRAVEL MONEX (and design)	MONEX (and design)
Class	36	36	36	35	36
Renew before	December 21, 2020	December 21, 2020	December 21, 2020	September 14, 2020	10/03/2020 Registered trademark in USA
Brand Number	1604564	1604565	1710290	1694760	1694761
Distinctive Sign	Monex Travel	Monex Travel	Monext	Multicredito digital Monex	Crédito Digital Monex
Class	35	39	36	36	36
Renew before	October 26, 2025	October 26, 2025	September 12, 2026	July 26, 2026	July 26, 2026

Brand Number	1699665	3882534			
Distinctive Sign	Monex Pay (and design)	MONEX			
Class	36	36			
Renew before	August 15, 2026	10/03/2020 Registered trademark in USA			
Brands Requested by Monex Grupo Financiero					
Brand Request Number	1449480	1842144	1842146		
Distinctive Sign	Cuenta Digital (and design)	Solución Digital Pyme	Paquete Digital Pyme		
Class	36	36	36		
Date of presentation	January 20, 2014	January 26, 2017	January 26, 2017		
	In annulment trial against denial in trademark registration				

Commercial Notices registered by Monex Grupo Financiero					
A.C. Number	25574	25575	32252	32253	33967
Distinctive Sign	"Monex Institución Cambiaria"	"Monex es Sinergia Financiera"	"Monex Institución Cambiaria"	"Monex es Sinergia Financiera"	"Tu Futuro. Nuestro Presente"
Class	35	35	36	36	36
Renew before	February 26, 2022	February 26, 2022	February 26, 2022	February 26, 2022	February 22, 2025

A.C. Number	47341	60686	60687	79939	79940
Distinctive Sign	"Cuenta Digital Monex"	"Cheque de viajero electrónico Monex"	"Cheque de viajero electrónico Monex"	"Trabajas duro por el dinero, lo justo es que el dinero haga lo mismo por ti"	"Trabajas duro por el dinero, lo justo es que el dinero haga lo mismo por ti"
Class	36	35	36	35	36
Renew before	April 16, 2018	September 14, 2020	September 14, 2020	November 13, 2023	November 13, 2023
A.C. Number	79941	79942	81729	83681	87272
Distinctive Sign	"Trabajas duro por el dinero"	"Trabajas duro por el dinero"	"Trabajamos para que tu dinero trabaje"	"Trabajamos para que tu dinero trabaje"	"Agilidad para que el dinero trabaje"
Class	35	36	36	35	35
Renew before	November 13, 2023	November 13, 2023	March 10, 2024	May 7, 2024	March 19, 2025
A.C. Number	87273				
Distinctive Sign	"Agilidad para que el dinero trabaje"				
Class	36				
Renew before	March 19, 2025				

Commercial Notices Requested by Monex Grupo Financiero					
A.C. Number request	87617				
Distinctive Sign	Cuenta Digital				

Class	36				
Date of presentation	January 20, 2014				
	In annulment trial against denial in trademark registration				

Trade Names Registered by Monex Grupo Financiero					
Brand Number	20983				
Distinctive Sign	"Monex"				
Class	36				
Renew before	September 14, 2025				

Brands Registered by Holding Monex, S.A.B. de C.V.						
Brand Number	Reg. No. TMA914817	Reg. No. 662779	Reg. No. 961020	Reg. No.	Reg No. 302016015122	Reg. No. 3523495
Distinctive Sign	"Monex" & Design	"Monex"	"Monex"	"Monex"	"Monex"	"Monex"
Class	36	36	36	36	36	36
Renew before	September 22, 2030 Registered trademark in Canada	15/08/2024 Registered trademark in Switzerland	15/08/2024 Registered trademark in Belgium	16/09/2024 Registered trademark in Italy	Registered trademark in Germany	18/08/2024 Registered trademark in Spain

Brands Requested by Monex, S.A.B. de C.V.							
Brand Number	Sol. No. 87169815						
Distinctive Sign	"Monex"						
Class	36 Brand requested in USA at September 13, 2016						

Brands Registered by Casa de Cambio Monex, S.A. de C.V.							
Brand Number	Reg. No. 2864091						
Distinctive Sign	"Monex"						
Class	36						
Renew before	July 20, 2024 Brand registered in USA						

Registration of work on behalf of BANCO MONEX, S.A.				
Title:	Operational Data Store.	Accumulated Net Portfolio		
Industry:	Software	Software		
Registration No.:	03-2010-122113151400-01	03-2010-122010342800-01		

We have no other relevant intellectual property rights, nor are we the licensees of intellectual property owned by third parties, except for the licenses for the use of software that in the ordinary course of our business we have acquired and keep in force.

Relevant contracts:

See Chapter 3, Financial Information section "Estimate, provisions or critical account reserves" of this Annual Report.

IV. Main Clients

We have a great diversity of clients for every product we offer. Our main clients are in the sectors of financial services and insurance, manufacturing industries and commerce, among others. As of the date of this Annual Report, we have no dependence on any of our clients, understanding as dependency one of the following:

- When the loss of such clients would adversely affect our results of operations or financial condition
- When sales to any client represent 10% or more of our total consolidated revenue

V. Applicable legislation and tax situation

Our business is regulated mainly by laws and regulations issued by the SHCP, the CNBV and Banco de México. Also, our activities are regulated mainly by the LIC, the LMV, and the rules issued under those by the SHCP and the CNBV, as well as the rules issued by the Banco de Mexico and the IPAB. The authorities that supervise the operations of our financial entities are the SHCP, Banco de Mexico, the CONDUSEF and the CNBV.

Bank Regulation

The SHCP, either directly or through the CNBV, has broad powers to regulate the bank system. Banks are required to report regularly to the financial authorities. These reports are sometimes complemented by periodic meetings, formal or informal, between bank managers and senior officials of the CNBV. Banks must submit to the CNBV for review their unaudited quarterly and monthly financial statements, as well as their audited annual financial statements, and publish their unaudited quarterly financial statements on their website and in a widely circulated national newspaper, as well as their audited annual financial statements. The CNBV may require a bank to modify and re-publish these financial statements.

In addition, banks should publish on their website, among others, the following information:

- The bank's annual consolidated financial statements, together with a report containing administration's comments and analysis on the bank's financial statements and financial position, including material changes thereto and a description of the bank's internal control systems
- A description of the Bank's Board of Directors, identifying independent and non-independent director, as well as their history, education and experience
- A description and the total amount of benefits and compensation paid to members of the Board of Directors and senior officials during the previous year
- Quarterly not audited financial statements for the periods ended in March, June and September of each fiscal year, and corresponding notes
- Any information requested by the CNBV to authorize accounting criteria and special registrations
- A detailed explanation of the main differences in the accounting used to prepare the financial statements
- The credit rating of its portfolio
- The bank's capitalization level, its classification (as determined by the CNBV) and any changes thereto
- Financial ratios

- An executive summary of the resolutions adopted by the Shareholders' Meeting, the Meeting of holders of equity instruments or holders of any other securities or instruments
- The bank's articles of incorporation

The CNBV has the power to impose fines in case of non-compliance with the provisions established in the Law of Credit Institutions (the "LIC"), or with the provisions issued by it as the Circular Única de Bancos. In addition, Banco de Mexico has the power to impose certain fines and administrative sanctions in case of non-compliance with the provisions established in the Banco de Mexico Law and the regulations adopted by that institution and the law on transparency and regulation of Financial Services, particularly in the event of default related to interest rates, fees and terms for the disclosure of fees charged by banks to their clients. Violations of specific provisions of the Banco de Mexico law are subject to administrative and criminal sanctions.

The LIC does not allow foreign governments to participate, directly or indirectly, in the capital stock of multiple banking institutions, except (i) when they do so on the basis of temporary prudential measures such as financial support or bailouts, with prior authorization of the CNBV, (ii) when the corresponding participation implies having the control of the multiple banking institution, in terms of Article 22 Bis of the LIC, is carried out through official legal entities, such as funds, governmental development entities, among others, with Previous discretionary authorization of the CNBV, with the agreement of its governing board, provided that, in their opinion, such persons attest that a) they do not exercise functions of authority, and b) their decision-making divisions operate independently of the government in question, or (iii) when the corresponding participation is indirect and does not imply having the control of the multiple banking institution, in terms of Article 22 Bis of the LIC.

In addition, the LIC establishes an obligation for multiple banking institutions, through its board of directors, to implement a personnel remuneration system, the policies and procedures that regulate it, in accordance with the established by CNBV by means of general provisions, and to create and maintain for such purposes a remuneration committee.

The LIC establishes that credit institutions, through their general manager or equivalent and with the opinion of the audit committee, may submit to the authorization of the CNBV or CONDUSEF, as well as IPAB, as appropriate, a program of self-correction when the credit institution in question in carrying out its activities, or the audit committee as a result of the functions it has conferred, detect irregularities or non-compliance with the provisions of the LIC and other applicable provisions.

Multiple banking institutions can only be dissolved and liquidated if the CNBV has issued the corresponding resolution. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to institutions with liquidity problems.

The LIC foresees a bank legal liquidation proceeding, thus the banking institutions are excluded from the application of the Commercial Bankruptcy Act. According to the reform of the LIC, the extinction of the capital of a multiple banking institution, meaning that its assets are not sufficient to cover its liabilities, will cause revocation of the authorization to organize and operate as a multiple banking institution and will start the liquidation process, in which the IPAB will act as liquidator and carry out the credit recognition process. In addition to liquidation procedures, multiple banking institutions may be declared bankrupt in accordance with a special procedure contemplated in the Commercial Bankruptcy Act.

The SHCP is empowered to carry out evaluations to multiple banking institutions. Although the guidelines for such evaluations have been issued, additional indicators and questionnaires will be published later, evaluations will be based on the size of the institutions and their participation in the relevant markets and determine whether or not an institution is lending to all sectors of the economy; the evaluations will not be based on the financial, liquidity or solvency situation. The results of the evaluations shall be made public by the SHCP. In case of negative results in the evaluations, it will be possible to order the implementation of corrective measures.

We can not predict the terms that will be included in the implementation of the rules in relation to the requirements that must be met with respect to the lending activities of certain sectors of the economy. However, if the SHCP so determines, after the corresponding evaluation, that Monex has not complied with the applicable requirements, it may be required to grant loans to certain sectors of the economy or to certain persons who may not meet the quality criteria of credit, which it may not know or represent unacceptable risk credits, which could in turn impact Monex's financial position and results of operations. In addition, if Monex fails the evaluation, disclosure of such results could have an impact on its reputation, which could have an adverse impact on its ability to conduct business in Mexico, as well as its financial position and results of operations.

Banking Authorizations

To operate as a credit institution requires the authorization of the Mexican government. The CNBV, with the approval of its governing board and subject to the favorable opinion of the Banco de Mexico, has the authority to authorize the establishment of new banks, subject to minimum capital standards, among other topics. CNBV approval is also required to open, close or relocate offices, including branches, of any type outside Mexico or to transfer assets or liabilities between branches.

Intervention

The CNBV, with the approval of its governing board, may declare the intervention in a multiple banking institution in accordance with articles 129 to 146 of the LIC. In addition, the IPAB governing board may also appoint a prudential administrator if the IPAB is to provide liquidity to a multiple banking institution in accordance with the applicable law.

An intervention by the CNBV in accordance with Articles 129 to 146 of the LIC shall occur when (i) within one month, the ICAP of the multiple banking institution decreases from a level equal to or greater than required in accordance with the provisions of Article 50 of the LIC, at a level equal to or less than the minimum requirement of fundamental capital established pursuant to Article 50 and the provisions that emanate from it, except in cases in which the governing board of IPAB has determined the indicated in the subparagraph (b) of article 148 section II of the LIC, in which the provisions of the penultimate paragraph of Article 29 Bis of the LIC shall apply, (ii) the multiple banking institution does not maintain the minimum ICAP required in accordance with the LIC, and the institution itself does not operate under the conditional operating regime referred to in Article 29 Bis 2 thereof, or (iii) the multiple banking institution (a) for an amount in national currency greater than the equivalent of 20 million units of investment (1) does not pay credits or loans granted by another credit institution, a foreign financial institution or the Bank of Mexico, or (2) does not settle the principal or interests of securities that it has issued and that are deposited in an institution for the deposit of securities (b) within two business days or more and for an amount in national currency exceeding the equivalent of two million units of investment (1) does not pay to one or more participants the balances resulting from any compensation process carried out through a clearinghouse or central counterparty, or do not pay three or more checks that in conjunction account for the mentioned amount, that have been excluded from a clearinghouse for reasons attributable to the institution under the applicable provisions, or (2) do not pay in the counters of two or more of their branches the withdrawals of bank deposits of money made by one hundred or more of its clients and that in conjunction reach the mentioned amount. The prudential administrator shall be appointed by the IPAB in case the IPAB grants extraordinary financial support to the multiple banking institution in accordance with the LIC.

The prudential administrator appointed by the IPAB shall be constituted as sole administrator of the institution in question, replacing in any case the board of directors, as well as the shareholders' meeting, in those cases in which the exercise of corporate and patrimonial rights of the shares of that institution does not correspond to the institute itself. The prudential administrator shall have the following powers: (i) representation and administration of the institution in question, (ii) those corresponding to the board of directors of the institution and its director general, being fully empowered as attorney-in-fact for acts of ownership, administration, lawsuits and collections, with powers that require a special clause in accordance with the law, as well as to execute credit instruments, perform credit operations, file complaints, quarrel, desist from the latter, grant pardon and commit to Arbitration proceedings; (iii) formulate and submit for approval by the Executive Secretary of IPAB the budget necessary for the attainment of the objectives of the precautionary administration; (iv) submit to the Executive Secretary of IPAB periodic reports on the financial situation of the institution, as well as on the administrative operation of the institution and its possible resolution; (v) to authorize the contracting of liabilities, including the credit of last instance granted by the Bank of Mexico, investments, expenses, acquisitions, disposals and, in general, any expenditures carried out by the institution; (vi) authorize the granting of the guarantees necessary for the contracting of liabilities, including the shares of the institution itself; (vii) suspend operations that jeopardize the solvency, stability or liquidity of the institution; (viii) to hire and remove the staff of the institution, and to inform the Executive Secretary of IPAB thereof, and (ix) others established by the applicable provisions and those granted by the IPAB Governing Board.

Causes to Revoke an Authorization

Following are the grounds on which the CNBV can revoke a bank authorization:

- if the institution does not begin its operations within 30 days of being notified of the corresponding authorization to operate
- if the shareholders' meeting resolves to request the revocation at an extraordinary meeting
- if the multiple banking institution dissolves and goes into liquidation
- if the multiple banking institution (a) fails to comply with any minimum corrective measure issued by the CNBV in accordance with Article 122 of the LIC; (b) fails to comply with more than one special corrective measure issued by the CNBV in accordance with Article 134 Bis 1; or (c) repeatedly fails to comply with the special corrective measures issued by the CNBV
- if the multiple banking institution fails to comply with the minimum ICAP required under the LIC and the Capitalization Requirements
- if the multiple banking institution (a) does not timely repay loans or debt securities issued by the institution, or (b) does not pay bank deposits or release checks in a timely manner
- if the multiple banking institution repeatedly carries out prohibited or sanctioned operations in accordance with the LIC or if it continues to fail with preventive or corrective actions imposed by the CNBV

Once published in the Official Gazette of the Federation and in two newspapers of greater circulation in Mexico the resolution of the CNBV that revokes the authorization of the Institution of multiple banking and the mentioned resolution is registered in the corresponding Public Registry of Commerce, the banking institution shall be dissolved and put into liquidation. Once a liquidation is accomplished or a bank is declared in commercial bankruptcy, IPAB shall proceed to make payments of all the guaranteed bonds of the corresponding multiple banking institution in accordance with the terms and conditions established in the LIC and the IPAB Law.

The obligations of the Multiple Banking Institution in liquidation shall be paid according to the following order of preference: (i) credits secured or encumbered, (ii) labor credits other than wages or salaries accrued in the last year and indemnities, and tax credits, (iii) credits that according to the laws that govern them have a special privilege, (iv) credits derived from the payment of guaranteed obligations (deposits, loans and credits referred to in article 46 of the LIC) up to the amount in national currency equivalent to four hundred thousand investment units per individual or legal entity, as well as any other liabilities in favor of IPAB itself, (v) credits derived from guaranteed obligations (deposits, loans and credits referred to in Article 46 of the LIC), (vi) credits derived from obligations other than those mentioned in the preceding paragraphs, (vii) credits derived from preferred subordinated debentures, (viii) credits derived from non-preferred subordinated debentures. The remaining balances, if any, of the capital stock, shall be delivered to the holders of the shares representing the capital stock.

Capitalization

The minimum subscribed and paid-in capital applicable to multiple banking institutions is established based on three different components: credit risk, market risk and operational risk. Pursuant to the LIC and the Circular Única de Bancos, credit institutions may carry out any of the activities and provide the services indicated in Article 46 of the LIC, as well as those that other laws allow them to develop.

The Capitalization Requirements establish the methodology for determining the net capital in relation to market, credit and operating risks. In accordance with the applicable provisions, the CNBV may impose additional capital requirements. The Capitalization Requirements establish capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee.

The Bank Circular currently establishes that multiple banking institutions can be classified into several categories based on their ICAP, according to article 220 and article and transits of the Circular Única de Bancos, which should be consulted to understand the applicable requirements.

Corrective measures

The LIC and the Bank Circular establish minimum and special corrective measures that multiple banking institutions must comply with according to the category in which they were classified according to their capital. These corrective measures were designed to prevent and, when necessary, correct the operations of multiple banking institutions that could negatively affect their solvency or financial stability. The CNBV must notify the corresponding multiple banking institution in writing of the corrective measures it must observe, within five business days after the Bank of Mexico has notified the ICAP of the capitalization of the multiple banking institution to the CNBV, as well as verify compliance of the imposed corrective measures. Category I is exempt from any corrective measures, but for the other categories, such corrective measures include:

For Category II:

- Require the multiple banking institution to (u) inform its Board of Directors of its classification, as well as the reasons that motivated the CNBV to perform such classification, and submit a detailed report containing a comprehensive assessment of its financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the multiple banking institution within the next 20 business days after the multiple banking institution receives notification of the corrective measure from the CNBV, (v) include in the report any observations that the CNBV and the Bank of Mexico, within the scope of their respective competencies, have directed to it, (w) report in writing the financial situation to the general director and the chairman of the Board of Directors of the multiple banking institution or to the Board of Directors of the controlling company of the financial group, if the multiple banking institution is part of a financial group, (x) refrain from entering into transactions that cause its ICAP to be below the required limits according to the Capitalization Requirements, (y) refrain from increasing current amounts of financing granted to related parties, and (z) submit, for the approval of the CNBV, a capital restoration plan that would result in an increase of its ICAP for the multiple banking institution to be placed in Category I. This plan must be submitted to the CNBV no later than 20 business days after the multiple banking institution receives notification of the corrective measure from the CNBV.

For Category III and higher:

- Require the Board of Directors of the multiple banking institution to (y) within 15 business days of notification of its classification, submit to the CNBV, for approval, a capital restoration plan resulting in an increase in its ICAP, which may include a program of improvement in operational efficiency, rationalization of expenses and increase in profitability, contributions to capital and limits to operations that the multiple banking institution can perform in compliance with its articles of incorporation, or the risks arising from such operations. The capital restoration plan must be approved by the Board of Directors of the multiple banking institution before being submitted to the CNBV. The multiple banking institution must determine in the capital restoration plan that, pursuant to this subsection, it must present periodic goals, as well as the period in which the capital of the institution shall obtain the capitalization level required in accordance with the applicable provisions. The CNBV, through its Governing Board, must resolve what corresponds to the capital restoration plan submitted to it, within a maximum period of 60 calendar days from the date of submission of the plan; and (z) comply with the capital restoration plan within the term established by the CNBV, which in no case may exceed 270 calendar days from the following day of notification of the respective approval to the multiple banking institution. In order to determine the term for compliance with the restoration plan, the CNBV consider the category in which the institution is classified, its financial situation, as well as the conditions that generally prevail in the financial markets. The CNBV, by agreement of its Governing Board, may only extend this term for a period that shall not exceed 90 calendar days. The CNBV shall monitor and verify compliance with the capital restoration plan, without prejudice to the origin of other corrective measures depending on the category in which the multiple banking institution is classified.

- Require the multiple banking institution to suspend payment of dividends to shareholders of the institution, as well as any mechanism or act involving a transfer of equity benefits to shareholders. In case the multiple banking institution belongs to a financial group, the measure provided for in this subsection shall be applicable to the controlling company of the group to which it belongs, as well as to the financial entities or companies that form part of the group. The abovementioned restriction shall not apply in the case of the payment of dividends carried out by financial institutions or companies belonging to the group other than the multiple banking institution, when the referred payment is applied to the capitalization of the multiple banking institution
- Require the multiple banking institution to suspend the repurchase programs of shares representing the capital stock of the multiple banking institution and, if it belongs to a financial group, also those of the holding company of the group
- Require the multiple banking institution to defer or cancel payment of interests and, if applicable, defer payment of principal or convert into shares up to the amount necessary to cover the capital shortage, in advance and pro rata, subordinated obligations in circulation, according to their nature. This corrective measure shall be applicable to those subordinated obligations that have so provided in their emission records or documents
- Require the multiple banking institution to suspend the payment of extra compensation and bonuses in addition to the salary of the general director and of the officials of the two lower hierarchical levels, as well as not to grant new compensation in the future to the general director and officials, until the multiple banking institution complies with the capitalization levels required by the CNBV in terms of the provisions referred to in Article 50 of the LIC
- Require the multiple banking institution to refrain from agreeing increases in the amounts in force in the credits granted to persons considered as related

For Category IV and higher:

- Require the multiple banking institution to request authorization from the CNBV to perform new investments in non-financial assets, open sectors or carry out activities other than those carried out in the ordinary course of business, provided that such investments or activities do not require the authorization from the SHCP or from Bank of Mexico
- Require the multiple banking institution to comply with other corrective measures established in the general provisions of Articles 225 I and IV and 226, 227 and 228 of the Bank Circular and Article 134 Bis 1 of the LIC, from time to time. Regardless of the ICAP of the multiple banking institutions, the CNBV may order the application of additional special corrective measures. The additional special corrective measures that, in their turn, the multiple banking institutions shall have to comply with are the following: (a) to define the concrete actions that the institution shall take to avoid deteriorating its ICAP; (b) engage the services of external auditors or other specialized third parties to perform special audits on specific issues; (c) to refrain from agreeing on increases in the salaries and benefits of civil servants and employees in general, except for the agreed wage revisions and respecting at all times the labor rights acquired; (d) to replace officials, advisers, commissioners or external auditors, appointing the institution itself to the persons who shall occupy the respective positions; or (e) others determined by the CNBV, based on the results of its inspection and monitoring functions, as well as sound banking and financial practices

On July 26, 2010, the Group of Directors and Supervisory Heads, a monitoring division of the Basel Committee, reached a broad agreement on the proposal for a comprehensive capital stock and liquidation reform package for international banking organizations worldwide, better known as Basel III, which includes, among other topics, the definition of capital, credit risk treatment of the counterparty, the level of leverage and the global liquidation standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in relation to Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms to banking organizations were published on December 16, 2010.

The rules of Basel III for capitalization were instituted in Mexico through the reform to the General Rules Applicable to Mexican Banks, published in the Official Gazette of the Federation on November 28, 2012, and entered into force on January 1, 2013. Monex currently meets the minimum capital requirements.

Reserve Requirements and Monetary Regulation Deposits

The legal requirement to maintain reserves is one of the monetary policy instruments used to control the liquidity of the Mexican economy to reduce inflation. The objective of Bank of Mexico's monetary policy is to maintain the stability of the peso's purchasing power, and in this context, maintain a low level of inflation. Given the historical levels of inflation in Mexico, the efforts of Bank of Mexico have been directed towards a restrictive monetary policy.

According to the Bank of Mexico Law, Bank of Mexico is authorized to determine the portion of the liabilities of credit institutions, which must be invested in cash deposits with the Bank, with or without interest, in broad market values or in both types of investments. This compulsory investment may not exceed 20% of the corresponding liabilities.

The Bank of Mexico also has the power to establish that 100% of Mexican bank liabilities arising from specific funding purposes, or in accordance with special legal regimes, shall be invested in specific assets created in respect of any of such purpose or regime. The Bank of Mexico establishes reserve requirements and monetary regulation deposits to commercial banks. Circular 09/2014 published on June 17, 2014, established the total amount of mandatory deposit reserves required for multiple banking institutions is the amount of Ps.278 billion, an amount that multiple banking institutions had to deposit on June 18, 2014. The amount of the deposit made by each bank is equal to the amount of its respective Deposit of Monetary Regulation in force on June 18 of the current year. In addition, Circular 11/2014 establishes that banks must constitute Monetary Regulation Deposits for a total additional amount of 41 billion. This additional amount must be covered by four deposits, carried out by Credit Institutions on August 14, September 11, October 9, and November 6, 2014.

The amount of the deposit that each bank had to make was determined based on the participation of each bank in proportion to the total deposits made in Mexican financial institutions as of May 31, 2014.

Reserves of monetary regulation deposits that were constituted in accordance with Circular 09/2014 and 11/2014 have an indefinite term. During the time that these reserves are kept in deposit at the Bank of Mexico, each multiple banking institution receives interest at 27, 28, 29 or 30 days on those deposits in a way that the last day of the period coincides with a Thursday. The Bank of Mexico shall give advanced notification to the multiple banking institutions regarding the date and procedure for withdrawing these deposits when the monetary regulation deposits are canceled or terminated, should this happen.

International Regulation

Tempus, Inc. (Tempus) is an indirect subsidiary of Banco Monex, incorporated under the laws of the District of Columbia in the USA, engaged in foreign exchange operations, international payments and money transmission, reason why it requires to operate as a money transmitter, of state licenses in the USA. It currently owns 46 licenses and as it opens or intends to open new markets, if necessary in accordance with local regulations, it obtains licenses in different jurisdictions, which may differ in requirements and authorizations from one to another, in addition to making the corresponding renewals with the required frequency according to the applicable regulations.

While Tempus has the capacity to offer services throughout the USA given the licenses it maintains, the physical presence is in the cities of Washington, D.C., Los Angeles and New York, besides of constitution and entry into operation of the Monex Canada subsidiary in the city of Toronto, Ontario in Canada.

At the federal level in the USA, Tempus is registered with the FinCEN (Financial Crimes Enforcement Network) under the US Treasury Department, as a money services business ("MSB"), being applicable, therefore, The Bank Secrecy Act ("BSA"), which is inserted in the Code of Federal Regulations ("CFR"), and requires, among others, that each service company must develop, implement and maintain a risk-based system with a money laundering prevention program (AML), to be fully complied.

Tempus also owns another 100% direct subsidiary, Tempus Nevada, Inc., a company incorporated under the laws of the state of Delaware in the US and authorized to operate exclusively in the state of Nevada, USA, due to the specific regulations applicable in this state that does not allow the direct operation by Tempus. Under the regulations of European Economic Community Payment Services Directive there was a branch office of Tempus UK Ltd. in Spain, which has transferred its operations to the local branch of Monex Europe Limited, currently registered in the Bank of Spain.

Monex Europe Limited is an indirect subsidiary of Banco Monex whose original name at the time of its acquisition in July 2012 was Schneider Foreign Exchange Limited. Monex Europe Limited is a company incorporated under the laws of the United Kingdom (England and Wales) which operates as an Authorized Payment Institution and engages in foreign exchange transactions, international payments and money transfers, having therefor the right to operate as such, under the "money remittances" section of the Financial Services Authority ("FSA"), now the Financial Conduct Authority ("FCA"), which regulates the financial services industry in the United Kingdom under the Payment Services Regulations 2009 modified into the Payment Services Regulations 2012. Monex Europe Limited has incorporated a wholly-owned subsidiary Monex Europe Market Limited, which is also located in the United Kingdom and has both the authorization by the CNBV for its incorporation and that of the FCA for its operation.

Tax Situation

For a detailed description of the tax aspects, see Note 22 to the Financial Statements for the years ended as of December 31, 2016, 2015 and 2014, attached to this Annual Report.

VI. Human Resources

As of December 31, 2016, Banco Monex and subsidiaries had a total of 1,931 employees, of which approximately 5.4% were temporary employees and there are no union members.

During 14 consecutive years, through Monex Grupo Financiero, we have received recognition from the Great Place to Work Institute as one of the Best Companies to Work for in Mexico. In addition, Grupo Financiero Monex has also received recognition as one of the Best Companies to Work for Women for its gender equity practices and recognition as One of the Best Companies to Work in the Financial Sector, occupying the 4th place.

For 16 years it runs a program of Addictions Free Company for which it also receives an annual recognition.

We have implemented Corporate Social Responsibility practices and for 13 years our financial group has been granted with the Socially Responsible Company Award by the Centro Mexicano para la Filantropía (CEMEFI) and the Alianza por la Responsabilidad Social Empresarial (ALIARSE). In order to grant this badge, CEMEFI carries out an analysis of the information proving the 120 indicators of Corporate Social Responsibility; as well as the results of the diagnosis on the performance of our company in four basic areas such as Quality of Life in Business, Business Ethics, Community Linkage, Care and Environmental Preservation. Likewise, on four occasions it has received the Recognition of Best Practices of Social Responsibility.

Since 2005 Monex has voluntarily subscribed to the "Global Compact", which is an initiative of the United Nations (UN), in which it makes explicit its commitment to respect the principles of the compact; as they coincide with our corporate values, publishing annually in the Global Compact portal a report explaining how they ensure compliance with the principles of the Compact within the organization.

Since 2014 Monex Grupo Financiero has received the Distintivo Empresa Familiarmente Responsable, implemented by the Secretaría del Trabajo y Previsión Social to recognize those work centers that implement and promote internally practices and policies to enable people to develop in a comprehensive way: at work, in their family environment and in a professional way. We have the badge for our corporate and 20 branches.

Since 2007 Monex has been certified in quality under ISO 9001 in its version 2008 and is the only Mexican financial group to have certified the key processes of prevention, detection and reporting of operations with resources of illicit origin and comprehensive management of risks in all the national and international financial products of the group. In 2011, it was certified in Information Security under the ISO 27001 standard and was the first Mexican financial group certified under the new 2013 version, with the scope: "The information security management system for the protection of confidentiality, integrity and availability of Grupo Financiero Monex's customer information in its information systems". Both standards contemplate a single integral quality management system and security of the information renewed in 2016.

VII. Environmental performance

Considering that we are a company dedicated, mainly, to the provision of services, our affectation to the environment is not a considerable risk. However, we are committed to respecting the environment, and for this reason we encourage the Issuer to carry out the following practices:

- Waste separation: the facilities have trash cans adapted to separate the residues in organic and inorganic
- Battery disposal campaign: a permanent campaign of battery waste is carried out, which consists of collecting them in containers and then taking them to special containers
- Recycling of paper: we have paper containers which is collected by a company that recycles it
- Recycling: glasses made with recycled paper are used in each of the cafeteria areas
- Energy saving: lights off after 8:00 p.m.
- Environment: reforestation campaign is carried out annually with an average of more than 1,000 trees planted per year in the municipalities of Naucalpan, Tlalnepantla and in the Forest of Chapultepec
- Carbon footprint measures

We are convinced that one way to contribute to the development of Mexico is through actions aimed at protecting and improving the environment, a practice also aligned with the corporate strategy of the business.

As part of our corporate responsibility statement, we take care of the environment through the reforestation of different areas.

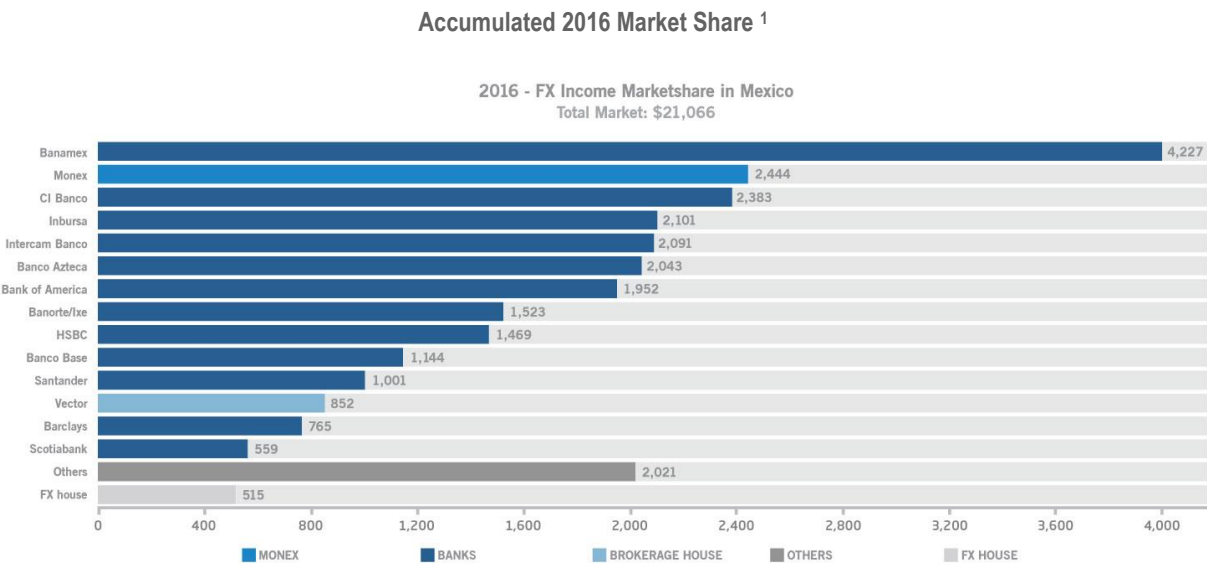
VIII. Market information

We have focused on providing our clients with competitive products in the market. Over 31 years of experience have positioned us as one of the major players in the Mexican financial sector. Our strategy is based on continuing to provide value-added services to our clients. Undeniably, our leadership in services to international companies is a benchmark of our capabilities. We have identified business opportunities that allow us to expand our product and service offer in a strategic way.

Among our main objectives is the expansion of operations at international level and that is why the acquisition of Tempus and Monex Europe offer us a firm entry to the USA and Europe markets. Both companies have a market view that provides a particular analysis that helps to understand the dynamics of the foreign exchange markets. Through our Subsidiaries we strengthen our market leadership characterized by one of its main strengths, which is to meet and satisfy the needs of our clients supported by systems and controls that assure us the efficiency of our operations inside and outside the country, a global vision and a solid intention to participate in the international markets.

Market share

Below are the charts with the market share by foreign exchange income in Mexico as of December 31, 2016:



* Foreign exchange bureau
Source: chart compiled by Monex based on CNBV information as of January 25, 2017, the figures do not include subsidiaries and are in millions of Mexican pesos. Charts made with valuation and without derivatives in the Brokerage House, except for Vector.

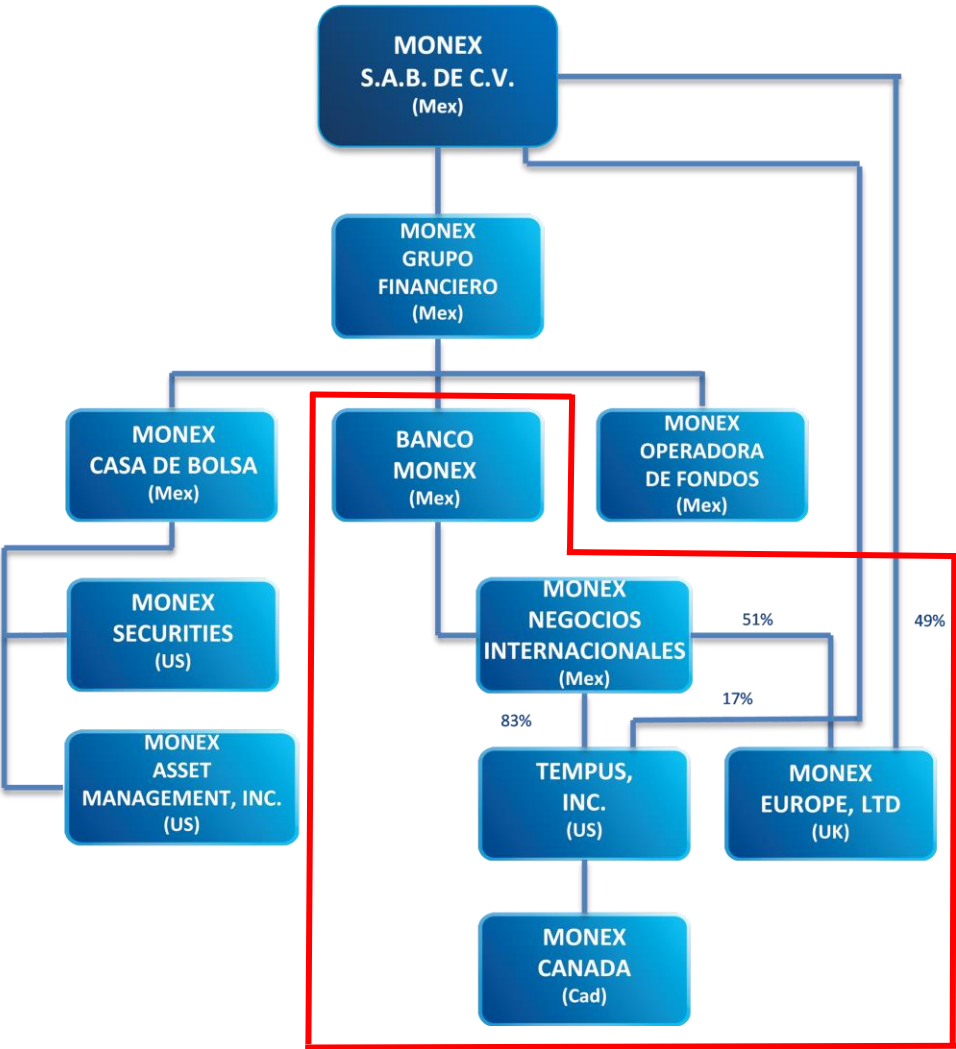
Position of Banco Monex in Loan Portfolio (net)

According to audited financial data and information obtained from the CNBV, which is located in the statistical bulletins located within the multiple banking information portfolio, Banco Monex's total credit portfolio increased in December 2016 to \$18,285 million pesos, representing an increase of 46.6% compared to December 2015.

¹ Market share may vary based on the mix of proprietary position and customer owned businesses that each institution has

I. Corporate structure

Our corporate structure, as part of the Financial Group controlled by Monex, S.A.B. and its main subsidiaries as of the date of this Annual Report is as follows:



We are an indirect subsidiary of Monex, S.A.B. through Monex Grupo Financiero, S.A. de C.V., incorporated on May 23, 2003. Monex Grupo Financiero, S.A. de C.V. is authorized by the SHCP to operate as a financial group in the form and terms established by the LRAF and, in terms of the applicable legal provisions, unlimitedly responds to the obligations and losses of each of its Subsidiaries. As of the date of this Annual Report, Monex Grupo Financiero, S.A. de C.V. owns 99.9% of the shares representing its capital stock.

II. Main Assets Description

As a financial institution, Banco Monex's main assets are financial (including loan portfolio and equity investments), detailed in the different sections of this report (see section III "Financial Information" of this Annual Report).

In accordance with the principle of relevance established in Annex H and Annex N of the Circular Única de Emisoras, the Issuer's fixed assets do not represent a significant or material percentage of the Issuer's total assets, including furniture, transportation and office equipment.

Offices

Nationally, Banco Monex has a 36 offices strategically located to serve the different segments of the Mexican market:

- Our corporate offices are in the capital of the country, on Paseo de la Reforma Avenue. "Monex Tower" has more than 10 thousand square meters and an investment of more than \$10 million dollars focused on furniture, equipment and technological infrastructure according to business needs and security requirements
- Tempus has branches in the USA (Los Angeles, Washington DC and New York) and Canada (Toronto)
- Monex Europe with branches in London, Madrid, and Amsterdam
- Monex Securities has offices in Houston, Texas, USA

Insurance

As of the date of this Annual Report, all our assets are insured by a multiple business policy.

Guarantees

As of the date of this Annual Report, all our assets are free of encumbrances.

Acquisition and Sale of Properties

As of the date of this Annual Report Monex has not acquired any type of real estate.

III. Legal, administrative or arbitration proceedings

We are party to various judicial, administrative or arbitral proceedings that are incidental to the ordinary course of our business. We believe that such judicial, administrative or arbitral proceedings do not represent a contingent that could have a material adverse effect on our financial position or income statement. Likewise, we are not under the assumptions established in Articles 9 and 10 of the Commercial Bankruptcy Act.

IV. Shares representative of capital stock

Capital stock at nominal value as of December 31, 2016, 2015 and 2014 is integrated as follows:

	Number of shares as of December 31,			Amount		
	2016	2015	2014	2016	2015	2014
Fixed Capital -						
Series "O" shares	2,740,471	2,124,571	1,524,573	2,741	2,125	1,525
Total	2,740,471	2,124,571	1,524,573	2,741	2,125	1,525

The Ordinary General Shareholders' Meeting held on April 22, 2016, decreed dividends of the total amount of \$156 million pesos.

With Official Note No. 312-3/113694/2016, the Commission approved a capital increase for \$ 616, carried out through the "Contributions for future capital increases" that were pending authorization and which were contributed by the shareholders In September 2015.

The detail of the movements in the capital stock of the Institution is in the Official Note 23 of the consolidated financial statements for the years ended as of December 31, 2016, 2015 and 2014, attached to this Annual Report.

V. Dividends

In the last three years, the Issuer has decreed dividends for the amounts described below:

Date	Total Dividend (pesos)
2014 ²	0
March 18, 2015	400,000,000.00
April 22, 2016	156,000,000.00

² No dividends were paid during fiscal year 2014

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INFORMATION

Annual report · 2016

a) Selected Financial Information

This chapter contains consolidated financial information for each of the indicated periods. The financial information presented below is denominated in millions of pesos. This information should be read jointly with our Financial Statements, its notes and the information provided in the "Comments and Analysis of Management on Financial Condition and Operation Results" section of this Annual Report.

Our consolidated income statement for the years ended December 31, 2016, 2015 and 2014; our consolidated balance sheet for the years ended December 31, 2016, 2015 and 2014 has derived from our audited Consolidated Financial Statements, included in this Annual Report in the "Annexes" section, which have been prepared in accordance with the Accounting Criteria of the CNBV. These criteria differ to a certain point from the IFRS.

Relevant Event 2016, 2015 and 2014

As to make the selected financial information contained in this chapter comparable, following there is a summary of the relevant events contained in Note 1 of the Audited Financial Statements for the year endings of 31st of December 2016, 2015 and 2014 attached to the Annual Report herein.

i. Sale of a Tempus share

The 30th of October of 2015, Monex Negocios internacionales, S.A. de C.V. (subsidiary of the Bank) signed a purchase agreement to transfer the 17% of the total shares of its subsidiary Tempus to Monex, S.A.B. (before "Holding Monex") (related part of the Bank) at market prices based on a study made by an independent consultant. This operation was authorized by the Commission by Official written notice No. 312-3/14049/2015.

ii. Issuance of securitization certificates

The Bank carried out its first public issuance of securitization certificates under the ticker symbol "BMONEX15", which were registered in the RNV and listed in the BMV, based on the long-term securitization certificates program, revolving character up to \$8,000 million pesos.

The first issuance was carried out on July 14, 2015, for the amount of \$1,000 million pesos represented in 10 million of debt certificates with a nominal value of 100 pesos each and was authorized by the Commission in the Official Note No. 153/5535/2015. The term established is of 1,092 days, equivalent to 3 years and they were placed to a TIIE rate of 28+90 pb.

iii. Sale of subsidiary Monex Servicios

The 15th of October 2014, the Bank signed a shares purchase-selling contract to transfer the whole of Monex Servicios, S.A. de C.V. shares to Gentera, S.A.B. de C.V. which was subject to authorizations of regulatory ruling Authorities as of the 31st of December, 2014. The operation was authorized by the CNBV by Official written notice No. 312-3/13774/2015 dated 27th of March, 2015, date in which legal, accounting and tax of the sale were in force.

Changes in accounting policies

Note 3 included in the Audited Financial Statements for the years that ended the 31st of December 2016, 2015 and 2014 attached to the Annual Report herein includes the several improvements to the NIF adopted as of 1st of January 2016, which generate accounting changes, besides the various modifications in this document, applicable to the years analyzed in this document.

New accounting statements

The detail of the modifications made is found in Note 32 of the Audited Financial Statements for the years that ended on the 31st of December 2016, 2015 and 2014 attached to the Annual Report herein.

Selected Financial Statements

Consolidated income statements

Following the audited financial statements are shown with the audited figures for the years that ended the 31st of December 2016, 2015 and 2014:

Figures for the years that ended as of the
December 31st:

Concept	2016	2015	2014
Interests income	2,334	1,374	970
Interests expense	(1,548)	(758)	(590)
Financial margin	786	616	380
Provision for loan losses	(146)	(60)	(48)
Financial margin after provision for loan losses	640	556	332
Commission and fee income	233	209	217
Commission and fee expense	(137)	(144)	(165)
Intermediation income	5,077	3,797	3,244
Other operating income (net)	146	178	149
Administrative and promotional expenses	(4,620)	(3,657)	(3,036)
Income before income taxes	1,339	939	741
Equity in income of unconsolidated associates	-	1	-
Income before income taxes	1,339	940	741
Current income taxes	(545)	(353)	(197)
Deferred income taxes	282	83	(23)
Consolidated Net Income	\$1,076	\$670	\$521
Non-controlling interest	145	108	61
Controlling interest	\$931	\$562	\$460

Internally prepared with figures as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos.

To review the explanation over the variations of Income Statements and balance accounts see section “Comments and Analysis of the Administration over Operation Results and Financial Status of the Bank” of the Annual Report herein.

Consolidated general balances

Following the Consolidated General Balance is shown for the periods that ended the 31st of December 2016, 2015 and 2014, in millions of pesos.

Concept	Figures for the years that ended as of December 31 st :		
	2016	2015	2014
Assets			
Funds available	15,825	15,607	16,148
Margin accounts	722	379	521
Investments in securities and repurchase agreements	34,543	22,035	10,770
Derivatives	3,956	1,400	1,889
Loan portfolio (net)	17,987	12,295	7,928
Other receivables (net)	17,227	13,580	12,197
Long-lived assets held for sale	-	-	38
Deferred taxes and profit sharing (asset)	615	224	81
Other assets	2,680	2,299	2,016
Total Assets	\$93,555	\$67,819	\$51,588
Liabilities			
Deposits	27,994	18,748	14,560
Bank and other loans	1,422	880	792
Liabilities arising from sale and repurchase agreements	21,754	15,577	6,643
Collaterals sold or pledged in guarantee	436	440	-
Derivatives	2,691	1,055	1,380
Other liabilities	31,509	24,422	23,094
Total Liabilities	\$85,806	\$61,122	\$46,469
Stockholders' equity			
Capital contributed	2,741	2,741	1,725
Earned capital	3,903	3,007	2,677
Not-controlling interest	1,105	949	717
Total Stockholders' equity	\$7,749	\$6,697	\$5,119
Total Liabilities + Stockholders' equity	\$93,555	\$67,819	\$51,588

Internally prepared with figures as of December 31st 2016, 2015 and 2014. Figures in millions of pesos.

See "Changes in the Main balance accounts – Financial Information" Section of this Annual Report, for the detailed description of the main variations of our activities by segment.

Banco Monex signed the shares trade agreement on October 15, 2014, to transfer the totality of the shares of Monex Servicios, S.A. de C.V. On December 31, 2014, the agreement was still in process, therefore this asset is classified in the General Balance within the aspect of long-term assets available for sale. That operation was finalized on March 27, 2015.

Credit Portfolio

Following the performing and non-performing loan is shown as of December 31st 2016, 2015 and 2014:

Date	Performing Portfolio	Non-Performing Portfolio	Total
Dec. 2016	18,212	73	18,285
De. 2015	12,363	108	12,471
Dec. 2014	8,031	9	8,040

Internally prepared as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos.

Order Accounts

The order accounts as of December 31st 2016, 2015 and 2014, are the following:

Concept	Figures for the years that ended as of December 31 st :		
	2016	2015	2014
Loan commitments	10,471	8,361	3,407
Contingent assets and liabilities	81	-	-
Goods in trust or mandate held in trusts	88,933	78,600	68,528
Collateral received by the Institution	12,531	7,661	3,845
Collateral received and sold or pledged as guarantee by the Institution	4,293	4,375	518
Uncollected interest earned on non-performing loan portfolio	19	6	1
Other record accounts	3,660	3,106	2,707
	\$119,988	\$102,109	\$79,006

Internally prepared as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos

Dividends

During the year accounts of 2016, 2015 y 2014, through Ordinary General Meetings the following dividends were decreed and paid:

Date	Total Dividend (Pesos)
March 18 th , 2015	400'000,000.00
April 22 nd , 2016	156'000,000.00

Dividends were not paid during the year 2014

Monetary unit of the financial statements

The financial statements and notes as of December, 31st, 2016, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

Consolidation of financial statements

The consolidated financial statements include those from the Bank and those of its Subsidiaries upon which it has control, and which shareholding in its social capital is shown as follows::

Company	Shareholding			Activity
	2016	2015	2014	
1 Monex Servicios, S.A. de C.V. (Monex Services)	-	-	99.99%	It had the objective the provision of complementary and auxiliary services to the Bank in terms of the article 88 of the LIC. Monex Services sublet to the local Bank and assets of the 60 banking branches. ¹
2 Monex Negocios Internacionales, S.A. de C.V. (Monex Business)	99.99%	99.99%	99.99%	Holding company of Tempus and Monex Europe LTD.
2.1 Tempus Inc. (Tempus)	83.00%	83.00%	100.00%	Indirect subsidiary of the Bank. Entity located in Washington D.C. in the United States, which object is the purchase and selling of currency. Their clients are located mostly in the United States of America.
2.1.1 Tempus Nevada, Inc.	83%	83%	100%	Entity constituted in the year 2010 in the State of Delaware in the United States. Currently not in operation.
2.1.2 Monex Canada, Inc.	83%	83%	100%	Entity constituted in Toronto, Canada. Currently not doing operations.
2.2 Monex Europe Holdings Limited (Monex Europe LTD)	50.10%	50.10%	50.10%	Indirect subsidiary of the Bank. Holder entity of Monex Europe and Schneider FX, entities located in the United Kingdom.
2.2.1 Monex Europe Limited (Monex Europe)	50.10%	50.10%	50.10%	Indirect subsidiary of the Bank. Entity acquired, it works in the purchasing and selling of currency with presence in the European market.

¹ As of November 2014 and as of April of 2015, the Bank recognize its participation in Monex Servicios through participation method.

2.2.2 Monex Europe Markets Limited	50.10%	-	-	Indirect subsidiary of the Bank. Entity that works in the purchasing and selling of currency with presence in the European m
2.2.3 Schneider Foreign Exchange Limited (Schneider FX)	50.10%	50.10%	50.10%	Indirect subsidiary of the Bank. Entity without operations.

Translation of financial statements of foreign subsidiaries

To consolidate the financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to the accounting criteria of the Commission. As the recording and functional currency are the same, the financial statements are subsequently translated into Mexican pesos, using the following methodology:

- The closing exchange rate, in effect at the balance sheet date for assets and liabilities,
- Historical exchange rates, for stockholder's equity, and
- The rate on the date of accrual of revenues, costs and expenses,
- Translation effects are recorded in stockholder's equity

As of December 31st, 2016, 2015 and 2014 the exchange rates used in the different translation processes, are as follows:

Company	Currency	Exchange rate to translate from functional currency to Mexican pesos		
		2016	2015	2014
Tempus Inc. (Consolidated)	Dollar	20.6194	17.2487	14.7414
Monex Europe LTD (Consolidated)	Pound Sterling	25.4814	25.4366	22.9847

The functional currency of the Bank is the Mexican Peso. Since the Bank keeps investments in the Subsidiaries abroad, which functional currency is not the Mexican Peso, it is exposed to a foreign currency conversion risk. Additionally, assets and liabilities denominated in several currencies have been contracted, mainly in American dollar, Sterling pound and Euros therefore there is an exposition to Exchange rate risk attributable to the Bank operations during the normal course of operations.

Reclassification of financial statements

The financial statements for the year ended on December 31, 2015, have been reclassified in certain aspects to comprise its presentation to the one used in 2016.

Transactions and debts with related companies

As of December 31th, 2016, the credits granted to related parts, according to the established in the article 73 of the Institutions of Credit Law, amount to \$263. As of December 31, 2015 and 2014 they amount to \$207 and \$22 respectively, which were approved by the Board of Directors.

Provided that the Institution and its subsidiaries handle operations among related companies such as: investments, attraction, services provision, etc., the majority of which originate income to one entity and expenditures to another, the operations and balances carried out with consolidated companies were eliminated and those of non-consolidated companies remain.

The balances receivable and payable with companies related as of December 31, 2016, 2015 and 2014, amount to:

Concept	Figures as of December 31 st of the years		
	2016	2015	2014
Receivables-			
Funds available	9,116	9,710	9,614
Repurchase agreements	12,627	-	1,152
Other receivables	11,771	1,758	1,506
Other assets	9	7	5
Liabilities-			
Deposits	175	129	162
Repurchase agreements	7,307	1,103	5,490
Derivatives	7	5	32
Other payable accounts	2,693	11,454	11,116
Collaterals sold or pledged on guarantee	16,396	-	-

Internally compiled with figures as of December 31, 2016, 2015 and 2014. Figures in millions of pesos.

Main transactions carried out with related companies and affiliates as of December 31, 2016, 2015 and 2014, are the following:

Concept	Figures as of December 31 of the years		
	2016	2015	2014
Revenue:			
Interests	376	178	154
Corporate services	8	7	19
Expenses:			
Interests and commissions	702	285	168
Corporate services	85	66	130
Gains/losses on financial assets and liabilities (net)	92	1,701	1,655

Internally compiled with figures as of December 31, 2016, 2015 and 2014. Figures in millions of pesos.

The Directors considers that operations held with related parties were determined considering prices and amounts of counter benefits that would had been used with or among independent parties in comparable operations.

Stockholders' equity

The stock capital at nominal value as of 31st of December 2016, 2015 and 2014 is integrated as follows:

	Number of shares as of December 31 st			Amount		
	2016	2015	2014	2016	2015	2014
Fixed Capital -						
Series "O" Shares	2,740,471	2,124,571	1,524,573	2,741	2,125	1,525
Total	2,740,471	2,124,571	1,524,573	\$2,741	\$2,125	\$1,525

Internally compiled with figures as of December 31, 2016, 2015 and 2014. Figures in millions of pesos.

The Ordinary General Meeting of Shareholders held on April 22, 2016, decreed the dividends for the amount of \$156 million pesos.

By the Official Note No.312-3/113694/2016 the CNBV approved the increase in the capital stock for \$616 million pesos, which was carried out through the "Contribution for further increase of capital stock" pending to be authorized and that were contributed by the shareholders in September 2015.

Uncertain factors or events that can make the information presented may not be indicative of further performance of the Issuer

(See chapter 7 Attachments – "Risk Factors" of the Annual Report herein.)

b) Financial Information by Business Line, geographical location and export sales

See Note 30 - "Segment information" of the Financial Statements ruled 2016, attached to the Annual Report herein.

c) Relevant credit information

The Issuer holds credits with banks and other Institutions, which consist of Supply Chain Financing (clusters), and NAFIN's digital credit, as well as financing facilities for agricultural, rural and fishing sector of Mexico (FIRA). Likewise, Monex has "Call money" transactions and interbanking credit facilities, which are mainly used for the short-term funding and banking leveling market.

No need had yet arisen to use external sources of liquidity, to cover the margin requirements that may arise in both MexDer and CME operations. Financial counterparties are used to cover open trades with client, which we have credit facilities negotiated under various contracting conditions.

Transactions with clients are mostly agreed with an initial margin, which yields a spread of guarantees (collected - provided), therefore there are normally cash flow surpluses due to this concept. There are, special cases and clients that have negotiated an initial margin of 0% with a maximum loss, which means that once the maximum loss amount is reached we request contribution of guarantees.

It is important to mention that the resources are obtained through the areas of the Treasury and the deposits of clients represent our main source of liquidity.

Demand deposits are our lowest cost financing source compared to others alternatives. Our financing strategy is based on increasing financial sources of low-cost financing through new banking products and commercial campaigns aimed at increasing the volume of deposits by our customers, as well as expanding our clients base. Under our financing strategy, we achieved to increase our deposits by approximately 52.2% in 2016 compared to 2015.

In order to reduce our liquidity risk, we hold credit facilities on demand (*call money*) with certain financial institutions, as well as short- and long-term financing. We have access to long-term financing through bank debt, issuance of securitization certificates, certificates of deposit, structured bonds and promissory notes with yield payable at maturity in the local market.

The following chart shows the elements, amounts and expiration dates of our financing to the short and long term as of the 31st of December 2016, 2015 and 2014:

Figures in millions of pesos	Figures for the years ended as of December 31st:		
	2016	2015	2014
Demand deposits-			
“Call money” received	344	-	200
Total demand deposits	344	-	200
Short term-			
FIRA	50	22	8
Clusters	1,019	838	584
Digital loans	9	20	-
Total short-term loans	1,078	880	592
Total bank loans and other loans	\$1,422	\$880	\$792

Internally prepared with figures as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos.

Loans with Development Bank Institutions – Loans are granted by Nacional Financiera (NAFIN) and Fideicomiso of Banco de México (FIRA), which represent a direct obligation for the Issuer with these entities. Accordingly, the Issuer grants loans in Mexican pesos and Dollars to their customers for financial support.

Lines of credit for discounts and loans, granted in Mexican pesos and Dollars by the development funds mentioned above, operate under the authorizations of the internal risk units of the Issuer. The financial conditions are set under fixed and variable rate programs, both in Dollars and Mexican pesos, and the term is based on the specific program or transaction determined for each project.

- Operation cash flow and other liquidity sources are estimated to be enough to cover our liquidity necessities for the following twelve months, including our investments budget.
- As part of our assets and liabilities management strategy, we constantly monitor our exposure to foreign currencies, with the purpose of minimizing the exchange rates fluctuation, and the effect that might have on our results. Banco de México’s regulations require that we must keep open positions in foreign currency for an amount not higher than a specific level regarding to the basic capital (Tier 1), as well as a limit regarding the liabilities denominated in foreign currency with an adjusted maturity date. As of December 31st, 2016 we complied with such regulatory requirements.

d) **Management's comments and analysis of the issuing Company's operating results and financial situation**

The following section has been compiled based on our Audited Financial Statements and the rest of the financial information included in the Annual Report herein. The potential investors should read the following analysis of the administration over our operation results and financial status together with the "Selected Financial Information" and our Financial Statements, which are part of this Annual Report herein.

This section includes projections that reflect our plans, estimations and considerations, which involve risks, uncertainties and suppositions. Our real results may substantially differ from those anticipated in our statements or prospective estimations. The factors that could make or contribute to these differences include, among others, those detailed hereinafter and in other sections of this Annual Report, particularly in the section "Risk Factors". It is important that investors carefully consider the information included in this section and the "Risk Factors" before investing in our Banking Debt Certificates.

General Description

See section "Executive Summary – General Information" of the Annual Report herein.

I. Operations income

The following chart shows our Consolidated Income Statement, prepared according to the Accounting Criteria of CNBV, for the years that ended as of December 31st 2016, 2015 and 2014.

Figures for the years ended as of
December 31st:

Concept	2016	2015	2014
Interests income	2,334	1,374	970
Interests expense	(1,548)	(758)	(590)
Financial margin	786	616	380
Preventive estimation for credit risks	(146)	(60)	(48)
Financial margin adjusted for credit risks	640	556	332
Commissions and rates collected	233	209	217
Commissions and rates paid	(137)	(144)	(165)
Results for intermediation	5,077	3,797	3,244
Other income (expenditures) of the operation	146	178	149
Administration and promotion expenses	(4,620)	(3,657)	(3,036)
Operation Result	1,339	939	741
Participation in the result of unconsolidated and associate subsidiaries.	-	1	-
Result before tax to profit	1,339	940	741
Taxes caused to profit	(545)	(353)	(197)
Taxes differed to profit, net	282	83	(23)
Net Result	\$1,076	\$670	\$521
Non-controlling interests	\$145	\$108	\$61
Majority net result	\$931	\$562	\$460

Internally prepared with figures as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos.

Total operating income as of 31st of December are \$5,813 million pesos, that is, a 31.6% increase in comparison to the income reported to the closing of 2015, which had an income of \$4,418 million pesos, superior figure to the reported in 2014 of 21.8%.

The financial margin rose to the \$786 million pesos as of the 31st of December 2016, superior figure of 27.6%, in reference to the previous period. Also, December, 2015 compared to the same period in 2014 there was an increase of 62.1%.

Related to the Administration and Promotion Expenses, these are shown in the section “Administration and Promotion Expenses” of this Annual Report.

Finally, the Bank reports a Net Income of \$1,076 million pesos as of December 2016, which represents an increase of 60.6%. For December 2015 that result rose to \$670 million pesos, which represents 28.6% growth comparing to the result achieved in 2014. This growth is mostly due to the net increase in the income due to interests and administration expenses, which in real terms are increased in approximately 26.3%; the sum of these effects were compensated with the result of intermediation given during the year.

To see more details on the Operating results by business segments, read the Note 30 – “Information by Segments” of the Audited Financial Statements 2016, attached to this Annual Report.

Information by segments

As of the closing of December 2016, the exchange rate business showed an increase in income of operations of a 6.1% approximately, compared to the figures of 2015 closing. This growth resulted, mostly, by a higher volatility of the exchange rate during 2016, variable that has an impact in the margin of this product.

At the same time, this segment had a share of the 43.7% in the period 2016 of the operation total income equivalent to \$2,542 million pesos.

The International segment (Monex Europe and Tempus, subsidiaries of the Bank) had a growth of 50.5% and 35.6% in income of the operation and Net Income, respectively, in comparison to the figures disclosed as of the closing of December 2015.

For more details, see the note 30 – “Information by Segments” of the Audited Financial Statements 2016, attached to this Annual Report.

Result for Intermediation

As of December 31, 2016, 2015 and 2014, the result for intermediation is integrated as follows:

Concept	Figures as of December 31 of the years		
	2016	2015	2014
Foreign exchange result:			
Valuation	(6)	(3)	29
Realized gains or losses	2,454	3,380	2,865
	2,448	3,377	2,894
Derivatives result:			
Valuation	(185)	(64)	323
Realized gains or losses	2,654	620	(136)
	2,469	556	187
Trading securities result:			
Valuation	(136)	(16)	24
Realized gains or losses	292	(121)	138
	156	(137)	162
Equity result:			
Valuation	4	1	1
Realized gains or losses	-	-	-
	4	1	1
	\$5,077	\$3,797	\$3,244

Internally compiled with figures as of December 31, 2016, 2015 and 2014. Figures in millions of pesos.

The result for intermediation show the following behavior:

The accounting period 2016 showed an increase of 33.7%, going from \$3,797 million pesos in 2015 to \$5,077 million pesos.

As of the 31st of December 2016 it is mostly integrated by:

- Foreign exchange result, which shows a balance of \$2,448 million pesos and represents the 48.2% of the total result for intermediation, net.
- Derivatives result went from \$556 million pesos in 2015 to \$2,469 million pesos in 2016, representing an increase of 344.1% mostly due to the increase in purchase-selling profit.
- Trading securities result showed a decrease of \$120 million pesos in the valuation and increased to \$413 million pesos in the purchase-selling profit in 2016, both results compared to the same accounting period of previous year.

The accounting period 2015 showed an increase of 17%, going from \$3,244 million pesos in 2014 to \$3,797 million pesos.

Financial Margin

The financial margin as of December 31st 2016 reached a balance of \$786 million pesos higher figure by \$170 million pesos compared with the accounting period of 2015, which represents an increase of 27.6%. The above mentioned is integrated as follows:

Interest income:

- Interest generated by market transactions (Investment in operations, securities, debt and equity), banking loans and deposits in financial entities represent the 57.28% equivalent to \$1,337 million pesos.
- Interest generated from the Total Loan Portfolio show a balance of \$953 million pesos.

Interest expenses:

- The interest from market operations (Foreign exchange, repurchase, Debt, and Money, etc.) show a balance of \$893 million pesos.
- Commissions and interests generated and paid by acquisition represent the 38.11%.
- Commissions paid due to short term loans represent the 3.87% equivalent to \$60.

Allowance for loan losses

The allowance for loan losses increased 143.33%, from over the \$60 million pesos in 2015 to the \$146 million pesos in December 2016.

Administrative and promotional expenses

The administrative and promotional expenses are integrated mostly by remuneration and employee benefits, technology, taxes and rights, professional fees, leasing, depreciations and amortizations, maintenance, promotion and publicity expenses, contributions to IPAB and other general expenses. In 2016, 2015 and 2014, the administrative and promotional expenses performed as following:

- The administrative and promotional expenses increased by 26.3%, from \$3,657 million pesos in 2015 to \$4,620 million pesos in 2016, mainly due to remunerations and employees' benefits that increased by \$812 million pesos compared to 2015, leasing as well increased \$41 compared to the accounting period 2015.
- For December 31st 2015, administrative and promotional expenses reached a balance of \$3,657 million pesos, higher figure of 20.4% compared to 2014. Remunerations and employees' benefits showed a balance of \$2,633 million pesos, amount that represents the 72% of the total administrative and promotional expenses as of the closing of December 2015.

The following chart shows the administrative and promotional expenses for the years ended December 31st 2016, 2015 and 2014.

Years ended December 31 st	2016		2015		2014
	Change		Change		
		(%)		(%)	
Remunerations and employee benefits	3,445	30.8%	2,633	30.2%	2,022
Technology	374	15.1%	325	17.3%	277
Taxes and rights	119	7.2%	111	(15.3)%	131
Professional fees	144	12.5%	128	(30)%	183
Leasing	150	37.6%	109	12.4%	97
Depreciations	27	8%	25	0%	25
Amortizations	38	-	38	(15.5)%	45
Maintenance	23	4.5%	22	(12)%	25
Promotion and publicity	74	4.2%	71	14.5%	62
Contributions to IPAB	104	38.7%	75	33.9%	56
Others	122	2.5%	120	6.2%	113
Total	\$4,620	26.3%	\$3,657	20.4%	\$3,036

Internally prepared with figures as of December 31st 2016, 2015 and 2014. Figures in millions of pesos.

2016

Remunerations and employee benefits increased 30.8% in December 2016 compared to December 2015, balance which increased to \$3,445 million pesos to the closing of 2016. The above it is mostly because of the increasing in the salesforce commissions and productivity bonuses, especially in Monex Europe.

Leasing expenses increased by 37.6%, from \$109 in 2015 to \$150 in 2016, mostly due to exchange rate fluctuation.

Contributions to IPAB increased by 38.7% compared to previous year, passed from \$75 in 2015 to \$104 in 2016, this is mainly because of the growth in deposits, which represents a fundamental part of the IPAB calculation.

Professional fees expenses increased by 12.5%, passing from \$128 million pesos during 2015 to \$144 million pesos in 2016.

The promotion and publicity expenses increased by 4.2%, passing from \$71 million pesos in 2015 to \$74 million pesos in 2016.

2015

Remunerations and employee benefits in 2015 increased by 30.2% compared to December 2014. That balance resulted to \$2,633 million pesos in 2015. The above it is mainly because of the salesforce commission growth and the productivity bonuses, especially in Monex Europe due to the appraisal of Pound Sterling, which represent an increase of 43% of the total balance.

Technology expenses increased a 17.3% from \$277 million pesos in 2014 to \$325 million pesos in 2015, mostly due to the following expenditures:

- Tecnomedia Applications: Group of developers, support, monitoring and PLD for \$13 million pesos.
- Data Center: For \$13 million pesos, mostly due to the growth in storage capacity and improvement in communication, as well as variation in the exchange rate of services hired in dollars.
- Oracle: Increase in services hired for \$6 million pesos.

Contributions to IPAB increased by 33.9% compared with the previous year from \$56 million pesos in 2014 to \$75 million pesos in 2015, this is mainly because by the growth in demand deposits of \$4,188 million pesos, which represents a fundamental part of the IPAB fee calculation.

Professional fee expenses showed a decrease of a 30% that is, from \$183 million pesos during 2014 to \$128 million pesos in 2015.

Promotion and publicity expenses increased 15%, from \$62 million pesos in 2014 to \$71 million pesos in 2015, due mainly to a publicity campaign strengthening and Monex Europe publicity expenditure for \$6 million pesos.

2014

Remunerations and employee benefits increased by 9% in 2014, compared to 2013, which ascended to \$1,858 million pesos. Also the technology expenses during 2014 were \$277 million pesos, higher figure in a 3% compared to 2013, both items increased due to the generalized increase in the inflation effects, which ascended approximately to 4%.

Professional fees expenses increased by 87% compared to 2013, passing from \$98 million pesos in 2013 to \$183 million pesos in 2014, due to the expenses related to the sale of Monex Servicios, and some legal topics as well contracted during 2014.

Promotion and publicity expenses increased 19%, passing from \$52 million pesos during 2013 to \$62 million pesos during 2014, previously information explained by the publicity campaign strengthening launched in 2013.

Contributions to IPAB increased by 124% compared to the previous year, passing from \$25 million pesos in 2013 to \$56 million pesos in 2014, due to a change in the methodology for the fees calculation in 2014. Also, it was because of an increase in the item of banking liabilities and the decrease of the financing granted to the Banking Institutions.

II. Financial condition, liquidity and capital resources

Balance sheet

We showed below the Consolidated Audited Balance Sheet as of December 31st 2016, 2015 and 2014 in million pesos.

Concept	Figures for the years ended as of the 31st of December:		
	2016	2015	2014
Assets			
Funds available	15,825	15,607	16,148
Margin Accounts	722	379	521
Investments in Securities and Repurchase agreements	34,543	22,035	10,770
Derivatives	3,956	1,400	1,889
Loan Portfolio (net)	17,987	12,295	7,928
Other receivables (net)	17,227	13,580	12,197
Long-lived assets held for sale	-	-	38
Deferred taxes and profit sharing (asset)	615	224	81
Other assets	2,680	2,299	2,016
Total Assets	\$93,555	\$67,819	\$51,588
Liabilities			
Deposits	27,994	18,748	14,560
Bank and other loans	1,422	880	792
Liabilities arising from sale and repurchase agreements	21,754	15,577	6,643
Collaterals sold or pledged in guarantee	436	440	-
Derivatives	2,691	1,055	1,380
Other liabilities	31,509	24,422	23,094
Total Liabilities	\$85,806	\$61,122	\$46,469
Stockholders' Equity			
Capital contributed	2,741	2,741	1,725
Earned capital	3,903	3,007	2,677
Non-controlling participation	1,105	949	717
Sum Stock Capital	\$7,749	\$6,697	\$5,119
Suma Liability + Capital	\$93,555	\$67,819	\$51,588

Internally prepared with figures as of the 31st of December 2016, 2015 and 2014. Figures in millions of pesos.

Changes in the Main balance accounts

Assets

In 2016, the assets increased 37.9% compared to 2015 by \$25,736 million pesos.

The investments in securities at the end of 2016 increased by \$7,469 million pesos compared to 2015, mostly segregated as follows:

- The trading securities went from \$16,804 million pesos in 2015 to \$21,377 million pesos in 2016
- The securities available for sale increased by \$2,823 million pesos compared to the closure of 2015.

As of December 31st, 2015, investments in securities increased by \$10,869 million pesos, which is equivalent to 146.1% compared to December 2014.

In 2016, the derivative assets increased by 182.6% compared to 2015. During 2015 they decreased from \$1,889 million pesos in 2014 to \$1,400 million pesos in 2015, representing a decrease of \$489 million pesos.

The repurchase agreements at the closure of the accounting period of 2016 went from \$3,728 million pesos in 2015 to \$8,767 million pesos in 2016, which represents a 135.2% increase. At the closure of 2015 there was a considerable growth of this operation as the debtors by repurchase increased by \$396 million pesos.

In 2016 the total net loan portfolio increased by \$5,692 million pesos compared to 2015, which represents an increase of 46.3%

In 2016 the performing loan portfolio balance increased \$5,849 million pesos mostly because of the business or commercial activity that went from \$10,898 million pesos in 2015 to \$15,877 million pesos in 2016, which represents the 87.2% of the performing loan portfolio. On the other hand, the non-performing loan portfolio went from \$108 in 2015 to \$73 million pesos in 2016. The non-performing loan portfolio is represented in a 91.8% by business or commercial activity.

At the closure of 2015 the total loan portfolio increased by \$4,431 million pesos, which represents the 55.1% compared to the accounting period of 2014, integrated by increment of \$4,332 million pesos of the performing loan portfolio and \$99 million pesos of non-performing loan portfolio, the item of the business or commercial activity generated the highest amount of portfolio, which represents 88% of the total.

Liabilities

Deposits in 2016 showed a balance of \$27,994 million pesos, representing an increase of \$9,246 million pesos, mainly due to the increasing on demand deposits, which increased from \$4,984 million pesos in 2015 to \$10,733 million pesos, growing by 115.3%. In 2015 it reached a balance of \$18,748 million pesos, which represents an increase of \$4,188 million pesos, mainly due to the issuance of banking securitization certificates BMONEX15 for an amount of \$1,000, and an increase in the deposits passing from \$936 million pesos in 2014 to \$4,182 million pesos, growing by 346.8%.

Bank and other loans in December 2016, went from \$ 880 million pesos in 2015 to \$ 1,422 million pesos in 2016, growing by 61.6%, where the short term loans have an important representation of this item with \$1,019 million pesos, considering an average rate of 4.49%. In 2015, this reached \$880 million pesos, from \$792 million pesos in 2014, which represented a growth of 11.1%, it is important to mention that by this date all the "call money" (demand loans) operations had been liquidated, while the short term loans companies have a large representation of this item with \$838 million pesos, considering an average rate of 3.1%. In 2014 interbank loans increased by \$319 million pesos, reaching a balance of \$792 million pesos, one of the relevant operations of this year were the "call money" that reached a balance of \$200 million pesos

The liabilities arising from sale and repurchase agreements as of December 2016 passing from \$15,577 million pesos in 2015 to \$21,754 million pesos in 2016, equivalent to an increase of 39.6%.

As of December 2016, derivatives increased by 155.1%, compared to 2015. During 2015 the liability position showed a decrease of \$ 325 million pesos compared to 2014.

Stockholders' equity

The Stockholders' equity in 2016 ascended to \$7,749 million pesos, increasing 15.7% compared to 2015.

The earned capital in 2016 increased \$896 million pesos, increasing 29.8% compared to 2015, variation mainly explained due to:

The capital contributed remained unchanged in 2016. In 2015 this item indicated a total of \$2,741 million pesos, increasing by \$1,016 million pesos, which represents a growth of 58.9% compared to 2014.

Summary of derivative instrument transactions

Asset position	2016		2015		2014	
	Nominal Amount of purchases	Asset Position net	Nominal Amount of purchases	Asset Position net	Nominal Amount of purchases	Asset Position net
Futures-						
Foreign exchange futures	10,554	-	5,686	-	7,234	-
Futures securities	-	-	-	-	50	-
Futures indexes	-	-	3	-	-	-
	10,554	-	5,689	-	7,284	-
Forwards-						
Foreign exchange forwards	17,855	2,112	8,993	932	102,335	1,315
Forwards indexes	-	-	-	-	4	-
	17,855	2,112	8,993	932	102,339	1,315
Options-						
Foreign exchange options	38	73	15	79	51	270
Rates options	42	91	43	94	49	83
Options indexes	1	1	-	-	-	-
	81	165	58	173	100	353
Swaps-						
Rates swaps	12,261	1,536	6,921	295	6,039	21
	12,261	1,536	6,921	295	6,039	21
Hedging derivatives-						
(1)						
Rates swaps	838	143	-	-	-	-
	\$838	\$143	\$-	\$-	\$-	\$-
Total position	\$41,589	\$3,956	\$21,661	\$1,400	\$115,762	\$1,889

(1) In 2016 hedging derivatives (rate swaps) started to be used.

Internally compiled with figures as of December 31st, 2016, 2015 and 2014. Figures in millions of pesos

Our liquidity management seeks to ensure that, even under adverse conditions, we will have sufficient liquidity and access to the necessary financing to cover our payments transactions related to the foreign exchange trading, our clients' needs, liabilities dues,

requirements of working capital, as well as to continue the expansion to other financial services and the geographic expansion of our services in Mexico and abroad.

Our liquidity risk come from the payment needs of our clients and the financing of our investment, credit and treasury activities and includes the risk of not being capable to liquidate a position on time at an adequate price and the risk of having to pay liabilities, particularly those related to deposits from our clients, abruptly and/or anticipated. We quantify our exposure to liquidity risk projecting future cash flows, considering all the assets and liabilities in pesos and in foreign currencies and taking into consideration the maturity terms. Our treasury department is in charge to ensure the maintenance of adequate liquidity levels in order to cover any foreign exchange transactions and withdrawals of deposits, payments of other liabilities in their maturity date, granting loans and fulfill working capital needs, in compliance with the regulatory reserves and coefficients of internal and regulatory liquidity in all relevant aspects.

Our funding strategy consists of:

- To increase clients' deposits by the penetration in more than 49,200 current commercial relationships, whom a great proportion has different sizes of business, derived from reciprocity of the variety of services provided by Banco Monex among them
- To increase the term of deposits, in order to improve the mix of different investment instruments and investment horizons
- To diversify the funding through Banks and other entities
- To diversify the alternatives of funding with those available in the market that are eligible for the activities of our credit clients
- To issue the long-term securitization certificates in order to improve the mix and available alternatives to fund the loan portfolio

Additionally, Basilea III frame seeks to establish a liquidity coverage ratio, or "LCR," and a stable net financing ratio, or "NSFR". The LCR requires that we maintain sufficient high-quality liquid assets to cover net cash outflows that could result in a stress scenario. The NSFR will establish a minimum amount of stable financing that we have to maintain based on the liquidity of our assets during a period of one year.

The cash flow statement presents the capacity of the Issuer to generate cash and cash equivalents, as well as the way the Issuer uses those cash flows to cover its needs. The cash flow jointly with the rest of the financial statements provides information that allows:

- To evaluate the changes in assets and liabilities of the Issuer and its financial structure.
- Evaluate both amounts and dates of receivables and payments, in order to adapt them to circumstances and opportunities of generation and/or application of cash and cash equivalents.

Cash Flow Statements

In the following chart we present the Consolidated Cash Flow Statements with audited figures for the years that ended as of December 31st 2016, 2015 and 2014, in million pesos.

Concept	Figures for the years ended as of December 31 st :		
	2016	2015	2014
Net Income:	1,076	670	521
Depreciation	27	25	24
Amortization	37	38	46
Current and deferred income taxes	263	270	220
Other	-	3	-
Adjustment for items that do not require cash flows	1,403	1,006	811
Operating activities:			
Change in margin accounts	(343)	142	155
Change in investment in securities	(7,627)	(10,888)	2,088
Change in repurchase agreements, net	1,139	8,538	(2,885)
Change in derivatives, net	(787)	164	(605)
Change in hedging instruments	(4)	-	-
Change in loan portfolio, net	(5,692)	(4,367)	(3,657)
Change in other operating assets, net	(3,982)	(1,848)	(2,311)
Change in deposits	9,246	4,186	2,739
Change in bank and other loans	542	88	319
Change in collateral sold or pledged in guarantee	(5)	440	-
Change in other operating liabilities	6,421	911	6,762
Net cash flows from operating activities	(1,092)	(2,634)	2,605
Investing activities:			
Proceeds from sale of furniture and fixtures	11	11	3
Purchase of furniture and fixtures	(50)	(32)	(41)
Purchase of investment in shares	-	-	9
Proceeds from disposal of long lived assets held for sale		45	
Payments for acquisition of intangibles assets	(81)	(22)	(32)
Net Cash Flow of investing activities	(120)	2	(61)

Financing Activities:

Issuance of securitization certificates	-	400	-
Dividends paid	(156)	(400)	-
Contributions for future capital increases	-	616	200
Proceeds from disposal of non-controlling interest in subsidiary	(26)	164	-
Net Cash Flow of financing activities	(182)	780	200
Net increase (decrease) in funds available	9	(846)	3,555
Effects from changes in value of fund available	209	305	177
Funds available at the beginning of the year	15,607	16,148	12,416
Funds available at the end of the year	\$15,825	\$15,607	\$16,148

Internally compiled with figures as of December 31st, 2016, 2015 and 2014. Figures in millions of pesos

Our main liquidity sources have been historically integrated in (1) interbanking lines to carry out payment transactions, (2) daylight repurchase agreements transactions with the Central Bank of Mexico, (3) deposits, mainly demand and time deposits, (4) bank loans and other loans, including *call money* and issuance of interbanking paper, and (5) the proper generation of business cash flow.

Liquidity Sources

The following chart shows the composition of our liquidity sources as of December 31st 2016, 2015 and 2014

Concept	Figures for the years ended as of December 31 st :		
	2016	2015	2014
Demand Deposits	15,384	8,495	7,985
Time Deposits -			
General public	10,733	4,984	5,483
Money market:			
Deposit certificates	434	2,033	656
Promissory notes with interest payable at maturity (BMONEX) (1)	-	2,149	280
	26,551	17,661	14,404
Debt Securities (Bonds)-	1,440	1,084	156
Global account of inactive deposits	3	3	-
Total deposits	\$27,994	\$18,748	\$14,560

Internally prepared with figures as of December 31st 2016, 2015 and 2014. Figures in millions of pesos

Short-term maturities that generate interests to an average rate of 7.33%, 3.43% and 2.91%, in 2016, 2015 and 2014, respectively.

Below is a brief description of our deposit products:

- Demand deposits: Digital Account is a multicurrency demand deposit account with attractive yields over monthly average balances in Mexican pesos and US Dollars, which allows to carry out transfers in Mexico and other countries through electronic banking.
- Time Deposits. Deposit Certificates, a product that allows the investment in term (up to 360 days) and offers attractive yields based on term and amount invested with monthly interest payment, both in Mexican pesos and US Dollars (CEDEs). Through Banking bonds and Deposit Certificates, we issue Structured Notes. These instruments represent an investment alternative with lower risk compared to the other products, due to having in some cases, totally or partially hedged capital; Promissory Notes with Yield Payable at Maturity (PRLV), is a product used for short- and medium-term financing with interbanking market.
- Banking loans and loans from other Institutions: Supply chain financing and NAFIN's digital credits, financing facilities for agricultural, rural and fishing sectors of Mexico (FIRA). "Call money" and interbanking credit facilities, which are mostly used for a short-term funding and banking leveling market.

There has been no necessary to use external sources of liquidity to cover the margin requirements that may arise both in MexDer and CME operations.

Financial counterparties are used to cover open trades with clients and credit facilities are approved under different agreement conditions.

Transactions with clients are mostly agreed with an initial margin, which yields a spread of guarantees (collected - provided), therefore there are normally cash flow surpluses due to this concept. There are, special cases and clients that have negotiated an initial margin of 0% with a maximum loss, which means that once the maximum loss amount is reached we request contribution of guarantees.

It is important to mention that the resources are obtained through the areas of the Treasury and the deposits of clients represent our main source of liquidity.

Demand deposits are our lowest cost financing source compared to others alternatives. Our financial strategy is based on increasing financial sources of low-cost financing through new banking products and commercial campaigns aimed at increasing the volume of deposits by our customers, as well as expanding our clients base. Under our financing strategy, we achieved to increase our deposits by approximately 49.3% in 2016 compared to 2015.

In order to reduce our liquidity risk, we hold credit facilities on demand (*call money*) with certain financial institutions, as well as short- and long-term financing. We have access to long-term financing through bank debt, issuance of securitization certificates, certificates of deposit, structured bonds and promissory notes with yield payable at maturity in the local market.

The following chart shows the composition, amounts, expiration dates and rates of our financing to short and long term as of December 31st 2016, 2015 and 2014.

Concept	Figures for the years ended as of December 31 st :		
	2016	2015	2014
Demand deposits-			
"Call money" received	344	-	200
Total demand deposits	344	-	200
Short term-			
FIRA	50	22	8
Clusters	1,019	838	584
Digital loans	9	20	-
Total short term loan	1,078	880	592
Total bank and other loans	\$1,422	\$880	\$792

Internally prepared with figures as of December 31st 2016, 2015 and 2014. Figures in millions of pesos

We estimate that cash flow operations and other liquidity sources will be enough to cover our liquidity needs during the following twelve months, including our investment budget.

As part of our assets and liabilities management strategy, we constantly monitor our exposure to foreign currencies, with the purpose of minimizing the exchange rates fluctuation, and the effect that it might have on our results. Banco de México's regulations require us to maintain open positions in foreign currency for an amount not greater than a specific level with respect to the basic capital (Tier 1), as well as a limit established with in relation to the liabilities denominated in foreign currency with an adjusted maturity date. As of December 31, 2016, we complied with these regulatory requirements.

Indebtedness Level

Banks abroad loans (do not include accrued interests). As of December 31st, 2016, 2015 and 2014, Banco Monex did not maintain loans with Banks abroad.

Loans with Development Banking Institutions – It refers to loans granted by Nacional Financiera, S.N.C. (NAFIN) and Fideicomiso of Banco de México (FIRA), which represent a direct obligation of Banco Monex with these entities. Thus, Banco Monex grants loans in Mexican Pesos and U.S. Dollars to their clients for financial support.

Lines of credit for discounts and loans, granted in Mexican pesos and U.S. Dollars by the development funds mentioned above operate under the authorizations and viability under internal risk units of Monex. The financial conditions are set under fixed and variable rate programs, both in Dollars and Mexican pesos, and the term is based on the specific program determined for each project.

Other Accounts Receivable, net - They mainly represent amounts receivable or payable from the foreign exchange transactions in which the immediate settlement is not agreed (exchange operations value date). These transactions are recorded on the day they are agreed and settled within 24, 48, 72 or 96 hours.

Banco Monex has the policy of reserving against the results the accounts receivable identified and not identified within 90 or 60 days after the initial registration, respectively.

As of December 31st, 2016, 2015 and 2014, the other accounts payable, are integrated as follows:

Concept	Figures for the years ended as of December 31 st :		
	2016	2015	2014
Receivables from liquidation of money market transactions	\$-	\$ 1,612	\$731
Receivables from 24 to 96 hours on foreign exchange transactions	16,892	11,176	10,223
Receivables from transactions	189	297	527
Intercompany administrative services	1	-	1
Employee loans and other debts	20	21	9
Collaterals delivered for the derivative financing transactions	184	530	879
Other receivables	9	3	11
	17,295	13,639	12,381
Allowance for doubtful accounts	(68)	(59)	(184)
Total other receivables	\$17,227	\$13,580	\$12,197

Internally compiled with figures as of December 31st, 2016, 2015 and 2014. Figures in millions of pesos

Taxes to profit

Banco Monex is subject to the ISR. According to the ISR Law, the rate for 2016, 2015 and 2014 was the 30% and will continue at the 30% for following years.

The main tax amendments that have taken place during the periods included in this Report, as well as the main tax items are described in the Note 22 of the Inform of independent auditors and Audited Financial Statements for the years that ended as of the 31st of December 2016, 2015 and 2014, included in chapter 7 "Appendix" of the Annual Report herein.

Conciliation of accounting and fiscal result – The main items that affected the determination of the fiscal result of Banco Monex were: the difference of rates, the annual adjustment for inflation, provisions, the difference between accounting and fiscal depreciation and amortization, the preventive estimation for credit risks, provisions of expenses of previous accounting periods paid in this term and the effect of valuation of derivative financial instruments.

Fiscal losses to be amortized – Banco Monex does not have fiscal losses pending to be amortized against ISR as of the 31st of December 2016.

Other fiscal aspects:

As of the 31st of December 2016, 2015 and 2014 the following balances are shown in the relevant fiscal indicators of the main entities of the group in an individual manner:

Concept	Figures for the years ended as of December 31 st :		
	2016	2015	2014
Contributed capital account	\$3,666	\$2,931	\$2,270
Net tax income account	\$3,833	\$2,741	\$2,496

Internally prepared with figures as of December 31st 2016, 2015 and 2014. Figures in millions of pesos.

III. Internal Control

Currently, the Financial System requires security, reliability and effectiveness in the information flows that are generated, based on an adequate control environment and in a punctual fulfillment of the applicable legal framework. In that sense, the members of the Financial System shall offer a reliable and timely technological platform of operations and transactions, based on a surrounding of effective fulfillment. In Banco Monex we have an internal control system, through which the adequate management of risks inherent to the ordinary performance of our activities, through the design and implementation of effective controls.

The internal control system in Banco Monex is strengthened by the different control and corporate government institutions, such as: the Board of Directors, the Auditing Committee, the Integral Administration of Risks, the Communication and Control Committee, the Internal Auditing area, among others.

The internal control system implemented is based on the columns of the COSO methodology and complies with the requirements that in matter of control and normative fulfillment, establish the different regulating entities, such as: CNBV and BANXICO, mainly.

The internal control is a process that involves all members of an organization without exception, which was designed to give a reasonable degree of support for meeting the objectives in the following categories:

- Effectiveness and efficiency of the operations
- Reliability of the financial information
- Complying of applicable laws and guidelines

In Banco Monex we have an adequate Internal Control System according to the strategies and objectives of the Financial Group, based on the following columns, which assure that in the operation of the different markets in which Banco Monex takes part, the different operational risks are identified, quantified and controlled and that the applicable regulation is fulfilled.

a. We have policies, procedures and controls oriented to:

- Identify, evaluate and mitigate risks
- Process in an adequate manner operations (authorization, documentation, registration and liquidation)
- Generate truthful, reliable and timely information with adequate communication routes, allows to conduct, manage and control the operations
- Safeguard the assets (security and custody of assets, security and information backup, operation limits and assets assurance)
- Observe in a permanent manner the complying of the internal and external regulations applicable to our activities
- Avoid or prevent conflict of interests
- Have efficient and effective measures of prevention for money laundry and fraud prevention

b. Structures, positions, functions and responsibilities of the staff have been defined, considering the principles of segregation and delegation of functions and responsibilities. The relevance of these principles consists of clearly delimiting functions and responsibilities of the staff, preventing possible conflicts of interest.

c. Implementation of a safe and efficient IT platform for the continuous backup of business, operation and information generated processes.

- The process of management of changes and control of versions was implemented, in a centralized tool for the releasing of components to the productive systems in Banco Monex
- Indicators that allow to improve the monitoring capacity and timely detection of problems in the applications to increase their availability were installed.
- The telephoning infrastructure was reinforced for technological risks due to obsolescence and new services were implemented, such as videoconference and monitoring of all the network without dependency of travel times and attention of a systems team in Headquarters.
- Infrastructure of the network was updated to support the new voice services (IP telephoning), data (WEB applications and mobile) and video (videoconference system in regionals) and increasing the availability of the network services and applications.

- d. Establishing and outreach of a corporate culture based on ethical values as a frame for the relationships with clients, suppliers, employees, authorities and society in general. The most important are:
 - Acting in strict compliance with the applicable regulation and according to the healthy practices in the market.
 - Make the interests of clients prevail to generate confidence among them through the transparent, impartial and good faith performance.
 - Provide truthful and timely information to the market to generate confidentiality among our counterparties
 - Protect the clients' information and not to use and not to disclose privileged information.
- e. Independent processes of monitoring and functioning evaluation and design of the existing control schemes and timely response to the areas, which are responsible for the attention of detected deficiencies.

Finally, every year according to the dispositions in the matter, the CEO has informed in writing to the Auditing Committee and the Management Board, on the adequate function of the internal control system of the Issuer.

a) Estimate, provisions or critical accounting reserves

Contingencies and commitments undertaken

1. **Lawsuits** – Along the normal course of operations, Banco Monex has been object of some trials, which are not expected to have an important effect in the financial status and operation results in the future. In those cases that represent a probable loss, reserves that are considered necessary have been constituted. As of the 31st of December 2016, there are reserves for contingencies that can be quantified in the amount of \$81, included in the item of "Various creditors and other accounts payable", which the Management of Banco Monex, based on the opinion of their external and internal legal advisors consider reasonable. As of the 31st of December 2015 and 2014 Banco Monex has no registration of new reserves for contingencies.
2. **Management loan portfolio** – As it is mentioned in the Note 9 of the Audited Financial Statements the portfolio handled by Banco Monex, which comes from the sales and participations made under the frame contract with Ex-Im Bank and Pefco, ascents to \$22, \$206 and \$202 as of the 31st of December 2016, 2015 and 2014, respectively. About this portfolio, Banco Monex has the commitment of assuming all risks of credit, in case of breaching on the agreed with Ex-Im Bank, over the documents of each credit. The Management considers that is remote the possibility of a return.
3. **Commitment** – As of December 31, 2016, Banco Monex has contracts for the provision of services (to be received), related to its operation, of 3%, as of December 31, 2015, it amounts to 4.9% and for 2014 they are less than 4.0% of operating expenses, which are part of the current expense.

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a) External auditors

The Issuer's audited financial statements for the years ended in 2016, 2015 and 2014 have been audited by Galaz, Yamazaki, Ruiz Urquiza S.C. (member of Deloitte Touche Tohmatsu Limited), according to the established in their report attached herein. No other audit firm has been contracted during the last 3 accounting periods. Likewise, Deloitte has not issued any financial statements with qualified, negative opinions or adverses during the last 3 accounting periods.

The Board of Directors is the body in charge to designate and to contract the external auditors, seeking to designate professional audit firms with considerable prestige at an international level. During the accounting periods ended December 31st, 2016, 2015 and 2014 the services provided by the external auditors to the Issuer, for other different than auditing of financial statements concepts, were the following: In 2016, the review of the advisory services and recommendations about the fiscal and financial credit' structure, for an amount of \$2 million pesos and also a project for the structuring of the Middle and Back Office areas for an amount of \$5.2 million pesos, this project will conclude in August 2017. In 2015, the following projects were carried out: Consolidated financial statements limited review as of March 31st, 2015 for an amount of \$1.2 million pesos (ii) Conceptual analysis and review of financial information of the placement prospectus in accordance with article 84 of the Circular Unica de Emisoras for an amount of \$300 thousand pesos, representing 13.3% and 3.3%, respectively. In 2014, (i) Services for the project of regulatory reporting validators for an amount of \$650 thousand pesos representing 7.6%, respectively, of the total fees of the External Auditors of the Issuer for the financial statements review.

Each service requested to Deloitte has been approved by the Board of Directors, according to our policies and procedures. Therefore, the relationship is cordial and of mutual respect, always giving a value added in all the services provided us.

Contracting Procedure of the Auditor

The Audit Committee carries out the necessary inquiries and evaluations to propose the external auditor and additional services to those derived from the financial statements audit of Monex. It is worth mentioning that in the relevant evaluations, it is considered as essential that the external auditor satisfies the requirements legally established in Chapter III, Section II of the Circular Única de Emisoras, Articles 189 to 195. This proposal is submitted to the Board of Directors for its approval and designation.

Once the auditor has been designated, the CEO should inform the CNBV in writing, no later than 15 business days following to the external auditor's designation, providing an authenticated copy by the Secretary of the Board of Directors, regarding the agreement by which that body approves the contracting.

Operations with related parties and interest conflict

As of the 31st December 2016 the credits granted to parties related according to provisions in article 73 of Ley de Instituciones de Crédito, sum a total of \$263 million pesos and \$207 million pesos in 2015 and \$22 million in 2014, which were approved by the Management Board.

1. As of December 31, 2016, Banco Monex, as creditor, establishes in favor of a) Monex, S.A.B. de C.V., b) Monex Grupo Financiero, S.A. de C.V., c) Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero, d) Monex Operadora de Fondos, S.A. de C.V., Monex Grupo Financiero, e) Monex Servicios, S.A. de C.V., f) Admimonex, S.A. de C.V., g) Monex Negocios Internacionales, S.A. of C.V., h) Tempus Inc., i) Monex Europe, LTD. and j) Monex Europe Holdings Limited (the "Co-accredited"), an authorized credit line for an amount of MXN \$800,000,000.00 (Eight hundred million Pesos 00/100 M.N.). This can be used as a revolving line of credit by any of the Co-accredited, according to the availability of resources of the Bank, provided that the sum of the provisions cannot exceed the total amount specified above.

This credit line expires on January 26, 2018, and may operate under the following conditions prior to the provision: notification to the Board of Directors, joint and several liability of Monex Grupo Financiero, S.A. of C.V. in the above mentioned cases. In addition, as a special condition, the risks of the financial group should never exceed the legal limits. Except for the provisions made by: (i) Monex, S.A.B. of C.V.; (ii) Monex Grupo Financiero, S.A. of C.V.; (iii) Monex Operadora de Fondos, S.A. de C.V., Monex Grupo Financiero y; (iv) Monex Casa de Bolsa, S.A. of C.V.; all other provisions of the Credit made by any of the other Co-accredited shall be supported by the agreement of responsibilities of Monex Grupo Financiero, S.A. of CV.

2. Banco Monex granted a simple loan Banco Monex, S.A., Multiple Banking Institution, Monex Grupo Financiero (in its capacity as lender); and II).- Banco Monex, S.A., Multiple Banking Institution, Monex Grupo Financiero, solely and exclusively in its capacity as Trustee in the Irrevocable Trust of Administration number F/967 (under the character of accredited); for a Credit and Currency Amount: USD \$12'000,000.00 (Twelve Million Dollars, Legal Currency of the United States of America 00/100 U.S. Cy.) or its equivalent in Pesos, National Currency. The destination and use of the Credit: Construction of the Development and Equipment of Offices. Validity: 120 (one hundred twenty) months; counted from November 22, 2014 and until November 22, 2024. Forms of Disposition of the Credit: through promissory notes. It should be noted that the accredited shall have a grace period only for payment of the principal of up to 36 (thirty-six) months, counted from the date of subscription of each promissory note, provided that this grace period expires on November 24, 2017 and therefore, depending on the subscription date of each promissory note, the term shall be reduced, but in no case can it be further than November 24, 2017. Once the grace period for the payment of the principal has expired, the accredited shall make principal payments on a monthly basis, only to the extent of the trust fund F/967, in accordance with the provisions of each of the promissory notes.

Provided the Issuer and its Subsidiaries carry out operations between companies related, such as: investments, deposits, services provision, etc., the majority of which originates income to an entity and expenditure to another, the operations and balances done with companies that consolidate were eliminated and continue those that do not consolidate.

Credit lines granted, unexercised

The credit lines granted by the Bank and not exercised by clients as of December 31, 2016, 2015 and 2014, amount to \$8,912, \$6,908 and \$1,159 million pesos, respectively.

The balances receivable and payable with related companies as of December 31, 2016, 2015 and 2014, amount to:

Figures as of December 31 st of the years			
Concept	2016	2015	2014
Assets			
Funds available	9,116	9,710	9,614
Repurchase agreements	12,627	-	1,152
Other accounts receivable	11,771	1,758	1,506
Other assets	9	7	5
Liabilities			
Deposits	175	129	162
Liabilities arising from sale and repurchase agreements	7,307	1,103	5,490
Derivatives	7	5	32
Other accounts payable	2,693	11,454	11,116
Collaterals sold or pledged in guarantee	16,396	-	-

Internally compiled with figures as of December 31st, 2016, 2015 and 2014. Figures in millions of pesos.

The main transactions carried out with related companies as of December 31st, 2016, 2015 and 2014:

Figures as of December 31 st of the years			
Concept	2016	2015	2014
Revenue:			
Interests	376	178	154
Administrative services	8	7	19
Expenses:			
Interests and commissions	702	285	168
Administrative services	85	66	130
Intermediation results	92	1,701	1,655

Internally compiled with figures as of December 31st, 2016, 2015 and 2014. Figures in millions of pesos.

The Management team considers that the operations carried out with parties were determined considering the prices and amounts of the counter-benefits that would had been used with or between independent parties in comparable operations.

b) Manager and stockholders**Board of Directors**

In accordance with the Articles of Incorporation of the Issuer, the Board of Directors must be composed of a minimum of five and a maximum of fifteen owner directors, of which at least 25% must be independent. The directors shall be appointed in an ordinary general meeting by the shareholders of the Issuer. In any case, the appointment of said directors must be made in compliance with the applicable provisions of the LIC. One deputy may be appointed for each owner director, provided that the deputy directors of the independent directors also must be independent.

An independent director should be understood as a person who is not related to the administration of the Issuer and who meets the requirements and conditions determined by the CNBV through its General Provisions. In no case may the persons referred to in article 22 of the SCI be independent directors.

Shareholders representing at least ten percent of the Bank's ordinary paid capital shall have the right to appoint a director. The appointment of minority directors may only be revoked when all other directors are revoked.

The members of the Board of Directors shall hold office for one year and shall remain in the exercise of their duties until the persons appointed to replace them are appointed and take office.

Rights and Obligations of the Members of the Board of Directors

The Board of Directors must meet at least quarterly and in an extraordinary manner, when convened by the Chairman of the Board, or by the directors representing at least twenty-five percent of the total number of the members of the board, or any of the Bank's commissioners.

The directors may adopt resolutions outside the session of the Board of Directors, provided that they are adopted unanimously by the board members of said corporate body, and they shall have, for all legal purposes, the same validity as if they had been adopted by the Board of Directors in a session legally installed, provided that they are confirmed in writing.

The Chairman of the Board shall have a casting vote in case of a tie.

The directors are obliged to expressly refrain from participating in the deliberation and voting of any matter that implies a conflict of interest for them. Likewise, they must maintain absolute confidentiality with respect to all acts or events related to the Bank, as well as any deliberation that takes place in the Board, without prejudice to the Bank's obligation to provide all information that may be requested under the LIC.

The Board of Directors shall have the following powers, including but not limited to:

- Represent the Bank to the administrative and judicial authorities, including municipal, state or federal, as well as before the labor authorities or before arbitrators, with general power of attorney-in-fact for lawsuits and collections, with the broadest general powers referred to in the first paragraph of article 2554 of the Federal Civil Code, the Civil Code for the Federal District and its correlatives of the other federal entities of the United Mexican States, as well as special powers that require a special clause in accordance with article 2587 of the aforementioned civil codes.
- Manage business and assets with the broadest general power of administration, under the terms of the second paragraph of article 2554 of the Federal Civil Code, the Civil Code for the Federal District and its correlatives of the other federal entities of the United Mexican States.
- Exercise acts of ownership with respect to the assets of the Bank, or of its real or personal rights, under the terms of the third paragraph of article 2554 of the Federal Civil Code, the Civil Code for the Federal District and its correlatives of the other federal entities of the United Mexican States and with the special power indicated in the fifth section of article 2587 of the aforementioned legal regulations.
- Issue, subscribe, grant, accept, guarantee, protest or endorse credit instruments in terms of article 9 of the General Law of Credit Securities and Operations.

- Grant general or special powers and revoke the powers granted, including the possibility of delegating the powers granted.
- In general, carry out the acts and operations necessary or convenient for the achievement of the purposes of the Bank, except for those expressly reserved by law or by the Articles of Incorporation to the Meeting.

The Board may appoint the necessary committees in accordance with the Bank's management interests, in addition to the committees established by the LIC and the applicable general provisions.

Integration of the Board of Directors

The Ordinary General Shareholders' Meeting held on April 22, 2016, approved the appointment of the Board of Directors as follows:

OWNERS

Héctor Pío Lagos Dondé **Chairman**
 Georgina Lagos Dondé
 Mauricio Naranjo González
 Moisés Tiktin Nickin

DEPUTY

José Luis Rosiñol Morado
 Hernando Carlos Luis Sabau García
 Javier Alvarado Chapa
 Pedro Dondé Escalante

INDEPENDENT OWNERS

David Aarón Margolin Schabes
 Jorge Jesús Galicia Romero

INDEPENDENT DEPUTIES

José Luis Fernández Prieto
 Manuel Galicia Alcalá

COMMISSIONER OWNER

Javier Goyeneche Polo

COMMISSIONER DEPUTY

Ricardo Agustín García Chagoyán

SECRETARY

Jacobo G. Martínez Flores

PRO-SECRETARY

Erik A. García Tapia

El Secretary and the Pro-secretary are not part of the Board of Directors.

Appointment of the Members of the Board of Directors

The appointments of directors must be carried out by people with technical skills, good reputation and satisfactory credit history, as well as extensive knowledge and experience in financial, legal or administrative matters.

In any case, the CNBV may at any time determine the removal or suspension of both the directors, the Director General and the officials with the two immediate hierarchies inferior to the latter.

Directors' Resume

Héctor Pío Lagos Dondé is the Chairman of the Board of Directors and CEO of Monex since 1985. Prior to Monex, he served as an associate consultant for McKinsey and Company. He is also a member of the Board of Directors of different companies, including BMV and MexDer. Mr. Lagos is a Public Accountant at Instituto Tecnológico Autónomo de México and a MBA from Stanford University.

Georgina Teresita Lagos Dondé is a member of Monex and Banco Monex Boards of Directors. Member of the Board of Directors of Monex Grupo Financiero. Mrs. Lagos holds a degree in Communication Sciences from Universidad Anáhuac and a Master's Degree in Comparative Politics from New York University.

Mauricio Naranjo González is the Corporate Banking Managing Director and CEO of Monex Grupo Financiero. He has more than 26 years of experience in the financial sector. Previously, he held various positions in IXE, CNBV and Banco de Mexico. He holds a Bachelor's degree in Economics from ITAM and a PhD in Economics from the University of California, Berkeley.

Moisés Tiktin Nickin is the Asset Management and Markets Managing Director and CEO of Banco Monex. Previously, he was de CEO of Monex Casa de Bolsa and he held various positions at Valorum and Valores Finamex. Mr. Tiktin holds a Bachelor's degree in Economics from ITAM and a Master's degree in Economics from the University of Chicago.

David Aaron Margolín Schabes is Independent Director of Monex. Prior to Monex, he held various directive positions in Banco de Mexico as well as in Grupo Financiero Banorte. He holds a Bachelor's degree of Actuary from the UNAM and a Master degree in Operational Research from Cornell University in New York, USA.

Jorge Jesús Galicia Romero is partner at Galicia Alcalá y Asociados, S.C. since 1984, also consultant and legal representative of important Mexican companies. He holds a J.D. from Universidad Iberoamericana.

Official (Owner / Deputy)	Charge	Seniority in the Bank
Héctor Pío Lagos Dondé	Chairman	31 years
Mauricio Naranjo González	CEO Monex Grupo Financiero	9 years
Moisés Tiktin Nickin	CEO Banco Monex	15 years
Javier Alvarado Chapa	Executive Director of Markets and Treasury	6 years
José Luis Rosiñol Morando	Executive Director of Enterprise Business	16 years

Each member of our Board of Directors is considered to be a financial expert.

Compensation fees to Directors and Executive Administration

The compensation of the main officials of Banco Monex is carried out through an annual study of the remuneration status of these officials and compared with the financial market. This study is presented to the Remuneration Working Group of the Corporate Practices and Audit Committee. Monex, S.A.B. de C.V. for decision making.

Board of Directors

In agreement by the Ordinary General Assembly of Shareholders of the Issuer held the 22nd of April 2016, it was established that each member of the Management Board will receive a compensation for each session they attend, which consist of a 'centenario'.

In 2015, the total amount of the benefits of any nature that were received from the Issuer and their Subsidiaries during the last accounting period by the people that integrate the Management Board, relevant executives and individuals that have the character of related people, was approximately \$3.2 million pesos.

- There is not a pension plan, or any particular retirement additional to the plan of pensions of Monex for these group of Advisors and relevant executives.
- The relevant executives receive a monthly salary with benefits and a quarterly bonus, except for the CEO, who receives a bonus by semester.
- There is a “Code of Ethics” and “Remunerations Manual” of Banco Monex

Main Shareholders

The main shareholder of the Bank is Grupo Financiero Monex, S.A. de C.V., whose percentage of participation amounts to 99.99% of the total of the shares representing the paid capital stock of the Issuer.

Committees and Intermediate Bodies

The appointment of the members of the Committees shall be carried out by resolution of the Board of Directors. They shall function as collegiate bodies of at least three members. Their functioning shall be valid with the assistance of the majority of their members, taking the agreements by majority vote. The Chairman of the Committees shall be appointed by the Board of Directors and shall have a casting vote.

Audit Committee

The Bank's Audit Committee should be composed of at least 3 and no more than 5 members of the Bank's Board of Directors that may be owners or deputy, of which at least one must be independent. The basic function of this Committee is to monitor the internal and external audit activities and the internal comptroller's office of the Bank, keeping the Board of Directors informed of the performance of said activities. Likewise, it shall supervise that the financial and accounting information is formulated in accordance with the financial reporting standards and applicable legal provisions.

The Audit Committee must propose for approval of the Board among other issues:

- (i) The internal control system that the Bank requires for its proper functioning, as well as its updates
- (ii) The business continuity plan
- (iii) The appointment of the Bank's internal auditor
- (iv) The appointment of the external auditor, and the approval of the additional services to those derived from the financial statements, which, if applicable, said auditor must provide.
- (v) The Bank's code of ethics
- (vi) The changes, when appropriate, to the accounting policies related to the registry, validation of items in the financial statements and presentation and disclosure of the Bank's information.
- (vii) The regulations that will rule the functioning of the committee itself.

Together with the above, the Audit Committee, shall at least, perform the following activities:

- To have a permanently updated record of the objectives of the internal control system, evaluating its efficiency and effectiveness and checking that operation manuals of the Bank follow the system and its actual operation.
- To review and monitor, with the support of those responsible for the Internal Audit, that the aforementioned operation manuals are in accordance with the object of the Bank, and also follow the Internal Control System.
- Review, based on the reports of the Internal and External Audit area at least once a year, that the internal audit program is carried out in accordance with adequate quality standards in accounting and internal controls and that the activities of the Internal Audit area are carried out effectively.

- Monitor the independence of the Internal Audit area with respect to the other business and administrative units of the Bank, inform the Board In case of lack of independence.
- Review, with the support of internal and external audits, the application of the internal control system, evaluating its efficiency and effectiveness.
- Inform the Board about the situation of the Bank's internal control system. It is important to mention that all members of the Audit Committee have extensive financial experience.

The members of the Committee have been appointed by our Shareholders' Meeting and due to their working experience in the financial system, we consider its members as financial experts.

The Board of Directors in session held on April 27, 2016, ratified the integration of the Audit Committee as follows:

CHAIRMAN OF THE COMMITTEE

David Aarón Margolin Schabes

Independent Director

Hernando Carlos Luis Sabau García

Independent Director

Jorge Galicia Romero

Independent Director

SECRETARIO

Jacobo Guadalupe Martínez Flores

Secretary of the Board of Directors

PRO-SECRETARY

Erik Alberto García Tapia

Legal Deputy Director

Gabriela Solórzano Espejel

Legal Director

Risk Management Committee

The main objective of the Risk Management Committee is to manage the risks to which the Bank is exposed and to ensure that the operations are carried out in accordance with the objectives, guidelines and policies for integral risk management, as well as with the global risk exposure limits that have been previously approved by the Bank's Board of Directors, at the proposal of the aforementioned Committee.

In addition to the above, the Risk Management Committee shall approve:

- (i) The specific limits of exposure to risk and risk tolerance levels
- (ii) The methodology and procedures to identify, measure, monitor, limit, control, report and disclose the different types of risks of the operations, products and services that the Bank pretends to offer to the market.
- (iii) Shall have the power to appoint and remove the person responsible for the Unit of Integral Risk Management.

Finally, the Risk Management Committee shall report to the Bank's Board of Directors:

- (i) on the risk profile, as well as the negative effects that could occur in the Bank's operation.
- (ii) on the result of the business continuity plan's effectiveness tests
- (iii) on any non-observance of the limits established by this administrative body and the corrective actions implemented and proposed by the Bank's Director General.

The Bank's Board of Directors in session held on April 27, 2016, approved the modification of the integration of the Risk Management Committee, as follows:

Mauricio Naranjo González Chairman
Owner Director
(Participates with voice and vote)

Moisés Tiktin Nickin
Owner Director and CEO
(Participates with voice and vote)

David Aarón Margolin Schabes
Independent Director
(Participates with voice and vote)

Grocio Soldevilla Canales
Responsible of the UAIR
(Participates with voice and vote)

Hernando Carlos Luis Sabau García
Deputy Independent Director
(Participates with voice and vote)

José Luis Orozco
Director of the Internal Audit Area
(Participates with voice and vote)

Secretary of the Committee
Erik Alberto García Tapia
Corporate Legal Deputy

Remuneration Committee

The purpose of the Remuneration Committee is to assist the Board of Directors in developing standards and policies related to the administration and evaluation of the compensation plans that together form our remuneration system and to promulgate the criteria and policies of the remuneration plan of some of our employees. The Remuneration Committee prepares semi-annual reports on the administration of the Bank's compensation plans and informs the CNBV regarding the modifications to the Bank's remuneration system.

The Remuneration Committee is responsible for implementing and maintaining the remuneration system and reports to the Board of Directors twice a year in relation to the operation of the remuneration system. Additionally, the Remuneration Committee proposes remuneration policies and procedures, recommends employees or personnel to be included in the remuneration system and takes special cases and circumstances to the attention of the Board of Directors' approval. In compliance with the rules established by the CNBV, through the Circular Unica de Bancos, it has developed a Remuneration System with clearly defined criteria for compliance with the substantive aspects indicated in the Regulatory Framework, fulfilling this system with the following considerations:

- Defines the responsibilities of the social bodies responsible for the implementation of remuneration schemes.
- Establishes policies and procedures that regulate the ordinary and extraordinary remunerations of the people subject to the Remuneration System in accordance with a reasonable risk taking.
- Permanently reviews the policies and procedures and makes necessary adjustments related to the risks that represent a threat for the liquidity, solvency, stability and reputation of the institutions.
- Considers the risks the Bank faces, its administrative, control and business units, and the risks assumed by the people subject to the Remuneration System.
- Establishes specific remuneration schemes for each position profile of eligible employees or people subject to the Remuneration System, considering the inherent risks of their activities, quantitative and qualitative factors.
- Incorporates, based on the analysis carried out by the integral risk management unit, the potential effect of materialization of the risks together with the payment of ordinary and extraordinary remunerations to the people subject to the remuneration

system and their corresponding effects over liquidity and profitability of the Issuer, to determine the optimal remuneration schemes of those people.

- Establishes forecasting mechanisms so the Bank has enough flexibility to reduce or suspend the payment of extraordinary remunerations when losses are faced, or when the materialized risks are higher than expected.

The Board of Directors session held on April 27, 2016, ratified the integration of the Remuneration Committee as follows:

Héctor Pío Lagos Dondé
Chairman of the Board of Directors

Jorge Hierro Molina
Operation and Finance Managing Director

Grocio Soldevilla Canales
Corporate Director of Risk Management

José Luis Orozco
Director of Internal Audit

Jorge Jesús Galicia Romero
Independent Director
Chairman of the Committee

Patricia García Gutiérrez
Deputy General Director of Personnel and Corporate
Affairs

Alfredo Gershberg Figot
Planning Director

Jacobo G. Martínez Flores
Secretary of the Committee

Communication and Control Committee

The purpose of the Communication and Control Committee is to dictate and monitor compliance with the minimum measures and procedures that the Entities must establish to prevent and detect acts, omissions or operations that may favor, render aid, assistance or cooperation of any kind to the commission of the crimes foreseen in articles 139, 139 Bis (terrorism), 148 Bis (international terrorism) and 400 Bis (operations with resources of illicit origin) of the Federal Criminal Code.

It should be integrated with three or five members, including the director general, the chairman of the board of directors and the chairman of the supervisory board or commissioner. The sessions should be held once on every thirty days period or more frequently, upon a prior call by the Chairman or Secretary. The sessions shall be installed and their resolutions adopted by the favorable vote of the majority of its members. Both the integration of the Committee and its subsequent modifications must be communicated to the CNBV, within ten business days following the date on which the corresponding appointments have been made. The Board of Directors session held on January 26, 2017, ratified the integration of the Communication and Control Committee as follows:

Héctor Pío Lagos Dondé
Chairman

Patricia García Gutiérrez
Deputy General Director of Personnel and Corporate Affairs

Jorge Hierro Molina
Operation and Finance Managing Director

Rodrigo Gómez Lavanderos
Corporate Director of Operations

Moisés Tiktin Nickin
Owner Director and CEO

Ernesto López Quezada
Metropolitan Regional Director

Jorge Othón Ruiz Hernández
Compliance Officer

Sergio Cuevas Aquino
Deputy Internal Control

Marco Antonio Montiel Velázquez
ALM Director

América Alejandra Ferreyra Rivera
Manager of Analysis, Research and Report de ALM

Mauricio Naranjo González
Owner Director and CEO

Javier Alvarado Chapa
CEO and Director

Jacobo Guadalupe Martínez Flores
Legal Corporate Director

Gerardo Tinoco Álvarez
Legal Deputy Director of Lawsuits

José Luis Rosiñol Morando
Executive Director of Enterprise Business

Enrique Robles Señkowski
Centre Regional Director

José Luis Orozco Ruiz
Director of Internal Audit
(Participates with voice and vote)

Felipe de Jesús Chichil Martínez
Audit of Credit and Business Manager
(Participates with voice and vote)

Erik A. García Tapia
Legal Corporate Deputy Director
Secretary of the Committee

Fernando Sotelo Chaparro
Legal Corporate Assistant Manager
Pro-secretary of the Committee

d) By-laws and other agreements

On the occasion of the publication in the Gaceta Oficial de la Federación on January 10, 2014 of the Decree by which various provisions in financial matters are amended, added and repealed and the Law to Regulate Financial Groups is issued (the "Financial Reform"), the Extraordinary General Shareholders' Meeting of the Bank held on March 7 of that same year, after obtaining authorization from the CNBV, approved the integral reform of its Articles of Incorporation in order to make them consistent with the content of the new applicable regulatory framework. The respective authorization was granted on March 31 of that same year.

The current business name of the Issuer is Banco Monex, S.A., Multiple Banking Institution, Monex Grupo Financiero, with an indefinite duration, with legal office in Mexico, Federal District and with admission clause for foreigners. As of December 31, 2016, it had an authorized ordinary capital stock of \$2,740,473,000.00 (two thousand seven hundred and forty million four hundred and seventy-three thousand Pesos 00/100 MN) represented by 2,740,473 Series "O" shares, ordinary and nominative, with par value of \$1,000.00 (one thousand Pesos 00/100 MN) each.

During 2015, the CNBV approved the capital increase by \$615 million pesos of the eighth clause of the Article of Incorporation of the Extraordinary General Shareholders' Meeting held on September 29, 2015, in order to maintain a capital stock of \$2,740 million Pesos represented by 2,740,473 shares with a par value of \$1,000.00 (one thousand Pesos 00/100 MN), each corresponding to Series "O".

Shares

The shares representing the capital stock are nominative and of equal nominal value of \$1,000.00 (one thousand Pesos 00/100 MN) each, within each series they confer their holders the same rights and must be paid in cash in the act of subscription or in kind, in the latter case, if so authorized by the CNBV considering the financial situation of the Institution and ensuring its liquidity and solvency.

The capital stock is formed by an ordinary part that is integrated by Series "O" shares; and may also be integrated by an additional part, represented by Series "L" shares, which shall be issued up to an amount equivalent to forty percent of the ordinary capital of the Bank, with the prior authorization of the CNBV, and shall grant voting rights only in matters related to change of purpose, merger, spin-off, transformation, dissolution and liquidation, the corporate acts referred to in Articles 29 Bis, 29 Bis 2 and 158 of the LIC and the cancellation of their registration in any stock exchanges. In addition, Series "L" shares may confer the right to receive a preferential and cumulative dividend, as well as a dividend higher than the shares representing ordinary capital. In no case may dividends in this series be lower than those in Series "O". To date, 100% of the Bank's authorized capital stock is represented by Series "O" shares. No Series "L" shares have been issued.

Capital Increases

In case of increase in the paid part of the capital stock, the shareholders have the right of preference in proportion to those shares of each series they hold, for the subscription of the new shares to be issued, which correspond to the series they already hold. To exercise the right of preference, the shareholder must be duly registered in the Bank's share registry.

Meetings

The Shareholders' Meeting is the supreme body of the Bank. Two types of meetings may be held: (i) the Ordinary General Shareholders' Meeting, which meets at least once a year on the date fixed by the Board of Directors, within four months following the end of the year and (ii) the Extraordinary General Shareholders' Meeting which meets when called to that effect and deals with the matters set forth in article 182 of the LGSM..

Additionally, according to the provisions in article 195 of the LGSM, any proposal that may affect the rights of each series of shares, must be previously accepted by the affected series, gathered in the special meeting.

In the meetings, each outstanding share has the right to one vote. In the ordinary general meetings, whether they are held by virtue of the first or subsequent call, the resolutions shall be taken by simple majority of the votes of the represented shares; in case of extraordinary

general meetings in which the Series "L" shares do not have the right to vote in the matters to be dealt with, whether they meet by virtue of the first or subsequent call, the resolutions shall be valid if they are approved by the vote of the shares representing at least a half of the ordinary paid capital. In case of extraordinary general meetings in which the Series "L" shares do have the right to vote in any or all of the matters to be discussed, whether they meet for the first or subsequent call, the resolutions shall be valid if they are approved by the vote of the shares representing at least a half of the Bank's paid capital.

In case of special Meetings, the resolutions shall be valid if they are approved at least by a half the Bank's paid capital that corresponds to the series in question.

The Minutes of the Meetings shall be kept in a special book, and shall be previously signed by the Chairman of the Meeting, by the Secretary and by the Commissioner or Commissioners present.

Surveillance Body

The supervision of the Bank is entrusted to a Commissioner appointed by the holders of the Series "O" shares and, where appropriate, a Commissioner appointed by the holders of the Series "L" shares, as well as their respective deputies, who must be appointed by a majority vote of the Shareholders in the Ordinary Shareholders' Meeting in the case of Series "O" and, as the case may be, in a Special Meeting for Series "L", holding office for one year and shall continue the exercise of their duties until the successor(s) has taken their offices.

The Commissioner or Commissioners should have the powers and obligations determined by the LGSM.

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MARKET

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a) Shareholding structure

Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero is an indirect subsidiary of Monex, S.A.B., which has a shareholding of 99.99%. The company is authorized to carry out multiple banking operations, which include, among others, the granting of credits, operation of securities, the receipt of deposits, the acceptance of loans, foreign exchange transactions and entering into trust fund agreements.

Monex has no convertible bonds or CPOs on shares. The information on shareholders' equity are found in chapter 2. The issuer, item b. Business Description, Section XII. Shareholders' Equity in this document.

b) Behavior of shares in the stock market

The Monex's shares of series "B" are traded on the BMV under the ticker symbol "MONEX". The information on the performance of shares is found in Chapter 5 "Stock Exchange Market" of the Yearly Report 2016 of Monex, S.A.B.

c) Market marker

On the date of this Annual Report, the Institution has no additional securities to those represented by the Securitization Certificate Program (BMONEX15) registered in the National Securities Registry or listed in the Mexican Stock Exchange, or in any other market.

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Risk Factors

Risk factors related to the Bank

Government Intervention in our industry and the implementation of restrictive policies related to change control which may have a negative effect in our business

A severe depreciation of the Mexican Peso may also result in the intervention from the Government, as it has occurred in the past, or in the rupture of foreign exchange markets. Currently, and for many years, the Mexican government has not imposed restrictions to the right the Mexican and foreigners to convert Pesos in US Dollars or to transfer other currencies abroad; however, said measures have been applied in the past and may be implemented in the future. Consequently, the fluctuation of the Mexican Peso before the US Dollar may have a negative effect for Monex.

Additionally, if the government implemented measures, such as fixating the prices of the Mexican Peso in relation to the US Dollar or similar actions, the margin charged for each transaction may decrease as consequence of the difference between margins for transactions with fixed and variable exchange rates. This investment may result in a negative effect for our operating results and financial position.

Future restrictions on interest rates or changes in loan loss reserves from the Mexican Government may have a negative effect on us

The Federal Law for the Protection and Defense of Financial Service Users currently does not set a limit on the interest rates that a bank may charge, subject to certain exceptions. However, the possibility of imposing such limits has been and will continue debated by the Congress, Mexican financial authorities and different debtor groups at a conceptual level. If the Mexican Government were able to impose limitations to the amounts, or additional information requirements in relation to said interest rates in the future, on the date of this Yearly Report, the Congress and Mexican financial authorities have not proposed specific limits to the interest rates that we might be able to charge. A part of our income and operating cash flow comes from the interest rates that we charge to our clients; therefore, any additional restrictions or information requirements in relation to said interest rates may have a significant negative effect on our operating results and financial position.

If the Mexican authorities make banking institutions increase their preventive forecast levels for credit risks or modifying the way in which said forecasts are calculated, or modifying capital requirements, being able to cause a significant adverse effect on our operating results and financial position.

We are subject to inspections, reviews, visits and audits from the Mexican authorities, as well as possible sanctions, penalties and other penalizations derived from said inspections and audits, which might have a significant negative effect on the Issuer

We are subject to extensive regulation and supervision by the Mexican financial authorities, such as the Bank of Mexico, the CNBV and the SHCP. Said authorities are fully authorized to issue guidelines and other regulations affecting and restricting practically all the aspects of our capitalization, organization and transactions, including changes to capital requirements and preventive credit risk forecasts, supervision of compliance with confidentiality regulations, implementation of measures to prevent money laundering and the regulation of the terms of our own products, including interest rates and commissions received in exchange of the services we offer. Likewise, the Mexican financial authorities have wide faculties to demand the compliance of applicable provisions, including the imposing of fines, the requirement of new capital contributions, the prohibition of the payment of dividends to shareholders, the payment of interests per banking notes or the payment of bonuses to employees, or the revoking of authorizations to operate our business (including our authorization to operate as a multiple banking institution or brokerage firm). In the event of facing significant financial or insolvency problems, the Mexican financial authorities shall have the faculty to get involved in our administration and operation.

The Mexican legislation may have a negative effect on the Issuer and its Subsidiaries

We are subject to a wide range of legal provisions related to our organization, transactions, credit and financing activities, capitalization, transactions with related parties, taxing and other matters. All applicable laws and regulations impose several requirements for the Issuer and its Subsidiaries, including the maintenance of minimum capital levels based on the risks of assets and the type of operating risk, preventive forecast for credit risks, the regulation of our commercial practices, regulations related to the selling of investment services, money laundering, charged interest rates, the application of compulsory accounting regulations and tax liabilities. A considerable number of the applicable regulating laws for the Company's regulated Subsidiaries have been subject to substantial modifications in the last years, some of which have had a negative effect on us. Consequently, changes may occur in the applicable legislation or in the interpretation or application of the same, including tax regulations, which might have a negative effect on our Company and our operating results and financial position.

In July 2010, the Federal Law for the Protection of Personal Information in Possession of Individuals was published, with the purpose of protecting personal information collected from individuals and guarantee the confidentiality of said information. We apply this law and the supervision of our activities under its protection. We cannot ensure the manner in which said legislation is interpreted or applied by the competent authorities; however, if applied or interpreted strictly, it could have a significant adverse effect on us, including an increase in our operating costs and the imposition of fines or material penalties in case of violation of the provisions of said law.

In September 2010, the Basel Committee proposed certain exhaustive changes to the capital adequacy framework, known as Basel III. On December 16, 2010, and January 13, 2011, the Basel Committee issued its final opinion regarding various amendments to the regulatory framework in capital adequacy in order to strengthen the minimum capital requirements, including the gradual elimination of financial instruments of basic capital and complementary capital (Tier 1 and Tier 2) with amortization clauses based on incentives and implementing a leverage ratio applicable to institutions, in addition to the existing capital requirements based on the risk of the assets. In June 2011, the CNBV issued a draft implementation of the Basel III standards which resulted in changes to Mexican regulation and new requirements regarding regulatory capital, liquidity / financing and leverage ratios applicable to Mexican banks. The new capital rules provided for in Basel III were published in the Official Gazette on November 28, 2012, modifying the Bank Circular for such purposes, and part of them came into force on January 1, 2013.

On November 28, 2012, the "General Provisions Applicable to Brokerage Houses and Credit Institutions in the Field of Investment Services" were published in the Official Gazette of the Federation (which were partially amended on April 24, 2013), which aim to define and regulate the different types of investment services that can be provided by brokerage firms and credit institutions, differentiating between advisory services (either through investment advice or investment management) and not advised, in order to meet the needs and protect clients in consideration of their investment profile. In accordance with these provisions, financial institutions must carry out an evaluation to understand the personal circumstances, investment objectives, financial situation, knowledge on the subject, among others, of the client in question, and thus have his profile for the purposes of providing investment services and making recommendations or carrying out operations in accordance with said profile and according to the type of financial product. The compliance and implementation of the provisions contained in this regulation requires a significant amount of resources and could have a significant adverse impact on our operations, including an increase in our operating costs and the imposition of fines or material penalties in case of violation of these regulations.

On January 10, 2014, the so-called "financial reform" was published in the Official Gazette of the Federation, which consists of a reform of the various legal systems that regulate financial activities and services provided by financial institutions in Mexico. The main objective of this financial reform is to increase the supply of credit and expand the penetration of the banking and financial system in Mexico. Likewise, the reform seeks to establish the foundations of inclusive economic development, maintaining sound prudential practices and improving the efficiency of the Mexican financial system. Although the SHCP and government entities have announced that the financial reform has already begun to produce favorable results in terms of credit and economic growth, we are not certain of the implications that the implementation of said reform will have on the financial and economic situation in the medium and long-term operation results in our business.

In virtue of the environment prevailing in the financial services sector, there may be changes in the regulating systems or in the interpretation and application of the laws and all other legal provisions in the future, which may result in a negative effect in our company and our subsidiaries, including our costs and operating margins, which, in turn, may affect our operating results and financial position.

We may not be able to detect in a timely manner money laundering and other illegal, inappropriate or inadequate activities, which may expose our company to additional liabilities and could have a negative material adverse effect on us.

We are obliged to comply with the legislation regarding the prevention of acts of corruption, money laundering, terrorist activities and other Mexican regulations and those of other countries in which we have operations. This regulation has been subject to stricter surveillance by the authorities of Mexico, the United States, the United Kingdom and other countries in which we operate. In addition, such legislation requires our Subsidiaries, among other things, to adopt and implement customer knowledge policies and procedures ("know your customer") and report suspicious transactions and for significant amounts to the competent authorities. Said regulations require systems and highly trained personnel for the supervision and compliance of said provisions, and are subject to possible imposition of sanctions and fines in civil and criminal matters.

Provided that we have adopted policies and procedures to detect and prevent the conduct of money laundering activities and other related activities, such policies and procedures may result being ineffective in detecting all third party activities related to money laundering and other illicit or inappropriate activities. Additionally, the staff we employ to supervise these activities has specialized experience in these matters and yearly takes recertification courses. Today we fully comply with applicable laws and regulations, the fines that have been imposed to us correspond to the periods prior to 2012 and all observations have been fully applied.

We are subject to judiciary procedures, which may have an adverse material effect on our operating results and financial situation if an unfavorable resolution was made

From time to time, we have been and we may be part of judiciary, administrative and other legal procedures related to claims derived from our regular business operations. These judiciary or administrative procedures are not subjected to certain inherent to these type of processes and unfavorable resolutions, which may be made in the future. We can not guarantee that these or other judiciary or administrative procedures may affect in a relevant manner our capacity to conduct our business in the expected manner or in the event of issuing an unfavorable resolution, the same may affect our operating results and financial situation.

Modifications to tax regulations

Changes in the tax treatment for the financial transactions in different markets, may have an effect on the operating volume that might be carried out by our clients. Undoubtedly, these changes may affect all of the competitors, which might, at any given moment, have an impact on the market's general volume.

Implementation of International Financial Regulations

All of the Mexican Issuers, with the exception of financial entities, are obliged to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Monex, by being a financial entity is not obliged to report its results according to the IFRS accounting parameter; however, in order to mitigate this risk, you must prepare an implementation plan for the IFRS, which allows you to comply in due time and proper form when regulations include financial entities, thereby evaluating the impact that its implementation may have in its operating results, general balance and capital flow. By virtue that IFRS differ in certain relevant aspects from Mexican FRS and banking regulations, we are not able to guarantee that the implementation of a FRS shall have a negative material effect on operating results, general balance and our capital flow status.

We are vulnerable to distortion and the volatility which currently prevail in global financial markets

During the last years, financial systems have undergone worldwide difficult credit and liquidity conditions, as well as distortions that have resulted in less liquidity, higher volatility, and generalized spreading of financial margins, and in some cases, lack of transparency in interbank rates. Economic conditions were significantly affected between 2007 and 2009, and several countries, including the United States of America, fell into recession. A considerable number of financial institutions, including some of the biggest commercial World's banks, investment banks, mortgage corporations, third-party guarantors and insurance companies have experienced significant difficulties.

Additionally, several deposit leaks have occurred in different financial institutions, several institutions have required additional capital or have been assisted by the government, and a considerable number of credit institutions and institutional investments have decreased or stopped financing their accredited clients (including other financial institutions). Financial deceleration worldwide, and specifically in the United States of America have had a negative impact on the Mexican economy and in our business.

Additionally, several deposit leakages have occurred in several financial institutions, as many institutions have required additional shareholders' equity or have been assisted by governments and a considerable number of credit institutions and institutional investors have decreased or suspended financing for their accredited parties (including other financial institutions).

There's uncertainty in relation to the future financial environment and may not guarantee in which moment financial conditions are going to be better. Although recently, certain segments of the global economy have experienced a moderate recovery, we estimate that the adverse conditions that prevail will continue having a negative impact in our business and operating results. The global confidence of investors remains cautious. In case of a financial deceleration, renewed volatility conditions in capital markets or insufficient recovery, the negative effects that financial and market conditions have had on us and other actors in the financial service industry may get worse.

A severe depreciation of the Mexican peso may have a negative effect on the Issuer and its subsidiaries, for instance, by increasing the amount in Pesos of their liabilities calculated in foreign currencies and the default rate before its creditors or affect operating results in US Dollars. Additionally, any severe depreciation may result, as it has occurred in the past, in the implementation of foreign exchange controls that may affect our capacity to convert Pesos into US Dollars or transfer currencies abroad, which may have an impact on our business and our operating results.

Also, in the event of having a severe depreciation or appreciation, the government may intervene, as it has happened in other countries, or in the rupture of international exchange markets. The Mexican government has consistently implemented a series of measures to limit the volatility of the Mexican Peso, from auctioning US Dollars to intervening in interest rates and regulate the coverage of liabilities from Mexican Banks calculated in foreign currency. However, we may not guarantee that said measures are effective or that they will be observed, or the way in which said measures will impact the Mexican economy. Currently and for many years, the Mexican government has imposed restrictions on the right or capacity of the Mexican and foreigners to convert Pesos in US Dollars or to transfer other currencies abroad; however, said measures have been applied in the past and may be implemented in the future. Consequently, the fluctuation of the fluctuation of the Mexican Peso before the US Dollar may have a negative effect for Monex, on our financial position, operation results and, consequently, on the expected behavior of the amortization of our Bank Securitization Certificates.

We are also exposed to foreign exchange risks as consequence of imbalances between assets and liabilities calculated in foreign currencies and market risks related to our stock market investments and transactions. We are exposed to foreign exchange risks as we keep an open position in relation to currencies different to the Mexican peso, and interest rate risks when we have exposure in the recalculation of interest rates or keep securities causing interests with fixed rates in actual or weighed terms. The exchange rate of the Mexican Peso and interest rates in Mexico have been subjected to relevant fluctuations in the last years. Due to the historic volatility of the Mexican Peso's exchange rate and interest rates in Mexico, associated risks may be higher than in other countries. Our liabilities in foreign currencies are subjected to regulation by the Bank of Mexico, imposing liquidity requirements in its equivalence in said currencies, depending on the maturity of said liabilities. Although we have followed several risk management procedures and policies, including Value At Risk (VAR) limits, coverages and risk analysis, in relation to our brokerage and treasury activities and we are subject to regulations tending to prevent relevant imbalances, we can not guarantee that we are not going to experience losses in relation to these positions in the future, any of which may have a negative effect on Monex, including our operating results and financial position.

Our Bank, is also exposed to credit risks as part of the ordinary course of our business. To the extent to which any of these risks materializes, our financial margin or the market value of our assets and liabilities may be adversely affected, impacting our business and our operating results and financial position.

We operate in a highly competitive market and competition with other financial institutions offering foreign exchange services and commercial banking may have a negative effect on our company

We face significant competition in the foreign exchange and payments market by commercial banks and also in other areas of our business, and also by national and international banks as well as financial institutions of Mexico and abroad. Big financial institutions and commercial banks in Mexico have not been traditionally focused on providing foreign exchange and payments services for our clients, that is to say, medium-sized companies, but they could, in the future.

Likewise, better capitalized and bigger international companies carrying out foreign exchange transactions, including commercial banks, may decide to explore the Mexican foreign exchange and payments market. It is possible that all potential competitors, such as commercial banks, have more resources, nationwide coverage and a better known trademark or name. Bigger financial institutions may also have, in advance, financial and business relations with companies, with which we currently do business. If said commercial banks and financial institutions decided to offer the same services as Monex for international companies, in a more aggressive manner, or they started to offer said services in relation to other financial services, or if they offered more competitive conditions due to the provision of said services (such as lower prices) through the consolidation with other financial services or in any other manner, it is possible that we may face a big competition in profitability as well as a decrease in our capacity to keep and attract clients. The majority of commercial banks in Mexico have a higher number of branches, which may result in a competitive advantage for them. It is possible for us to compete against big financial institutions by taking care of bigger clients with a higher operating volume.

On the other hand, it is also possible to face an increase in competition, as result of online brokerage, online auctions, and the growing access to updated information related to online prices, or the involvement of other service foreign exchange providers, which in the future may operate online. Any increase in competition and/or the involvement of new participants may have a negative and significant effect on our business, financial condition and results through, among others, a decrease in our client base, a lower growth in our volume/income in comparison within the market, and a reduction of margins, and therefore, our return, which in turn may have a negative impact on our capacity to amortize Securitization Certificates.

The CNBV keeps authorizing the construction of banking institutions from time to time, including niche banks, which are only authorized to carry out a limited number of transactions. It is probable that new banks seek to aggressively expand their participation in the Mexican market, which may have a negative effect in our activities and operating results.

Additionally, legal and regulatory reforms in the Mexican banking industry have increased competition among banks and other financial institutions. We believe in the commitment from the Mexican government incrementing reforms in order to accelerate and liberalize the Mexican financial industry, which has been reflected in an increase in competition. To the extent in which the financial sector reform continues, many of the financial institutions with more resources than our company, have explored and will continue exploring the Mexican market in order to compete with us, either by themselves or in collaboration with other Mexican financial institutions. We can not guarantee that we are going to be capable of competing with the success of said financial institutions, both domestic and international.

It is necessary to hire services from third parties in order to carry out our international payment transactions

We require the participation of third parties abroad in order to provide our international payment services. We currently carry out these activities through foreign correspondent banks, with whom we have entered into agreements, in order to receive their services. We can not guarantee that in the future there will be third parties willing to provide their services, which we need in order to offer our international payment services.

We are exposed to market risks, related to our foreign exchange line of business

Financial conditions in other parts of the world, local and international markets tend to have a direct effect on the foreign exchange market volatility. Financial conditions registered during 2014 registered a depreciation of 13% in relation to the Peso – US Dollar exchange rate, closing that year with an exchange rate of 14.74 Pesos per US Dollar, according to information published by the bank of Mexico in the Federation's Official Gazette. By 2015, the Peso – US Dollar closed in 17.24, showing an appreciation for the US Dollar of approximately 15% compared against the closing of the prior year. By the end of 2016, the Mexican Peso in relation to the US Dollar closed in 20.62 Pesos per US Dollar, which represents an appreciation of approximately 16% for the US Dollar in comparison with the end of the prior year.

To the extent to which significant fluctuations keep happening in the exchange market, particularly between the Peso and the US Dollar our exposure to said risk, which may cause losses or default from our counterparties and have a negative and significant effect on our financial position and operating results. One of the most sensitive market indexes in relation to financial conditions is the exchange rate between the US Dollar and the Euro.

In the end of 2014 the exchange rate of the Euro in relation to the US Dollar was of 1.21 US Dollars per Euro, closing the year with an appreciation of approximately 9% in comparison with the closing of the previous year. For 2015, the US Dollar showed an appreciation in relation to the Euro of almost 10% with an exchange rate of 1.09 US Dollars per Euro as of December 31 of 2015. Lastly, on December

31 of 2016, the exchange rate was of 1.05 US Dollars per Euro, which represents an appreciation of the US Dollar of approximately 3.7% in comparison with the exchange rate revealed in the closing of the previous year.

In relation to the Pound Sterling, on December 31 of 2014, it was appreciated by 6% closing the year in 1.56 US Dollars per Pound Sterling. By the end of December of 2015, the Sterling Pound – US Dollar exchange rate was of 1.47, which represented an appreciation of approximately 5.8% for the US Dollar by the end of 2014. Finally, during 2016, the US Dollar – Sterling Pound exchange rate was of 1.24, which represented an appreciation of 15.6% for the US Dollar in comparison with figures reported at the end of the last year.

2016 was a year with high volatility, caused by several factors, such as the possibility of a strong economic slowdown from China, low oil prices, uncertainty arising in the middle of the year from the United Kingdom's decision of abandoning the European Union and the unexpected triumph of the Republican Candidate Donald Trump as president of the USA. The latter, has caused a sudden change in economic growth hopes worldwide.

In relation to the United States, the economy continued recovering; the strength of the labor market, the increase in income and salaries and the expectative of a higher inflation increased the possibility of a faster-paced regulation process of the monetary policy. However, the uncertainty caused by the arrival of Donald Trump has caused certain doubts in relation to the sustainability and financial apex of that country, because, on the one hand, the implementation of his economic policies, may boost short-term growth derived from a higher expense and lower taxes, causing also uncertainty in relation to investment, inflationary pressures and economic weakness.

During 2016, our economy was benefited from our internal market, particular the consumer goods sector, therefore, the GDP increased by 2.3% and the historic inflation was 3.36%.

On the other hand, the high international volatility and persisting uncertainty, as well as decrease in our credit rating perspective, caused by risk of a decline in our public finance, has caused our currency to become more vulnerable to external factor, therefore, the Mexican Peso suffered a strong depreciation, closing the year in 20.62 per US Dollar, which implies a depreciation of almost 20%.

While Foreign Exchange transactions represent a high profit percentage for the Issuer, market volatility may have a positive impact in the margin of our transactions. However, we can not guarantee that our performance will be the same as before, with such a sustained market volatility.

We are exposed to market risks, related to our financial derivatives line of business

We are subject to market and transaction risks, associated to said transactions, including basis risks (the risk of loss associated with variations in the difference between the asset's return and the financial coverage cost) and the credit risk (the insolvency risk or any other default from the counterparty in a specific transaction in relation to the compliance with their corresponding liabilities, including the granting of sufficient securities). Significant negative fluctuations in exchange rates or prices may cause losses for our company. Additionally, Mexican courts have limited experience handling matters related to transactions with derivatives, as the majority of controversies have been typically solved through negotiations between Mexican financial institutions. Consequently, results from controversies in relation to derivatives in the Mexican Legal System are not fully predictable.

Our capability to adequately supervise, analyze and report all financial transactions with derivatives, depends, to a great extent, on our information technology systems. This factor may increase even more risks associated to these transactions and may have a significant negative effect on the Issuer, our operating results and our financial position, which in turn may affect our capacity to amortize our Securitization Certificates.

We are exposed to market risks caused by our debt investment transactions

Our transactions carried out with debt instruments have exposed us to risks related to fluctuations in interest rates. Increases in interest rates in the market may reduce the value of our fixed income instruments, in relation to our transactions with debt instruments, and may cause losses in said brokerage activities for us. Likewise, increases on interest rates, or uncertainty in relation to changes in the same, may affect the credit demand, and therefore, the demand for our credits. Additionally, an increase in interest rates in the Mexican market, may cause an increase in our financing cost under circumstances under which we may not be able to reflect them in the price of our credit services. Said situation would, in fact, reduce the financial margin that we obtain from our credits and may affect our capacity to pay our debts, including the payment of our securities-based loans. However, we have several policies and procedures to cover our market risks, including limitations to the VaR, coverage and risk analysis; although we are not able to guarantee full coverage from said policies and procedures.

We are exposed to the same risks faced by other financial institutions

Frequently, we carry out transactions with our counterparties within the financial service industry, including brokerage firms, commercial banks, investment banks, investment funds, venture capitalists, hedge funds and other institutional clients. Default from certain financial institutions and the financial service industry in general or rumors or questions in relation to their solvency have caused generalized liquidity problems in the markets and may cause losses or default from other financial institutions. A considerable number of the transactions that we currently carry out, have exposed us to relevant credit risks, in case of default from any of our main counterparties. In the last years, the financial stability of several European governments was affected by the European sovereign debt crisis, contributing to volatility of the stock and bond markets.

Currently, the risk of contagion in and out of Europe remains while a great number of Financial institutions throughout Europe are materially exposed to the debt issued by countries subject to considerable financial pressures. Liquidity problems have, and might continue having a negative effect in interbank transactions in general. In case that any of said countries had failed to pay their debt or experienced a significant expansion in their credit margins, the main financial institutions and banking systems throughout Europe may slide. Default from any material financial counterparty, or liquidity problems in the financial service industry in general, may cause a significant negative effect in the Company, our operating results and our financial position, which may have a significant negative effect in our capacity to amortize our Securitization Certificates.

It is worth mentioning that as of June 23rd of 2016, a referendum was carried out in the United Kingdom in which the majority of their citizens voted in favor of leaving the European Union ("Brexit"). As result from said vote, a negotiation process has been started, in order to determine the conditions of Brexit, and settle the relationship between the United Kingdom and the European Union.

The effect of the Brexit vote and the perceptions of the impact of the Exit of the United Kingdom from the European Union, may have a negative effect in all commercial and economic activities, as well as market conditions in the United Kingdom, the Eurozone and the rest of the world and may contribute to a worldwide financial stability and affect as result stock and foreign exchange markets, as well as the Mexican Peso. Additionally, Brexit may bring as result, political, legal and economic instability to the European Union.

We are exposed to payment risks in relation to our foreign exchange transactions and counterparty risks in our financial transactions with derivatives

We are subject to liquidation risks in our transactions with currencies and counterparty risks in our transactions with derivatives, which we carry out with individuals, companies and financial institutions. We must understand liquidation risks, as the risk of any of our clients, having been previously approved by our risk committee to carry out foreign exchange transactions with our currencies without doing advance payments on derivative funds from said transaction, does not pay the total price of said foreign exchange transaction, made with us, in the agreed moment, which would leave us in an open exchange rate exposure, and probably making said account receivable uncollectable. We must understand counterparty risk as the risk of our counterparties in the derivatives market not being able to pay their contractual liabilities with us, due to changes in market conditions, which may have a negative effect in said counterparties, due to practices or any other reason. Despite the fact that we keep said control mechanisms with the purpose of being protected from said losses, such as continued monitoring of the risk limits of our clients or, their security bonds, we can not guarantee that said measures are in fact able to give us full protection. These risks may be increased to the extent to which our foreign exchange and derivatives transactions increase, causing losses which may have a negative effect in our operating results and financial position.

The scarcity of foreign currencies in Mexico may reduce the amount of the transactions that we carry out

The Bank of Mexico regularly regulates the monetary base of Mexico. Under certain conditions, such as deficits in the balance of payments or scarcity of foreign currencies, the Bank of Mexico may carry out measures to reduce the amount of available foreign currencies in the Mexican Economy. In the event of the Mexican Economy experiencing scarcity of foreign currencies, the amount of transactions in foreign currencies that we process may decrease significantly, which may have a negative material effect in our business, financial situation and operating results.

Conversion of financial statements of subsidiaries in foreign currency

The subsidiaries of Monex issue their financial statements and other applicable financial documents in the currency used in the jurisdiction in which they operate. In light of the above, Monex, at the moment of consolidating its own information and information from its subsidiaries, must convert the amounts expressed in foreign currency to Mexican Pesos using the exchange rate published by the Bank of Mexico in the Federation's Official Gazette on the date of calculation, which may have a negative effect in the financial projections made and all net profits gained by Monex, through its subsidiaries and, consequently affect the payment of principal and interests on the Securitization Certificates.

We are subject to risks due to the credits granted to our clients

As of December 31, 2016, we had \$18,212 million Pesos in assets from our balance in the form of our current loan portfolio.

If we are not able to adequately evaluate or monitor credit risks in our client portfolio, we may suffer an increase in outstanding and uncollectible debts

We are subject to risks for the credits granted to our clients. As of December 31, 2016, we had \$73 million pesos of assets in our balance sheet in the form of an overdue loan portfolio, although such amounts could increase in the future.

We use different formulas and models to evaluate our possible clients and establish adequate credit limits, but these measures do not eliminate in their entirety all the risks derived from bad credits and they possibly won't prevent us from carrying out risky transactions with our clients. If we are not able to manage our credit risks adequately, our outstanding debt expenses may have a significant increase, in comparison with their condition in the past, which, may cause lower income and may have a negative effect on our operating results and financial positions. We are committed to the construction and preservation of our reserves in our portfolio, however, this does not mean that our reserves are sufficient to cover losses in the event of an increase in outstanding debts. If we are not able to adequately administrate our credit risks, our expenses in overdue debts may have a significant increase in comparison with the previous year, which may bring lower income and may have a negative effects in our operating results and financial position.

The downgrade in the credit ranking of our company or any of our subsidiaries may increase our financing, make us give additional bonds or implement protection clauses in our contracts for derivative financial transactions, which may have a negative effect in our financial margins and operating results

Credit ratings affect the cost and all other terms under which we may be able to obtain financing. Rating agencies regularly evaluate our company and their debt ratings are based on a series of factors, including our financial capacity, the quality of our credit and the composition of our loan portfolio, the level and volatility of our income, our capital adequacy and leverage ratio, the liquidity of our balance and our capacity to access financing sources, as well as conditions affecting the financing services industry in general.

A downgrade in our credit rating may have a negative effect in the perception of our financial stability and increase our financing costs. Additionally, our creditors and counterparties in financial derivative transactions (and those of our subsidiaries) are sensible to the risk of a downgrade in our rating. Changes in the credit rating of our company or any of our subsidiaries may increase the cost for the obtaining of funds in stock exchange markets or through financing, thereby reducing our liquidity. Any of these results derived from a downgrade in our credit rating, may have a negative effect in our business, financial situation and operating results.

Preventive calculation for credit risks

If the Mexican authorities make banking institutions increase the levels of their preventive calculation for credit risks or modify the way in which said calculation is made, or to modify all minimum capitalization requirements, that may have a negative effect in Monex, including our operating results.

We may request additional capital and we may not be capable of obtaining the same in favorable terms

In order to grow, remain being competitive and participate in new businesses or comply with capital adequacy, we may need new capital contributions. Additionally, we may need to obtain additional capital under the assumption that we may incur in significant losses in our loan portfolio, which may result in the reduction of the Issuer's shareholders' equity. Our capacity to obtain additional capital is subject to several uncertain factors, including:

- Our future financial condition and our operating results and cash flow.
- The obtaining of any sort of corporate or government authorizations.
- General market conditions for capital gain activities carried out by commercial banks and other financial institutions
- Financial, political and other type of conditions in Mexico and other places

We may be required to make significant contributions to the Institute for the Protection of Bank Savings (IPAB)

The IPAB is in charge of administrating the protection of bank savings and financial leverage for banks in Mexico. According to Mexican legislation, banks are obliged to make monthly contributions to the IPAB with the purpose of supporting their transactions, for an amount equivalent to a twelfth of 0.4% (yearly rate) multiplied by the average of certain liabilities minus the average of other certain assets. The Mexican authorities impose continued supervision mechanisms on institutions with coverage for IPAB funds.

We would contribute to the IPAB \$104.1, \$74.6 and \$56.4 million pesos in 2016, 2015 and 2014, respectively. In the event that the IPAB reserves are insufficient for the administration of the system for the protection of bank savings and provide sufficient financial leverage to guarantee the operation of those banking institutions with solvency problems, the IPAB has the faculty to require the payment of extraordinary contributions to the system's participants, same that we could be obliged to carry out. While we have not been required to make extraordinary contributions to the IPAB in the past, we could be required to make extraordinary contributions in the past. Said extraordinary contributions would increase our expenses and could have a negative effect in our Issuer, our operating results and financial position.

Liquidity risks may have a negative and significant effect in our company

A considerable number of Mexican banks have suffered serious liquidity problems in the past. We anticipate that, in the near future, our clients will continue making short-term deposits (specifically, registered deposits), and we intend to keep our focus on the use of bank deposits as the source of our financing. The nature of short-term deposits is that this source, could cause liquidity problems for us in the future, if the volume of deposits is below expectations and if the same are not renewed. If a considerable number of our clients do not renew their deposits upon maturity or withdraw their deposits, we could suffer a significant negative effect in our operating results and financial position.

We are not able to guarantee that, in the event of a sudden liquidity shortage in the banking system, we would be able to keep our funding levels without incurring in high financing costs, reduction of our financing instruments or in the liquidation of certain assets. Said situation, would have a negative effect in our operating results and financial position.

While we haven't had any significant liquidity problems in the last years, we can not guarantee that liquidity problems will not affect the Mexican banking system in the future, or that liquidity restriction will not affect us in the future. While we expect to be able to refinance our liabilities, we can not guarantee that we will be capable of repaying or refinancing our liabilities in all of those cases.

We carry out transactions with related parties that third-parties may consider as not prepared for market conditions

The applicable Mexican legislation with values quotes in the Mexican Stock Exchange and groups of financial institutions, as well as our corporate bylaws, establish several procedures designed to guarantee that the transactions carried out with and in between our groups of financial subsidiaries and other related parties comply with the terms and conditions of the market in use for this type of transactions, including the approval from our board of administrators.

It is likely that we will continue carrying out transactions with our subsidiaries or affiliated companies. While the CNBV has not objected our decision with regard to the terms of said transactions, we've consider them as "substantially under market conditions" in the past, and we can't guarantee that the CNBV will agree with any of our future decisions. Additionally, new conflicts of interest may arise among us and any of subsidiaries or affiliated companies in the future, which may or may not be solved in our favor.

We significantly depend on our key directors and if we are not capable of retaining them, we may loss our relationships with our key clients and our business may be affected

We consider that our business and its development depend, in part, on the permanence of our main directors in duties. We don't have life insurance for the key directors in which the Issuer is the beneficiary and we don't sign non-compete clauses with all of them. This implies that not all of the key directors are restricted to switch companies and work for our competitors. Losing the services of key directors could significantly and negatively affect the future performance of our business, strategic relations and everyday situations as well as future growth strategies.

We depend on a trained and motivated sales force and if we are capable of attracting and retaining our skilled staff, our business and its financial results may be affected

Our performance heavily relies in the way in which sales force operates, the experience and training of our sales agents is fundamental for the relation with our clients, and therefore, for the success of our business. We don't enter into non-competence agreements with our sales force and their payment is based on commissions, mainly. We can not guarantee that we will be capable of keeping our sales force, mainly if the competence within the sector increases. The loss of sales agents may result in a reduction in profit and a loss in the relations with our clients, serviced by said sales agents. Likewise, if we were not capable of attracting and retaining new qualified sales agents and experienced personnel to expand our credit business, our business would suffer significant negative effects in its financial results.

Our systems and the systems of our suppliers may fail due to factors outside of our control, which may interrupt our service, causing losses to our business and increases in our expenses

We depend on the interrupted efficiency of our computer systems, software, information centers and telecommunication networks, as well as systems owned by third-parties. Our operations and systems, or those from third-parties providing the same, may be exposed to damages or interruption, from, among others, fires, natural disasters, electric power outages, telecommunications failure, computer virus or unauthorized access. Defects in our systems or in those of third-parties used by our company, errors or delays in the processing of transactions, telecommunication failures, and violations to security measures resulting in access to private or personal information or any other related difficulties may result in:

- An inefficient calculation of the price of our foreign exchange transactions
- Loss of clients and income
- Damage to our business' reputation
- Risk of frauds or incurring in other liabilities
- Bad publicity
- Additional operating and development expenses
- Incorrect use of technical and other resources

Some of the services related to our business, such as the development of technology and support on our software applications, hosting and storage of our operating systems have been outsourced with third-party suppliers of these services, which will be difficult to substitute in a fast manner. If said suppliers did not want or were not able to supply these services, our business and our transactions would be affected in a negative manner.

Our capacity to keep the competitiveness of our company depends on the adequate maintenance that we made to our computer and technology systems. Failure from our part in keeping this technology level may put our position as leader at risk in this sector

As providers of foreign exchange services as well as other related services, we must be up to date with the best available technology in the market, used by our competitors and respond to the technological advances used by them, including internet-based technologies, with the purpose of keeping and improving our competitive position. It is likely that we will not be able to keep such an advanced technological level and the services to offer in relation to our competitors, which may put our position as leaders at risk.

A higher dependence on technology implies a higher risk of having risks in programming, equipment limitations or other difficulties. Said problems may result in a delay or interruption of services, loss or incorrect use of important information and/or failure to satisfy our clients. It is possible that we will not be able to implement new operating software without having problems which may affect our business.

We keep the security systems of our electronic databases; however, we are not immune to problems in our system or violations incurred by computer hackers, viruses or third-parties, which may attempt to illegally access our confidential information. Any malfunction or violation of our security systems allowing access for third-parties to the personal and confidential information of our company or clients may harm our reputation or make us subject to legal procedures or the application of penalties, which may have a monetary negative effect in our results and financial position. Additionally, any malfunction or violation in our security systems may require investment for a considerable amount of resources to be solved and would also result in the interruption of our transactions, specially transferences and electronic payments.

Our organic growth and integration plans for recent and future purchases, as well as the expansion of our banking and non-banking services may not be favorably completed

According to the description contained in this Report, we currently have plans and strategies for the expansion and increase of our banking services outside of our foreign exchange and international payment transactions (which represent our main source of income). In case that these plans or strategies were not successfully completed, due to the financial environment or causes outside our control, this may bring a negative impact in our business, financial situation and operating results, which, in turn may affect our capacity to liquidate our assets. We can not guarantee that will be successful in the implementation of our expansion plans and strategies.

Likewise, Monex currently has organic growth and integration strategies for the businesses that have been purchased in previous years. Constantly, we analyze other companies and businesses for possible purchases, thus continuing with our inorganic expansion.

Despite the fact that Monex has been able to merge the companies that it has purchased to our business, we can not guarantee that future purchases will be successful. The integration of purchased business involves important risks, including:

- That purchased businesses will not reach the expected results
- That savings expected from synergies will not be reached
- Difficulties in the integration of transactions, technologies and control systems
- Possible failure to hire or keep key staff from purchased companies
- Possible failure to achieve expected scale economies
- Unforeseen liabilities
- Antitrust and regulating provisions
- Difficulties to keep the clients from the purchased companies
- Failure to rapidly modify accounting standards
- The possibility of a deviation of the administration from its everyday activities due to activities and integration of solutions involved in related problems.
- The possible existence of regulatory restrictions, which may prevent us from reaching the benefits expected from the purchase

Additionally, an acquisition could result in the loss of key personnel and inconsistencies in standards, controls, procedures and policies.. Even more, the success in the purchase of at least a part of the same, will be subject to a series of political, financial or other type of factors outside our control. Any of these individual or collective factors may have a negative material effect in our company.

Failure in the integration of recent or future acquisitions may bring as a result negative impact on our financial situation and operating results. And, consequently, the expected amortization behavior of our Securitization Certificates.

We are exposed to risks related to future expansion and strategic purchases

In accordance with our business strategies, which includes growth through the purchasing of new lines of business, both in Mexico and abroad, we constantly evaluate opportunities to carry out purchases that provide a higher added value for our shareholders' and which are consistent with our business. The implementation of said purchases may consist in existing assets or transactions, such as the purchasing of Schneider Foreign Exchange, which we made on July of 2012. Derived from our experience, the success of future purchases for Monex or any our subsidiaries or at least, part of the same, will be subjected to a series of political, financial or other factors out of our control. If present, any of these factors, individually or collectively, may have a negative material effect on us. The subjects representing a higher exposure of risk, are:

- The time and expenses associated to the identification and evaluation of potential purchases, partners and businesses
- Errors and/or omissions in the calculation and the criteria used for the evaluation of transactions and their market risks
- Incorrect calculation of the return of an investment once the company had been purchased: Example: legal regimes, the opening of new offices, the creation of assets and detailed knowledge of existing liabilities within the company, among others
- Changes in the distribution of Monex's shares as result from the purchase of new companies
- Failure in transactions derived from limited knowledge (lack of market studies and inadequate training) related to new lines of business, markets and countries

Additionally, our capacity to benefit from any of these purchases will heavily depend to a certain extent from the success that we have in the integration of these businesses. The integration of purchased businesses involves important risks, including:

- Difficulties to keep or assimilate employees from purchased businesses
- Difficulties to keep clients from purchased businesses
- Unforeseen difficulties in the integration of transactions and systems
- Failure to rapidly modify accounting standards
- The possibility that the administration may deviate from its everyday activities because of integration and problem-solving activities
- The possible existence of regulatory restrictions preventing us from reaching the benefits expected from the purchase

Finally, a purchase may bring as result the loss of key staff and inconsistencies in standards, controls and procedures and policies. Even more, the success in the purchasing of at least, part of the same, will be subjected to a series of political, financial or other factors outside of our control. Any of these individual or collective factors, may have a negative material effect, among others.

Risk Factors related to Mexico

The Mexican government has had and will continue having a significant influence on the Mexican Economy

The Mexican Federal Government has had and will continue having a significant influence on the Mexican economy. Consequently, the actions and policies from the Mexican Federal Government in relation to the company, state-owned companies, government-funded financial institutions, may have a significant effect in the private sector in general and in us in particular, as well as the market conditions, prices and returns on Mexican securities. The Mexican Federal Government occasionally makes significant changes to policies and regulations, and may do it again the past. Shares to control inflation and other regulations and policies has involved, among other measures, increases on interest rates, changes to tax policies, price control, currency devaluation, capital controls and limits to imports. Therefore, Monex can not guarantee that said events will not happen again in the future and that the situations that may be caused by them will not affect its financial situation. It is impossible to guarantee that the future political and economic development of Mexico, over which we have no control, will have an unfavorable effect in our financial position or operating results.

Future restrictions, requirements or modification to the legal framework used by Monex from the Mexican Government may have a negative effect in our company

A severe depreciation of the Mexican Peso may also result in the intervention from the government, as it has occurred in the past or in the rupture of international foreign exchange markets. Currently and for many years, the Mexican government has not imposed restrictions to the right or capacity of the Mexican or foreigners to convert US Dollars to Pesos or to transfer other currencies outside of Mexico; however, said measures have been applied in the past and may not be applied in the future. Consequently, the fluctuation of the Peso before the US Dollar may have a negative effect in the Company.

Additionally, if the government decided to take measures, such as setting the value of the Peso in relation to the US Dollar or similar measures, the margin collected for each transaction may decrease as consequence of the differences between the margins for the transactions with fixed and variable interest rates. This intervention may result in a negative effect in our operating results and our financial position.

The Mexican Government regulates our transactions and changes. The creation of new regulations may have a negative effect in our results

Our transactions with currencies and other transactions are subject to extensive and continued review by the authorities. To date, the SHCP, the CNBV and the CONDUSEF and the Bank of Mexico are the main government entities in charge of supervising financial institutions.

Regulations in force, as well as the manner in which the same are interpreted and enforced may be modified and it is also possible that new legal regulations may be issued. Said changes may have a negative effect in our operations and results.

If the regulating authorities revoked our licenses or the licenses of our Subsidiaries, we would not be capable of continuing with our business

Monex has received approval from the SHCP and the CNBV to operate under the applicable legislation. In some scenarios, the SHCP or the CNBV are able to revoke authorizations, which will restrict our field of operation in order to continue offering financial services.

The above would have a substantially negative effect in our transactions, results and financial condition, causing failure to comply in due time with our liabilities, including liabilities related to support of our Securitization Certificates.

Negative financial conditions in Mexico may have a negative effect in our company

We control financial institutions in Mexico and a good part of our transactions and assets are in Mexico; therefore, they depend to a considerable extent on the performance of the Mexican economy. Consequently, our business, financial situation and operating results may be affected by general conditions of the Mexican economy, the exchange rate of the Mexican Peso before the US Dollar, the volatility of financial markets, inflation, interest rates, legislation, taxes, social instability and other political, social and economic events, or affecting Mexico, under which have no control. In the past, Mexico has suffered both long periods of weak economical conditions, such as declines in economic conditions, which have had a negative impact in us. We can not assume that such condition will not happen again, or that said conditions will not have a negative impact in our activities, financial situation and operating results.

Historically, Mexico has suffered financial crises caused by both internal and external factors, which have been marked by the exchange rate instability (including devaluations), high inflation indexes, raised interest rates, economic contractions, decrease in cash flow coming from international trade, lack of liquidity in the banking sector and high unemployment indexes. In addition to corruption scandals in different levels of the government, delinquency rates and problems related to drug trafficking and organized crime throughout the country have increased in recent times and may continue increasing in the future. Said conditions may have a negative effect in our business, financial situation and operating results, which, in turn may affect the expected financial behavior.

The Mexican government has and will continue influencing the Mexican economy. The measures implemented by said government in relation to the Mexican economy and state-owned companies might continue having a significant effect in the Mexican financial institutions, in addition to affect the market conditions, prices and returns on securities issued by Mexican firms, and cause a decrease in the demand of our products and services. Due to the fact that a considerable amount of our costs and expenses are fixed, we may be incapable of reducing our costs and expenses before the presence of any of such events, which may affect our profit margins, in a significant manner, along with our operating results and financial position.

Events in other countries may have a negative effect in the Mexican economy, the market value of our Shares and our operating results

We are exposed to exchange rate risks each time that we have an open position in currencies different to the Mexican Peso, and the risk of interest rates when we have exposure in the revaluation of our interest rates or we keep securities causing interests with fixed interest rates in real and nominal terms. The exchange rate of the Mexican Peso and interest rates in Mexico have been subjected to relevant fluctuations in the last years. Due to the historic volatility of the exchange rate of the Mexican Peso and interest rates in Mexico, associated risks may be higher than in other countries. Our liabilities in foreign currencies are subject to regulation from the Bank of Mexico, which imposes liquidity requirements and their equivalence in such currencies, depending on the maturity of said liabilities. While we have complied with several procedures and policies related to risk management, including limits in VAR (value at risk), coverage and risk analysis, in relation to our brokerage or treasury activities and we are subject to regulations tending to prevent relevant unbalances, we can not guarantee that we will not experience losses in relation to these positions in the future, which may have a significant negative effect, including our operating results.

The market value of securities in Mexico is influenced by economic and market conditions from developed and less developed countries. Despite the fact that the economic conditions of these countries may vary significantly from the financial situation in Mexico, negative financial conditions may expand to a regional level or the reaction of investors to events in these countries, which have a negative effect in the market value of securities listed in the Mexican Stock Exchange (BMV). For instance, in two recent years, both fixed income securities and variable income securities suffered relevant drops as result of events in other countries and markets.

Likewise, in recent years, financial conditions in Mexico have been associated to financial conditions in the USA. China and Europe, derived from international trade and free trade agreements and other similar agreements between Mexico, the USA, the European Union and China, which have caused an increased in the financial activity of these regions.

The Mexican economy is still heavily influenced by the economies of the USA and Europe. In light of the above, if all free trade agreements were cancelled, or a similar event occurred, and if the economic conditions of the USA, Europe and China were negative or had a lower growth, would affect the Mexican economy. These vents may have a negative effect in our business, financial situation and our results.

The level and volume of the financial activities between Mexico and the U.S. depend to a great extent on the NAFTA. Any slowdown in the economies of Mexico and the USA or in relation to the commercial relations between Mexico and the USA may have a negative effect in our business, financial situation and results.

On November 8 of 2016 the U.S. had presidential elections, with a result implying a change of administration. During the campaign of the elected candidate, he stated his intentions to renegotiate the NAFTA, leaving open the possibility that the U.S.A. would be withdrawn from the same. We can not guarantee or predict the manner in which the new administration will act and the implementation of any measure could have uncertain results or a negative impact in free trade agreements as well as the commercial relations with Mexico.

The recent increase of violence in Mexico has had a negative effect and may continue having a negative effect in the Mexican economy and may have a negative material effect in us

In past years, Mexico has experienced a substantial increase in violence related to drug-trafficking, specifically in the states of the North of Mexico. Said increase in violence has had a negative effect in the Mexican economic activity at large. Likewise, social instability in Mexico or social or political development in Mexico or affecting Mexico could have a negative effect in us, including our capacity to operate our business and offer services and our capacity to obtain financing. We can not guarantee that violence levels in Mexico, in which have no control whatsoever, will not increase or decrease and that they will not have additional negative effects in the economy or our company.

Additionally, illegal activities have caused more detailed and wide regulations to prevent money-laundering and a higher supervision of said activities by the competent authorities, which has had an impact in the manner in which we carry out our cash transactions in foreign currency and have resulted in a strengthening of our systems and supervision measures. Our capacity to detect and report money-laundering activity may result in penalties and have a negative impact in our business, operating results and financial position. We can't guarantee that more restrictive measures and requirements will be implemented in the future, which won't cause additional expenses to our activities, financial position and operating results, as well as our capacity to comply with our liabilities in a timely manner, including our Securitization Certificates.

We are subject to fluctuations in interest rates and other market risks which may have a negative and significant effect

Market risks refer to the probability of variations in our financial margin, or in the market value of our assets and liabilities, due to the volatility of interest rates. Changes in interest rates affect, among others, the following areas of our businesses:

- Financial margin
- Volume of granted credits
- The market value of our financial assets
- Profits derived from the sales of credits

Variations in short-term interest rates may affect our financial margin. When interest rates increase, we pay higher interest rates in credits at a variable rate that have been granted to us, while interests obtained by our fixed-rate assets do not increase at the same rate, which may cause an increase in our financial margin at a lower rate, or a decrease in certain sections of our loan portfolio. Variations in interest rates may have a negative effect, reducing growth rates of our financial margin, and even result in losses.

Increases in interest rates may result in a reduction of the number of credits granted by our company. Historically, the sustained raise of interest rates has discouraged debt from clients and has resulted in a higher number of defaults in current credits and a decline in the quality of assets. An increase in interest rates may also cause low pretension from clients to pay or refinance their credits at a fixed rate. Likewise, the increase of interest rates may reduce the value of our assets. We keep a significant loan and securities portfolio with both fixed and variable interest rates.

In the event of a decrease in interest rates, it is likely that our profits derived from investment in securities have been affected, independently from the probable reduction in our financing costs.

The market value of securities at a fixed interest rate generally decreases when interest rates raise. The above, may have a negative effect in our profits or financial situation. Likewise, we may incur in expenses that, at the same time may affect our results, while we implement strategies to reduce our exposure to interest rates in the future. The market value of securities at variable rates may be affected when interest rates increase, due to a delay in the implementation of revaluation strategies or failure to refinance at lower rates.

The increase of interest rates may reduce our profits or liabilities to register losses in the sales of our credits or securities. In recent years, interest rates in Mexico have reached historic lows; however, we can not guarantee that interest rates will remain low in the future.

The Federal Law for the Protection and Defense of Financial Services Users currently has not set any limit to the interest rates that the bank is able to charge, with certain exceptions. However, the possibility to impose such limitations has been and will continue being discussed by the Congress, and financial authorities of Mexico as well as several groups of debtors at a conceptual level. While the Mexican Government may be able to set limitations for the amounts or requirements of additional information in relation to said interest rates in the future, to the date of this Financial Report, the Congress and Mexican financial authorities have not proposed specific limits to the interest rates that we may be able collect. Part of our profit and cash flows are not generated by the interest rates that we charge to our clients; therefore, any additional information restrictions or requirements in relation to said rates may have a significant negative effect for Monex.

The volatility of the exchange and interest rates in Mexico may have a negative effect in our business

In the foreign exchange business, it is generally not possible to obtain the corresponding counterpart contribution for each foreign exchange transaction. Consequently, the foreign exchange board may sometimes take market positions in currencies as part of the everyday foreign exchange transactions. Additionally, relevant fluctuations in all foreign exchange rates may increase default risks in such instruments related to our counterpart contributions.

As our main activity are the foreign exchange transactions with our clients (a sector that is closely related to exports and imports of the economy as a whole), sudden changes in the exchange rate may affect our transactional volume, and therefore, the financial return of Monex. The operation of risk management products will only have consequences in the status of our results, which does not cover market and credit risks present in this type of transactions.

A serious devaluation or depreciation of the Mexican peso may have a negative effect for Monex and its subsidiaries, for instance, by increasing the amount in Pesos of our liabilities calculated in foreign currency and default rate among our debtors or affecting our operating results in US Dollars. Additionally, any severe devaluation, as it has happened in the past, may result in the implementation of foreign exchange controls with an impact in our capacity to convert Dollars or transfer currencies abroad, which may have a negative impact in our business and operating results.

Also, any drastic devaluation or appreciation, may result in the intervention from the Mexican Government, as it has occurred in other countries or the rupture of international foreign exchange markets. The Mexican Government has consistently implemented a series of measures to limit the volatility of the Mexican Peso, from auctioning US Dollars to intervening in interest rates and regularly cover the liabilities of Mexican banks calculated in Foreign Currency. However, we can not guarantee that said measures will be effected or kept, or the manner in which said measures will have an impact in the Mexican economy. Currently and for many years, the Mexican Government has not imposed restrictions to the right and capacity of Mexican or foreigners to convert Pesos to US Dollars or to transfer other currencies abroad; however, said measures have been applied in the past and may be implemented in the future. Consequently, the fluctuation of the Mexican Peso before the US Dollar may have a negative effect for Monex.

We are also exposed to foreign exchange risks as consequence of unbalances between our assets and liabilities in foreign currencies and risks related to capital prices in relation to our negotiation investments in the stock exchange market. As a bank, we are also exposed to credit risks, as part of the ordinary course of our business. To the extent to which any of these risks arises, our financial margin or the market value of our assets and liabilities may be affected.

Risk Factors related to Securitization Certificates

The Issuer and Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero (broker) are part of the same financial group; therefore, the interests of the latter may differ from the interest of possible investors

Both the Issuer and Monex Casa de Bolsa (our brokerage house) are part of the same Financial Group, and in any given moment their interest may or may not be aligned. If Monex Casa de Bolsa act as private placement brokers for any Issuance in support of the program, we will not be able to guarantee that in any given moment, said private placement broker and the Issuer will implement decisions in relation to the program, causing a conflict of interest to the Holders of Securitization Certificates, by belonging to the same financial group. Holders must evaluate this possibility with their financial advisors, taking into consideration that in relation to any Issue, Private Placement Holders

shall not be considered as agents or advisors of the Holders, and they shall have no liability derived from the compliance of our liabilities in support of the Securitization Certificates.

Priority in case of insolvency

The holders of our Securitization Certificates shall be considered, in respect with their payment preference, under the same circumstances as our most common creditors. In accordance with the Public Tenders Law, in the event of any public tender, certain credits against the estate under liquidation, including credits in favor of workers, credits in favor of privileged, secured loans, and tax credits, shall have a preferential status over credits in favor of our common creditors, including the derivatives from Securitization Certificates.

According to the Public Tenders Law, the amount of the Issuer's liabilities is determined from the pronouncement of the decision on the public tender, and the Liabilities of the Issuer are calculated in Mexican Pesos or currencies that must be converted to UDIs (taking into consideration the value of the UDI on the date of the public tender) and thus, liabilities are calculated in UDIs, which shall remain calculated in said investment units. Likewise, our liabilities calculated in Mexican pesos, UDIs, or currencies, shall cease to cause interests counting on the date of the summons for the public tender.

Modifications to tax regulations for Securitization Certificates

The tax treatment for Securitization Certificates may be modified throughout the validity of the same, thereby affecting the payments made by the Issuer in relation to the holders of Securitization Certificates.

Limited market for Securitization Certificates

In general, there is no active and liquid secondary markets for Securitization Certificates. It is probable that said market may not be developed once the offer and the placement of securitization certificates has been closed.

The price in which Securitization Certificates may be negotiated is affected by several factors, such as:

- (i) Interest Rates
- (ii) Changes in Tax Regime
- (iii) Economic and Financial Conditions prevailing in Mexico

Therefore, we cannot ensure that Securitization Certificates shall be negotiated at a price equal or higher to the starting offer. The above, may not limit the capacity of holders to sell Securitization Certificates at any given price, moment and amount. Therefore, the potential investors must be prepared to assume their investment risks on Securitization Certificates until their maturity date.

The credit rating of Securitization Certificates may be subject to review

Credit ratings given to Securitization Certificates may be subject to review (either upwards and downwards) for several circumstances related to the Issuer, Mexico and other matters relevant for rating agencies. Investors must carefully calculate any consideration indicated in the corresponding ratings, which must accompany the corresponding Supplement for each Issuance.

Reinvestment Risk

The Program contemplates that each Issuance made under its protection shall have its own characteristics. If this is indicated in the respective supplement and in the title that covers said Issuance, the Issuance may contemplate the possibility of being amortized early and may also contemplate cases of early maturity. If the Issuance is effectively prepaid voluntarily or as a result of an early maturity case, the holders receiving the prepayment on their Bank Securitization Certificates shall run the risk that the resources received as a result of said advance payment cannot be reinvested in instruments that generate returns equivalent to those generated by the Bank Securitization Certificates.

In the event of being indicated in the respective supplement and the title supporting said Issuance, the Issuance may include the possibility of being amortized and may include advanced maturity events. If the Issuance is amortized in advance either voluntarily or as result of an advanced maturity case, holders receiving the payment of their Securitization Certificates shall face the risk of not being able to invest the resources received as the product from said payment in instruments with returns equivalent to those earned by the previous Securitization Certificates.

Possibility to make and receive payments in foreign currency

The Bank may issue Securitization Certificates calculated in US Dollars, Euros or any other currency, which may be amortized in said currencies. Therefore, possible Holders with the intention of acquiring said Securitization Certificates must have the possibility of receiving the main payment of interests in the respective currency. Additionally, Holders must build their own conservator in relation to the possibility of receiving amortization from the main return and interest of the Securitization Certificates in Mexican Pesos.

Likewise, the conservator of the securities of each holder at the moment of the liquidation of Securitization Certificates may not use the most competitive exchange rate, which may cause the Holder to receive a different amount in national currency in relation to other investments.

Securitization Certificates Risks calculated in Foreign Currency

In accordance with the characteristics of issued Securitization Certificates, they may be calculated in US Dollars, Euros or any other currency; therefore, in said issuances calculated in US Dollars, Euros or any other currency, Holders of Securitization Certificates must take into consideration the variations of these exchange rates. A variation in the exchange rate to liquidate liabilities calculated in foreign currency in which the Mexican Peso is devaluated in relation to the US Dollar, the Euro or any other currency or the high volatility in currency fluctuations may have a negative impact on interest rates affecting transactions with assets or liabilities of the Issuer, these circumstances may have a negative effect on the financial situation, operating results or cash flows of the Issuer in the future fiscal years; therefore, the Issuers before acquiring securities issued in foreign currency must take into consideration variations in exchange rates and comply with all the requirements foreseen for such acquisition.

Other Risk Factors

This Annual Report contains information regarding certain calculations and / or projections. All the information different to the historic information included herein reflects the Issuer's perspectives with respect to these events, and may contain information related to financial results, economic situations, trends and uncertain facts. The issuer has warned potential investors that actual results may be potentially different to the expected results and that they should not unduly rely on the information from estimates. The expressions "we believe", "we expect", "we intend", "we forecast", "we consider", "we estimate", "we hope", "we plan", "we predict", "we might", "we should", "it's possible" and other similar expressions identify said estimates contained in this Prospect.

Upon evaluation of said statements in relation to the future, the potential investor of the Securitization Certificates must take into consideration the factors described in this section and other warnings contained in this Prospect.

Due to their nature, statements in relation to the future involve risks and uncertainty both generally and specifically, due to multiple factors, many of which may be out of our control, therefore, there's a possibility that we may not be able to comply with the predictions, forecasts and projections and the rest of said statements. Considering the plans, intentions and expectations reflected in our projections, and the rest of said statements, we consider that the plans, intentions and expectations reflected in our projections are reasonable; however, we cannot ensure their success and we have warned our investors, as there are many relevant factors that may cause our actual results substantially to differ from the plans, objectives, expectations, estimates and affirmations both explicit and implied contained in statements made in relation to the future.

Consequently, statements made in relation to the future may not be interpreted as a guarantee for future returns, and they imply risks and uncertainty. The information contained in this Prospect including, among others, the "Risk Factor" and "Administration Comments and Analysis on Operating Results and Bank's Financial Situation", identify certain relevant circumstances that may differ substantially from our actual results. We advise our Investors to take these statements in relation to the future carefully, as they are solely based on facts happening before the date of this Prospect.

We are not required to publicly disclose the result of the review of the statements of expectations to reflect events or circumstances subsequent to the date of this Prospect, except for the relevant events and the periodic information that is required to disclose to the market in accordance with the applicable legal provisions.

**Banco Monex, S.A.,
Institución de Banca
Múltiple, Monex Grupo
Financiero and
Subsidiaries
(Subsidiary of Monex Grupo
Financiero, S.A. de C.V.)**

Consolidated Financial
Statements for the Years
Ended December 31, 2016,
2015 and 2014, and
Independent Auditors' Report
Dated February 28, 2017

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)**

**Independent Auditors' Report and
Consolidated Financial Statements for 2016,
2015 and 2014**

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

Opinion

We have audited the financial statements of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and Subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Institution were prepared in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission of Mexico (the "Commission") in the "General Provisions Applicable to Credit Institutions" (the "Accounting Criteria").

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have complied with all other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

a) Processing of accounting-financial information

The processing of the accounting-financial information is a key audit matter due to the fact that there are significant manual processes. However, management has implemented several manual and/or semiautomatic controls in order to assure the completeness, accuracy, cutoff and presentation of the financial information.

Our audit procedures addressing this key audit matter included the following:

1. We identified the manual processes applied by management for the processing of the accounting-financial information.
2. We identified and evaluated the controls implemented by management to assure the completeness, accuracy, cutoff and presentation of the financial information.
3. We performed substantive audit procedures over the most vulnerable areas in order to obtain reasonable assurance about their accounting recognition.
4. We reviewed the Management's controls related to the authorization and recording of journal entries.
5. We reviewed the operating reconciliation between the accounting and operating systems.

We did not identify any exceptions in our tests of controls and substantive tests.

b) Management of securities transactions

The process in place for managing the investment in securities is a key audit matter because a significant part of the management processes are performed manually. Management has implemented several of manual and/or semiautomatic controls in order to assure the completeness, accuracy, cutoff and presentation of the financial information. The main processes affected are the valuation of investments securities, the interest calculation for the securities transactions and repurchase agreements, and the determination of the result in the purchase-sales of securities. The financial statement items that are directly related to such processes are: a) investment in securities, b) receivables from repurchase agreements, c) payables from repurchase agreements, d) collateral delivered and received in repurchase agreements and collateral sold or pledged in repurchase agreements, e) valuation of securities transactions, f) interest receivable on securities transactions, g) interest receivable on repurchase agreements, h) result from sales transactions involving securities and repurchase agreements.

The Institution's accounting policies are established in Note 3 of the financial statements.

Our audit procedures addressing this key audit matter included the following:

1. We inquired and obtained evidence about the flow of transactions with the personnel involved in such processes to ascertain the flow of the operation from origination until its recording in the accounting records.
2. We identified the manual procedures in the determination and recording of the valuation, interest and the gain or loss on sale.

3. We reviewed the controls implemented by management in each stage of the investment in securities operation, such as in the confirmation and settlement of the investments. We also obtained evidence about whether the controls were operating over the course of the year.
4. We validated that the security position in the accountant records matched with the position reported in the operating system and that it was reconciled with the depositary institution Indeval, S.A. (Indeval) as of December 31, 2016.
5. We checked that the collateral delivered in repurchase agreements presented in the financial statement matched with the information in the operating system. Also, we confirmed that such position was restricted within investments in securities.
6. We recalculated the investment in securities valuation validated in the preceding point using the market price reported by the price supplier Valuación Operativa y Referencias del Mercado, S.A. de C.V. (Valmer) as of December 31, 2016.
7. On a test basis, we validated that as of December 31, 2016, receivables and payables from repurchase agreements, recorded in the accounting records matched the purchases and sales from repurchase agreements in the operating system. We also confirmed such transactions with Indeval and their settlement on the date of maturity.
8. We reviewed that the interest recorded for one month matched with the interest that was accrued in securities transactions and repurchase agreements.
9. We validated that the result from sales transactions involving securities matched with the differential between cash flow received less their cost and their valuation. We also noted that there were no balances recorded for this item outside the profit and loss account.
10. We reviewed the reconciliation between the daily information prepared by management and what was recorded in the period from January to December.
11. The detailed procedures performed for each type of revenue are illustrated below:

Interest income –

- i. For interest on securities transactions and repurchase agreements, we noted that the information provided matches that recorded in books on an accrual basis.

Based on a selection of days we recalculated the interest on securities transactions and repurchase agreements and compared it with that determined and recorded in the same period by management.

Income from valuation -

- ii. We recalculated the valuation of the securities position based on the market price reported by the price supplier Valmer as of December 31, 2016.
- iii. Revenues from gains on sale - We noted that the result on sales transactions involving securities and repurchase agreements matched with the differential between cash flow received less their cost and their valuation, and observed that there were no balances recorded for this item outside the profit and loss account.

We did not identify any exceptions in our tests of controls and substantive tests.

- a) Goodwill of Tempus, Inc.

The impairment analysis which management must apply to the goodwill generated on the acquisition of Tempus in accordance with Bulletin C-15 "Impairment in the value of long-lived assets and their disposal" of Mexican Financial Reporting Standards, is a key audit matter because this estimate generally involves management judgment, and must also comply with methodologies commonly accepted and applied, assumptions of projections, discount rates, selected multiples of comparable companies etc.

Our procedures addressing this key audit matter included the following:

1. We involved internal specialists from our valuation area and conducted a technical analysis of the calculations prepared for the value estimate and those used in the impairment test, as well as the results obtained, including:
 - a. We ascertained the methodologies which use a revenue approach (cash flows) and a market approach (public companies and transactions).
 - b. We confirmed that the assumptions and methodologies were accepted under the standard. For this reason we made adjustments to the Institution's valuation (in cash flows we eliminated a tax benefit and in transactions we eliminated the nonbinding offer).
 - c. We estimated a discount rate range using a WACC methodology. We have a lower range and the rate calculated by the preparer, because we did not consider a risk premium specific to the Institution.
 - d. We recalculated the models to check the arithmetic and asked the Institution to make the respective changes.
 - e. We compared consistency with previous years.
 - f. We analyzed supporting information provided by the Institution.
1. If applicable, we conducted a sensitivity exercise on the most relevant valuation projections and/or assumptions which might have a greater impact on the conclusion of the impairment test.

We did not identify any exceptions in our tests of controls and substantive tests.

Responsibilities of Management and Those Charged with Governance of the Institution in Relation to the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional 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

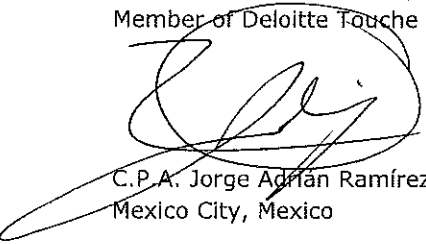
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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 override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



C.P.A. Jorge Adrián Ramírez Soriano
Mexico City, Mexico

February 28, 2017

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)

Consolidated Balance Sheets

As of December 2016, 2015 and 2014
(In millions of Mexican pesos)

Assets	2016	2015	2014
Funds available	\$ 15,825	\$ 15,607	\$ 16,148
Margin accounts	722	379	521
Investment in securities:			
Trading securities	21,377	16,804	7,421
Securities available for sale	4,326	1,503	17
Securities held to maturity	73	-	-
	<u>25,776</u>	<u>18,307</u>	<u>7,438</u>
Repurchase agreements	8,767	3,728	3,332
Derivatives:			
Trading purposes	3,813	1,400	1,889
Hedging purposes	143	-	-
	<u>3,956</u>	<u>1,400</u>	<u>1,889</u>
Performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	15,877	10,898	6,982
Loans to financial entities	2,155	1,456	888
	<u>18,032</u>	<u>12,354</u>	<u>7,870</u>
Housing loans	180	9	161
Total performing loan portfolio	<u>18,212</u>	<u>12,363</u>	<u>8,031</u>
Non-performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	67	96	3
Housing loans	6	12	6
Total non-performing portfolio	<u>73</u>	<u>108</u>	<u>9</u>
Total loan portfolio	18,285	12,471	8,040
Allowance for loan losses	(298)	(176)	(112)
Loan portfolio (net)	<u>17,987</u>	<u>12,295</u>	<u>7,928</u>
Other receivables (net)	17,227	13,580	12,197
Foreclosed assets (net)	1	1	1
Furniture and fixtures (net)	94	83	86
Investments in shares of associates	5	5	4
Long-lived assets held for sale	-	-	38
Deferred taxes and profit sharing (asset)	615	224	81
Other assets:			
Goodwill	1,103	986	862
Deferred charges, advance payments and intangibles (net)	1,465	1,213	1,057
Short and long-term other assets	12	11	6
	<u>2,580</u>	<u>2,210</u>	<u>1,925</u>
Total assets	\$ <u>93,555</u>	\$ <u>67,819</u>	\$ <u>51,588</u>

Liabilities	2016	2015	2014
Deposits:			
Demand deposits	\$ 15,384	\$ 8,495	\$ 7,985
Time deposits-			
General public	10,733	4,984	5,483
Money market	434	4,182	936
Debt securities	1,440	1,084	156
Global account for inactive deposits	3	3	-
	<u>27,994</u>	<u>18,748</u>	<u>14,560</u>
Bank and other loans:			
Demand loans	344	-	200
Short-term loans	1,078	880	592
	<u>1,422</u>	<u>880</u>	<u>792</u>
Liabilities arising from sale and repurchase agreements	21,754	15,577	6,643
Collateral sold or pledged in guarantee:			
Repurchase	436	440	-
Derivatives:			
Trading purposes	2,682	1,055	1,380
Hedging purposes	9	-	-
	<u>2,691</u>	<u>1,055</u>	<u>1,380</u>
Other payables:			
Income taxes payable	193	134	43
Employee profit sharing payable	187	89	46
Obligations arising from settlement of transactions	25,746	20,982	20,362
Liabilities arising from cash collateral received	2,815	1,550	1,288
Sundry creditors and other payables	2,244	1,443	1,194
	<u>31,185</u>	<u>24,198</u>	<u>22,933</u>
Deferred taxes and profit sharing (liability)	135	112	75
Deferred charges and income received in advance	189	112	86
Total liabilities	85,806	61,122	46,469
Stockholders' equity			
Capital contributed:			
Capital stock	2,741	2,125	1,525
Additional paid-in capital	-	616	200
	<u>2,741</u>	<u>2,741</u>	<u>1,725</u>
Earned capital:			
Capital reserves	469	413	367
Retained earnings	2,041	1,691	1,677
Result from valuation of securities available for sale, net	(170)	(13)	-
Result from hedging instruments at fair value	130	-	-
Translation effects of foreign subsidiaries	525	354	173
Remeasurement of defined employee benefits	(23)	-	-
Net income attributable to controlling interest	931	562	460
Earned capital attributable to controlling interest	3,903	3,007	2,677
Non-controlling interest	1,105	949	717
Total stockholders' equity	<u>7,749</u>	<u>6,697</u>	<u>5,119</u>
Total liabilities and stockholders' equity	\$ <u>93,555</u>	\$ <u>67,819</u>	\$ <u>51,588</u>

Memorandum accounts (See Note 27)

	2016	2015	2014
Loan commitments	\$ 10,471	\$ 8,361	\$ 3,407
Contingent assets and liabilities	81	-	-
Goods in trust or mandate -			
Held in trusts	88,933	78,600	68,528
Collateral received by the Institution	12,531	7,661	3,845
Collateral received and sold or pledged as guarantee by the Institution	4,293	4,375	518
Uncollected interest earned on non-performing loan portfolio	19	6	1
Other record accounts	<u>3,660</u>	<u>3,106</u>	<u>2,707</u>
	<u>\$ 119,988</u>	<u>\$ 102,109</u>	<u>\$ 79,006</u>

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)

Consolidated Statements of Income

For the years ended December 31, 2016, 2015 and 2014
(In millions of Mexican pesos)

	2016	2015	2014
Interest income	\$ 2,334	\$ 1,374	\$ 970
Interest expense	<u>(1,548)</u>	<u>(758)</u>	<u>(590)</u>
Financial margin	786	616	380
Provision for loan losses	<u>(146)</u>	<u>(60)</u>	<u>(48)</u>
Financial margin after provision for loan losses	640	556	332
Commission and fee income	233	209	217
Commission and fee expense	(137)	(144)	(165)
Gains/losses on financial assets and liabilities (net)	5,077	3,797	3,244
Other operating income (expenses)	146	178	149
Administrative and promotional expenses	<u>(4,620)</u>	<u>(3,657)</u>	<u>(3,036)</u>
Result of operations	1,339	939	741
Equity in income of unconsolidated associates	<u>-</u>	<u>1</u>	<u>-</u>
Income before income taxes	1,339	940	741
Current income taxes	(545)	(353)	(197)
Deferred income taxes (net)	<u>282</u>	<u>83</u>	<u>(23)</u>
Consolidated net income	<u>\$ 1,076</u>	<u>\$ 670</u>	<u>\$ 521</u>
Non-controlling interest	<u>\$ 145</u>	<u>\$ 108</u>	<u>\$ 61</u>
Controlling interest	<u>\$ 931</u>	<u>\$ 562</u>	<u>\$ 460</u>

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

	Capital contributed		Earned capital									
	Capital Stock	Additional paid-in capital	Capital reserves	Retained earnings	Result from valuation of securities available for sale	Translation effects of foreign subsidiaries	Net income attributable to controlling interest	Result from hedging instruments at fair value	Remeasurement of defined employee benefits	Non-controlling interest	Total stockholders' equity	
Balances as of December 31, 2013	\$ 1,525	\$ -	\$ 313	\$ 1,202	\$ -	\$ 37	\$ 542	\$ -	\$ -	\$ 627	\$ 4,246	
Entries approved by stockholders -												
Capital reserve	-	-	54	(54)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	542	-	-	(542)	-	-	-	-	
Additional paid-in capital	-	200	-	-	-	-	-	-	-	-	200	
Total entries approved by stockholders	-	200	54	488	-	-	(542)	-	-	-	200	
Comprehensive income -												
Net income	-	-	-	-	-	-	460	-	-	61	521	
Translation effects of foreign subsidiaries	-	-	-	-	-	136	-	-	-	41	177	
Other adjustments	-	-	-	(13)	-	-	-	-	-	(12)	(25)	
Total comprehensive income	-	-	-	(13)	-	136	460	-	-	90	673	
Balances as of December 31, 2014	1,525	200	367	1,677	-	173	460	-	-	717	5,119	
Entries approved by stockholders -												
Capital reserve	-	-	46	(46)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	460	-	-	(460)	-	-	-	-	
Dividends paid	-	-	-	(400)	-	-	-	-	-	-	(400)	
Additional paid-in capital	-	616	-	-	-	-	-	-	-	-	616	
Subscription of shares	600	(200)	-	-	-	-	-	-	-	-	400	
Reduction of non-controlling interest in Monex Europe through capital reduction	-	-	-	-	-	-	-	-	-	(122)	(122)	
Sale of non-controlling interest in Tempus	-	-	-	-	-	-	-	-	-	121	121	
Total entries approved by stockholders	600	416	46	14	-	-	(460)	-	-	(1)	615	
Comprehensive income -												
Net income	-	-	-	-	-	-	562	-	-	109	671	
Result from valuation of securities available for sale, net	-	-	-	-	(13)	-	-	-	-	-	(13)	
Translation effects of foreign subsidiaries	-	-	-	-	-	181	-	-	-	124	305	
Total comprehensive income	-	-	-	-	(13)	181	562	-	-	233	963	
Balances as of December 31, 2015	2,125	616	413	1,691	(13)	354	562	-	-	949	6,697	
Entries approved by stockholders -												
Subscription of shares	616	(616)	-	-	-	-	-	-	-	-	-	
Capital reserve	-	-	56	(56)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	562	-	-	(562)	-	-	-	-	
Dividends paid	-	-	-	(156)	-	-	-	-	-	-	(156)	
Reduction of non-controlling interest in Monex Europe through capital reduction	-	-	-	-	-	-	-	-	-	(26)	(26)	
Total entries approved by stockholders	616	(616)	56	350	-	-	(562)	-	-	(26)	(182)	
Comprehensive income -												
Net income	-	-	-	-	-	-	931	-	-	145	1,076	
Result from valuation of securities available for sale, net	-	-	-	-	(157)	-	-	-	-	-	(157)	
Result from hedging instruments at fair value	-	-	-	-	-	-	-	130	-	-	130	
Remeasurement of defined employee benefits	-	-	-	-	-	-	-	-	(23)	-	(23)	
Translation effects of foreign subsidiaries	-	-	-	-	-	171	-	-	-	37	208	
Total comprehensive income	-	-	-	-	(157)	171	931	130	(23)	182	1,234	
Balances as of December 31, 2016	\$ 2,741	\$ -	\$ 469	\$ 2,041	\$ (170)	\$ 525	\$ 931	\$ 130	\$ (23)	\$ 1,105	\$ 7,749	

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)**

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

	2016	2015	2014
Net income	\$ 1,076	\$ 670	\$ 521
Adjustment for items that do not require cash flows:			
Depreciation	27	25	24
Amortization	37	38	46
Current and deferred income taxes	263	270	220
Others	-	3	-
	<u>1,403</u>	<u>1,006</u>	<u>811</u>
Operating activities:			
Change in margin accounts	(343)	142	155
Change in investments in securities, net	(7,627)	(10,888)	2,088
Change in repurchase agreements, net	1,139	8,538	(2,885)
Change in derivatives, net	(787)	164	(605)
Change in hedging instruments	(4)	-	-
Change in loan portfolio, net	(5,692)	(4,367)	(3,657)
Change in other operating assets, net	(3,982)	(1,848)	(2,311)
Change in deposits	9,246	4,186	2,739
Change in bank and other loans	542	88	319
Change in collateral sold or pledged in guarantee	(5)	440	-
Change in other operating liabilities	<u>6,421</u>	<u>911</u>	<u>6,762</u>
Net cash flows from operating activities	<u>(1,092)</u>	<u>(2,634)</u>	<u>2,605</u>
Investing activities:			
Proceeds from sale of furniture and fixtures	11	11	3
Purchase of furniture and fixtures	(50)	(32)	(41)
Investment in shares	-	-	9
Proceeds from disposal of long lived assets held for sale	-	45	-
Payments for acquisition of intangible assets	<u>(81)</u>	<u>(22)</u>	<u>(32)</u>
Net cash flows from investing activities	<u>(120)</u>	<u>2</u>	<u>(61)</u>
Financing activities:			
Proceeds from issuance of shares	-	400	-
Dividends paid	(156)	(400)	-
Contributions for future capital increases	-	616	200
Proceeds from disposal of non-controlling interest in subsidiary	<u>(26)</u>	<u>164</u>	<u>-</u>
Net cash flows from financing activities	<u>(182)</u>	<u>780</u>	<u>200</u>
Net increase (decrease) in funds available	9	(846)	3,555
Effects from changes in value of funds available	209	305	177
Funds available at the beginning of the year	<u>15,607</u>	<u>16,148</u>	<u>12,416</u>
Funds available at the end of the year	<u>\$ 15,825</u>	<u>\$ 15,607</u>	<u>\$ 16,148</u>

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)**

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

1. Activities, regulatory environment and significant events

Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero (hereinafter the "Institution") is a subsidiary of Monex Grupo Financiero, S.A. de C.V. (hereinafter the "Financial Group") which holds 99.99% of its stockholders' equity. The Institution is regulated by, among others, the Law of Credit Institutions, the National Banking and Securities Commission (the "Commission") and Banco de México ("Central Bank"). Its purpose is to perform full-service banking operations including, granting loans, performing securities transactions, receiving deposits, accepting loans, performing currency purchase-sale transactions and executing trust contracts.

The Treasury Department (SHCP) issued minimum capital requirements for credit institutions, which establish a minimum capital ratio for market, credit and operational risks incurred by financial institutions. Also, financial authorities imposed limits on liabilities, demand deposits in foreign currency as well as charges to paid-in capital and capital reserves. This information is presented in Note 24. As of December 31, 2016, 2015 and 2014, the Institution determined a capital ratio of 15.07%, 16.62% and 15.95%, respectively, which includes the total of market, credit and operational risk, which exceeds the 8% required by the authorities by 7.07%, 8.62% and 7.95%, respectively.

During 2016, the financial uncertainty caused by, among other factors, the change in the presidency of the United States of America, had a negative effect on the exchange rate, resulting in a strong depreciation of the Mexican peso against the US dollar of 16% during 2016. The exchange rate went from \$17.24 pesos to one US dollar at December 2015 to \$20.61 at December 31, 2016.

Significant events in 2016, 2015 and 2014-

a. Sale of shares of Tempus -

On October 30, 2015, Monex Negocios Internacionales, S.A. de C.V. (a subsidiary of the Institution) executed a share purchase-sale contract to transfer 17% of the total shares of its subsidiary, Tempus Inc. ("Tempus") to Monex, S.A.B. de C.V. (a related party of the Institution). The transaction was carried out at market prices based on a study prepared by an independent consultant. This transaction was authorized by the Commission through Document No. 312-3/14049/2015.

b. Issuance of securitization certificates -

The Institution made its first public offering of securitization certificates under the ticker symbol "BMONEX15", which were registered with the National Securities Registry and listed with the Mexican Stock Exchange under the program created for long-term revolving securitization certificates for an amount of up to \$8,000.

The first issuance took place on July 14, 2015 for the amount of \$1,000, which is represented by 10 million securitization certificates with a face value of 100 pesos each. The issuance was authorized by the Commission through Document No. 153/5535/2015. The securitization certificates were issued for a period of 1,092 days, which is equal to three years, and placed at the TIE 28-day rate + 90 basis points.

c. *Sale of subsidiary Monex Servicios-*

On October 15, 2014, the Institution signed a share purchase and transfer contract to transfer 100% of the shares of Monex Servicios, S.A. de C.V. to Gentera, S.A.B. de C.V., which was subject to regulatory authorization as of December 31, 2014. This transaction was authorized by the Commission through Document No. 312-3/13774/2015 dated as of March 27, 2015, on which date the sale became effective for legal, accounting and tax purposes.

2. **Basis of presentation**

Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting criteria prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

Monetary unit of the financial statements - The financial statements and notes as of December 31, 2016, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

Consolidation of financial statements - The consolidated financial statements include the financial statements of the Institution and those of its subsidiaries over which it exercises control. The shareholding percentage in their capital stock of such entities is shown below:

Company	Percentage			Activity
	2016	2015	2014	
1. Monex Servicios, S.A. de C.V. (Monex Servicios)	-	-	99.99%	Previously provided supplemental and ancillary services to the Institution as per Article 88 of the Law for Credit Institutions. Monex Servicios previously sub-leased to the Institution the premises and fixed assets of the 60 branches.
2. Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios)	99.99%	99.99%	99.99%	Parent Company of Tempus and Monex Europe Holdings LTD.
2.1 Tempus, Inc. (Tempus)	83.00%	83.00%	100%	Indirect subsidiary of the Institution. Entity located in Washington D.C., USA, whose purpose is the purchase and sale of currencies. Its customers are mainly located in the United States.
2.1.1 Tempus Nevada, Inc.	83.00%	83.00%	100%	Entity founded in 2010 in the state of Delaware in the United States. Currently without operations.
2.1.2 Monex Canada, Inc.	83.00%	83.00%	100%	Entity founded in Toronto, Canada. Currently without operations.

2.2 Monex Europe Holdings Limited (Monex Europe LTD)	50.10%	50.10%	50.10%	Parent company of Monex Europe and Schneider Fx, entities located in the United Kingdom.
2.2.1 Monex Europe Limited (Monex Europe)	50.10%	50.10%	50.10%	Indirect subsidiary of the Institution. Entity is dedicated to purchase and sales of currencies in the European market.
2.2.2 Monex Europe Markets Limited	50.10%	50.10%	50.10%	Indirect subsidiary of the Institution. Entity is dedicated to purchase and sales of currencies in the European market.
2.2.3 Schneider Foreign Exchange Limited (Schneider FX)	50.10%	50.10%	50.10%	Indirect subsidiary of the Institution. Entity without operations.

Significant intercompany balances and transactions have been eliminated.

Translation of financial statements of foreign subsidiaries - To consolidate financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to accounting criteria of the Commission. As the recording and functional currency are the same, the financial statements are subsequently translated to Mexican pesos using the following methodology:

- 1) The closing exchange rate in effect at the balance sheet date for assets and liabilities;
- 2) Historical exchange rates for stockholders' equity, and
- 3) The rate on the date of accrual of revenues, costs and expenses and translation.
- 4) Effects are recorded in stockholders' equity.

At December 31, 2016, 2015 and 2014, the exchange rates used in the different translation processes are as follows:

Company	Currency	Exchange rate to translate Mexican pesos		
		2016	2015	2014
Tempus, Inc. (Consolidated)	U.S. dollar	20.6194	17.2487	14.7414
Monex Europe LTD. (Consolidated)	Pound sterling	25.4814	25.4366	22.9847

At December 31, 2016, 2015 and 2014, the Institution's functional currency is the Mexican peso. Investments in foreign subsidiaries, whose functional currencies are other than the Mexican peso, expose the Institution to foreign currency translation risk. In addition, the Institution has monetary assets and liabilities denominated in foreign currencies, mainly in U.S. dollars, Pounds sterling and Euros; resulting in exposure to foreign exchange risks arising from transactions entered into over the normal course of business. (Refer to discussion of comprehensive risk management in Note 31 for further details).

3. Summary of significant accounting policies

The significant accounting policies applied by the Institution comply with the accounting criteria established by the Commission in the "General Provisions Applicable to Credit Institutions" (the "Provisions"), in its rulings, which are considered a Special Purpose Framework. These policies require management to make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and their related disclosures; however, actual results may differ from such estimates. The Institution's management, upon applying professional judgment, considers that estimates made and assumptions used were appropriate under the circumstances.

Under accounting criteria A-1 issued by the Commission, the Institution is required to apply Mexican Financial Reporting Standards (“MFRS” or “NIF’s”) promulgated by the Mexican Board of Financial Reporting Standards (CINIF), except with regard to topics for which the Commission has issued specific accounting guidance on the basis that the entities subject to its regulations and carry out specialized operations.

Changes in accounting policies

Modification of accounting criteria issued by the Commission

On November 9, 2015, a series of modifications involving the accounting criteria applied by credit institutions was published in the Federal Official Gazette. These modifications are intended to modify the accounting criteria utilized by credit institutions to reflect the transactions they perform so as to ensure reliable financial information. These modifications took effect on January 1, 2016.

The most significant changes are detailed below:

- a. The net asset derived from defined employee benefits must be presented in the balance sheet under the “Other assets” heading.
- b. Applicable regulations established by the Central Bank must be followed in the classification as “Funds available” for currency purchases that are not considered to be derivative instruments.
- c. If offsetting receivable and deliverable currencies results in a negative balance, this item must be presented under the heading of “Other payables”.
- d. If an item of restricted quick assets indicates a negative balance, it must be presented under the heading “Other payables”. The presentation of the negative balance of restricted quick assets was not previously required.

Loan portfolio

- e. The definition of the term “Renewal” has been modified in Accounting Criterion B-6, Loan Portfolio, such that it is now considered as a transaction in which the credit balance is partially or totally settled, through the increase of the original loan amount or based on the proceeds generated by another loan contracted with the same entity, in which the same borrower, the joint obligor of that borrower or another individual or entity with equity links constitute common risks.
- f. “Housing loans” are classified as those utilized for housing remodeling or improvement and which are backed by the savings deposited in the borrower’s housing subaccount, as well as those with a warranty granted by a development bank or a public trust constituted by the Federal Government for economic development purposes.
- g. Loans derived from transactions involving financial factoring, discounts and the assignment of credit rights have now been included within the definition of “Commercial Loans”.
- h. A loan is not considered to have been renewed based on the provisions that take effect during the period of a pre-established credit line, as long as the borrower has settled all due payments according to the original credit conditions.
- i. When utilized amounts are restructured or renewed independently of the underlying credit line, the characteristics and conditions applicable to the restructured or renewed amount or amounts must be evaluated.

If this evaluation concludes that one or more amounts granted under the terms of a credit line must be transferred to the non-performing portfolio based on their restructuring or renewal and when they individually or jointly represent at least 40% of the total credit line amount utilized at the restructuring or renewal date, this balance and the previously utilized amounts must be transferred to the non-performing portfolio until such time as evidence is obtained regarding the sustained payment of the amounts that gave rise to the transfer to the non-performing portfolio. Likewise, all the amounts utilized under the terms of the credit line must have fulfilled the respective obligations at the date of the transfer to the performing portfolio.

- j. In the case of loans acquired from the INFONAVIT in which the terms contracted by the latter with borrowers must be respected, sustained loan payment is deemed to exist when the borrower has settled without delay the total due amount of principal and interest based on a single payment in the case of loans contracted under the Ordinary Payment Regime (ROA) and three payments in the case of loans contracted under the Special Payment Regime (REA).
- k. The restructuring of loans with principal and interest payments that must be settled in periods equal to or less than 60 days and for which the payment frequency is reduced to shorter periods, must consider the number of payments equal to three consecutive payments under the original loan payment scheme.
- l. Assumptions have been established for determining the sustained payment of loans with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity. These assumptions are as follows:
 - i. The borrower has settled at least 20% of the original loan amount when the restructuring or renewal takes place, or
 - ii. The interest accrued according to the 90-day restructuring or renewal payment scheme has been settled.
- m. In the case of consolidated loans, if two or more loans have resulted in the transfer of the total consolidated loan balance to the non-performing portfolio, the number of payments required for sustained payment purposes must be based on the original loan payment scheme in which payments must be made over a longer period. The total balance of the restructuring or renewal was previously subject to the treatment applied to the worst of the loans.
- n. The advance settlement of restructured or renewed loan payments other than those with a single principal payment at maturity are not considered as sustained payment, regardless of whether interest is paid periodically or at maturity. This is the case of restructured or renewed loan payments that are made before the equivalent number of calendar days of loans with payments covering periods of more than 60 calendar days has elapsed.
- o. The extension of the loan payment period has been included as a restructuring situation.
- p. Recognition and valuation standards have been included for transactions involving financial factoring, discounts and the assignment of credit rights.
- q. Commissions and tariffs other than those collected for loan granting purposes must be recognized in results on the date when they are incurred. If a commission or tariff payment is partially or totally received prior to the accrual of the respective income, this advance must be recognized as a liability.
- r. The requirement whereby customer checking account overdrafts must be reported as non-performing portfolio has been eliminated.
- s. The non-performing portfolio will include payments that have not been fully settled according to the original agreed terms and have been outstanding for 90 or more days and when the respective loans involve those granted by the INFONAVIT under the REA or ROA modalities. It will also include loans granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.

- t. The transferred loans referred to in the preceding point to the non-performing portfolio will be subject to an exceptional default period of 180 or more days as of the date on which:
 - i. Loan resources are available for the purpose for which they were granted,
 - ii. The borrower has a new labor relationship and therefore has a new employer, or
 - iii. The partial settlement of a given payment has been received. The exception contained in this numeral will be applicable to loans contracted under the ROA scheme, as long as the payments made during this period represent at least 5% of the agreed payment.
- u. Loans with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity, will be considered as non-performing portfolio until such time as evidence of sustained payment is obtained.
- v. Loans granted under the terms of a credit line, whether revolving or otherwise, and which are restructured or renewed at any time can be maintained in the performing portfolio as long as elements justifying the borrower's payment capacity are obtained. Furthermore, the borrower must have:
 - i. Settled all payable interest;
 - ii. Settled all amounts payable under the terms of the contract at the restructuring or renewal date.
- w. The amounts utilized under the terms of a credit line that are restructured or renewed independently of the underlying credit line, must be evaluated based on the characteristics and conditions applicable to the restructured or renewed amounts.

When this evaluation concludes that one or more amounts utilized under the terms of a credit line must be transferred to the non-performing portfolio due to their restructuring or renewal and when they individually or jointly represent at least 25% of the total utilized amount of the credit line at the restructuring or renewal date, this balance and any subsequent utilized amounts must be transferred to the non-performing portfolio until evidence of the sustained payment of the amounts that gave rise to the transfer to the non-performing portfolio is obtained, and when the total amounts utilized under the terms of the credit line have fulfilled the obligations in effect at the date of their transfer to the performing portfolio.

- x. The requirement whereby the borrower must have settled all accrued interest at the renewal or restructuring date in order to consider the loan as performing will be deemed to have been fulfilled when, having settled the interest accrued at the most recent cutoff date, the period elapsed between that date and the restructuring or renewal date does not exceed the lesser of half of the current payment period and 90 days.
- y. Performing loans with partial principal and interest payments that are restructured or renewed on more than one occasion may remain in the performing portfolio if elements exist to justify the borrower's payment capacity. In the case of commercial loans, these elements must be properly documented and included in the loan file.
- z. If different loans granted by the same entity to the same borrower are consolidated due to restructuring or renewal, each of the consolidated loans must be analyzed, as though individually restructured or renewed. If this analysis concludes that one or more of these loans would have been transferred to the non-performing portfolio based on the restructuring or renewal, then the total consolidated loan balance must be transferred to the non-performing portfolio.
- aa. The following items have been included as regards the presentation standards applicable to the balance sheet and statement of income:
 - i. Housing loans acquired from the INFONAVIT must be segregated within the performing portfolio under the ordinary portfolio and extended portfolio headings.
 - ii. The amount of loans derived from transactions involving financial factoring, discounts and assignment of credit rights must be presented net of the respective appraisal percentage guarantee.

- iii. Commissions received prior to the accrual of the respective income must be presented under the heading of "Deferred charges and advance payments".
 - iv. The financial income generated by transactions involving financial factoring, discounts and the assignment of credit rights will be considered as interest income.
- bb. Disclosure standards include new requirements, as follows:
- i. Breakdown of the performing restricted and unrestricted portfolio for the medium-income and residential housing, low-income housing, remodeling or improvement with a guarantee from the housing subaccount and loans acquired from the INFONAVIT, which in turn are divided into the ordinary portfolio and extended portfolio.
 - ii. The total amount and number of loans acquired from the INFONAVIT and transferred to the non-performing portfolio, as well as the total amount of loans that were not transferred to the non-performing portfolio, divided into loans that the entity has acquired from the INFONAVIT under the REA or ROA payment modalities and the loans granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.
 - iii. The main characteristics of the loans acquired from the INFONAVIT, describing at least those related to their classification as extended portfolio, ROA and REA, and those related to the assignment of these loans.
 - iv. A description of the obligations and rights maintained by the INFONAVIT as regards the portfolio acquired by the entity.
 - v. The identification by loan type for the medium-income and residential housing, low-income housing portfolio, remodeling or improvement with a guarantee based on the housing subaccount and loans acquired from the INFONAVIT, of the non-performing portfolio balance as of the date on which it was classified as such for the following periods: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to 2 years and more than two years past due.
 - vi. The total amount of housing loans backed by the housing subaccount divided into the performing and non-performing loan portfolio, while specifying the percentage represented by these loans as regards to total housing loans.
 - vii. The total accrued restructured or renewed amount by loan type, distinguishing between the amounts derived from the application of consolidated loans which, as the proceeds of a restructuring or renewal, were transferred to the non-performing portfolio of the restructured loans that were not subject to non-performing loan portfolio transfer criteria.
- cc. Different modifications have been made to the balance sheet presentation to incorporate performing and non-performing housing in the loan portfolio in the following segments: medium-income and residential housing, low-income housing, loans acquired from the INFONAVIT, and home remodeling or improvement with a warranty granted by a development bank or public trusts.
- dd. Related parties are now considered as the individuals or entities which, directly or indirectly, through one or more intermediaries have significant influence over, are significantly influenced by or are subject to the significant joint influence of the entity, as well as the joint control agreements in which the entity participates.
- ee. As a modification to Accounting Criteria C-4, Information by segments, the purchase-sale of currencies is included within the Treasury and investment banking transactions segment.
- ff. The balance sheet must present the following items as a liability under the heading of "Global account for inactive deposits": the principal and interest of deposit instruments without maturity dates or, when having a maturity date are automatically renewed, together with transfers or the expired, unclaimed investments referred to by article 61 of the Law on Credit Institutions. At December 31, 2016, the Institution presents in its balance sheet the balance corresponding to this account.

- gg. As part of earned capital presented in the Consolidated Statements of Changes in Stockholders' Equity, a heading denominated "Remeasurement of defined employee benefits" has been added as part of the implementation of NIF D-3, *Employee Benefits*. At December 31, 2016, the Institution presents in its balance sheet the balance corresponding to this account.
- hh. The heading "Provided guarantors" has been added to memoranda accounts at the end of the balance sheet.

NIF issued by the CINIF and applicable to the Institution

As of January 1, 2016, the Institution adopted the following improvements to NIF D-3, *Employee Benefits* which could have an effect on the Institution's financial statements:

In January 2015, the CINIF issued a series of modifications to NIF D-3, *Employee Benefits*. These modifications took effect as of January 1, 2016.

The main modifications resulting from the application of this new NIF D-3 on the financial information of the Institution are as follows:

- Liability discount rate - Defined-Benefit Obligation (OBD)
 - The discount rate used to calculate the OBD must be determined by using the market rate of high quality corporate bonds, as long as there is a deep market for them. The market rate of federal government bonds must otherwise be utilized.
- Recognition of actuarial gains and losses
 - The use of a corridor to defer actuarial gains and losses has been eliminated.
 - The accrued balance of accrued gains and losses at December 31, 2016 will be recognized within stockholders' equity and the liability at January 1, 2016.
 - The actuarial gains and losses generated as of January 1, 2016 will be treated as the remeasurement of defined employee benefits, which will be recognized in stockholders' equity and the liability.
- Amortization of actuarial gains and losses
 - The actuarial gains and losses recognized within stockholders' equity must be recycled to results during the Remaining Labor Life of the Plan.
- Return expected from plan assets
 - The return expected from plan assets must be estimated by utilizing the liability discount rate instead of the return rate expected for the fund.

Derived from the implementation of NIF D-3, on December 31, 2015, the Commission issued a series of temporary articles in relation to the "Ruling that modifies the general provisions applicable to credit institutions", which was published in the Federal Official Gazette on November 9, 2015.

These temporary articles establish that credit institutions may recognize the entire plan modification balance (past service) and the accrued balance of the unrecognized plan gains and losses for entities that did not utilize the corridor approach before December 31 of each year.

If opting to gradually apply the aforementioned balances, institutions must begin their recognition of these balances in 2016 by recognizing 20% of this amount that year, followed by an additional 20% each subsequent year until reaching 100% within a maximum five-year period.

Regarding the remeasurement of the gains or losses generated by the defined benefit plan that must be recognized at the end of each period, as well as their recycling to results of the year, institutions must calculate the total amount of plan gains or losses; i.e., based on the sum of plan gains or losses, while excluding those that were not recognized in the balance sheet.

Institutions that decide to exercise this option must notify the Commission no later than January 31, 2016. The Institution applied this option and reported to the Commission within the time limit set.

Likewise, if deciding to recognize all or part of the remnant effect before the end of the established periods, institutions must inform the Commission within 30 calendar days following the date on which the respective accounting movement is performed. Entities may recognize such amounts ahead of time, as long as they recognize at least 20% of the total remnant amount during the year in question.

Credit institutions that had opted to apply any of the above options must disclose the effects resulting from this decision in the public financial information reports prepared for 2016 and until the year in which the progressive recognition of the aforementioned effects concludes.

In this regard, the initial effect resulting from the application of NIF D-3 in subsequent years derived from the accrued balance of unrecognized actuarial losses and the past service labor cost at December 31, 2016 is \$154. This balance will be recognized in Earned capital under the "Remeasurement of defined employee benefits" and "Results of prior years" headings, respectively, as of 2016, by recognizing 20% of the accrued balance during that year, together with an additional 20% in each subsequent year until reaching 100% within a remaining four-year period.

Furthermore, the accrued balance of unrecognized actuarial losses at December 31, 2016 will be recycled to results during the period of the Remaining Labor Life of the Plan, which fluctuates between 10 and 20 years depending on the benefit in question.

The actuarial determination is made by a discount rate of corporate bonds and is pending the probable existence of deep market.

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

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

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

The financial effects for the adoption of NIF D-3 are those mentioned above. The improvements to NIF C-19 and NIF C-20 did not have significant effects on their financial information.

Changes to accounting estimates applicable in 2015

Methodology for determining the allowance for loan losses for loans granted under the terms of the Bankruptcy Law

On August 27, 2015, the Commission issued a Ruling to modify the Provisions, which defines the period during which credit institutions may continue to utilize the methodology established for calculating allowances for loan losses for loans granted to borrowers that have declared bankruptcy based on a prior restructuring plan. This ruling establishes that once an agreement has been reached between the borrower and its acknowledged creditors, or the borrower's insolvency is determined in accordance with the Bankruptcy Law, the aforementioned methodology may no longer be applied.

The Ruling also states that authorization can be requested from the Commission to continue using the methodology established for calculating allowances for loan losses for loans granted to borrowers that have declared bankruptcy with a previous restructuring plan for a period not exceeding six months following the adoption of the agreement.

The changes brought by the Commission's ruling did not have a material effect on the Institution's consolidated financial statements at December 31, 2016 were not subject to any material effects as a result of this change in estimate.

The significant accounting policies of the Institution are as follows:

Reclassifications - Certain amounts in the consolidated financial statements as of and for the years ended as of December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidated financial statements.

Recognition of the effects of inflation - Cumulative inflation rates over the three-year periods ended December 31, 2016, 2015 and 2014 were 9.57%, 10.18% and 11.62%, respectively. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2016, 2015 and 2014 were 3.36%, 2.13% and 4.08%, respectively.

Beginning on January 1, 2008, the Institution suspended the recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

Funds available - Consist mainly of bank deposits valued at face value and the income derived therefrom is recognized as earned; foreign currency funds available are valued at fair value using the year end exchange rates.

Acquisitions of foreign currency that will be settled on a date subsequent to the purchase-sale transaction is recognized as restricted funds available (foreign currency receivable). Foreign currency sold is recorded as a credit to funds available (foreign currency deliverable). The offsetting entry is recorded in a debit or credit settlement account when a sale or purchase is performed, respectively.

For financial statement presentation purposes, foreign currency settlement accounts receivable and payable are offset by contract and term and are presented under other accounts receivable (net) or obligations arising settlement of transactions, as applicable.

Other funds available such as regulatory monetary deposits and other liquid notes are also included in this heading.

Margin accounts - Margin accounts (security deposits) for transactions with derivative financial instruments in recognized markets are recorded at face value.

Security deposits are used to ensure compliance with the obligations related to the derivatives executed in recognized markets and refer to the initial margin, and subsequent contributions and withdrawals made during the term of the respective contracts. Yields and commissions that affect margin accounts, other than fluctuations in the prices of derivatives, should be recognized in the income statement for the period.

Trading securities - Trading securities represent investments in debt and equity securities, in proprietary position and pledged as guarantee, which are acquired with the intention of selling them to realize gains arising from changes in fair value. Upon acquisition, they are initially recorded at fair value (which includes any applicable discount or premium). They are subsequently valued at fair value, determined by using the prices calculated by the price vendor contracted by the Institution, in accordance with the Provisions of the Commission. The difference between the cost of investments in debt securities plus their accrued interest and the cost of equity instruments relative to the respective fair values of such instruments is recorded in the income statement under the caption "Gains/losses on financial assets and liabilities (net)". The effects of valuation are classified as unrealized and therefore, cannot be distributed to stockholders until the securities are sold.

Fair value is the amount at which an asset may be exchanged or a liability may be settled by informed, willing and interested parties in an arm's length transaction.

Transaction costs incurred in connection with the acquisition of trading securities are recognized in results on the acquisition date.

Cash dividends of share certificates are recognized in the results of the year in the same period in which the right to receive such payment arise.

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

Trading securities also include transactions pending settlement, which refer to sale and repurchase transactions of securities not settled. These transactions are valued and recorded as trading securities, recording the receipt and expense (debit or credit balance) of the securities subject to the transaction against the respective debit or credit settlement account, when the transaction is agreed upon.

The accounting criteria of the Commission allow for certain reclassifications from trading securities to securities available for sale and securities held to maturity classification, conditional upon the prior express authorization of the Commission.

As of December 31, 2016, 2015 and 2014, no reclassifications were made.

Securities available for sale - Securities available for sale are debt instruments and shares that are not held for purposes of obtaining gains on sales transactions derived from increases in value and, in the case of debt instruments, those that the Institution neither intends or is able to hold to maturity and, therefore, represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the Institution intends to trade such securities in the future prior to their maturity.

Upon acquisition, the securities are initially recorded at fair value plus the acquisition transaction cost (including the discount or markup, as applicable), and are subsequently valued at fair value.

The Institution determines the increase or decrease in the fair value using prices provided by the price vendor, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security and is recognized in the consolidated statement of income under "Interest income". Unrealized gains or losses from changes in fair value as reported by pricing vendors are recorded in other comprehensive income under the heading Result from valuation of securities available for sale net of deferred relative taxes, except when such securities are hedged in a fair value hedging relationship, in which case they are recognized in results for the year.

Cash dividends on shares are recognized in results for the year during the same period in which the right to receive the dividend arises.

The accounting criteria of the Commission allow the transfer securities from held to maturity to as available for sale when the Institution does not have the intention or the ability to hold them to maturity, as well as reclassifications from trading to securities available for sale, with the prior express authorization of the Commission.

At December 31, 2015, 2014 and 2013, the Institution's management did not reclassify any investments between categories.

Securities held to maturity - Securities held to maturity are those instruments whose payments are fixed or determinable and with a fixed maturity, which the Institution has both the intention and the ability to hold to maturity; these instruments are recorded initially at fair value, plus transaction costs from the acquisition (which includes, as the case may be, the discount or markup). Subsequently they are valued at amortized cost. Accrued interest is recorded in the consolidated statement of income using the imputed interest method or the effective interest method under the heading "Interest income".

The Accounting Criteria issued by the Commission allow for the transfer of securities classified as held to maturity to the category of securities available for sale, provided that there is no intention or capacity to hold

them to maturity, as well as reclassifications to the category of securities held to maturity in extraordinary circumstances (for example: a lack of liquidity in the market, no active market for them, among others), which should be evaluated and, if applicable, validated with the specific authorization of the Commission. At December 31, 2016, 2015 and 2014, no reclassifications were made in this regard.

Impairment in the value of a credit instrument - The Institution must evaluate whether there is objective evidence that a credit instrument is impaired as of the balance sheet date.

A credit instrument is deemed to be impaired and an impairment loss is recognized, only if there is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the credit instrument, which had an impact on its estimated future cash flows that can be determined reliably. It is highly unlikely that one event can be identified that is the sole cause of the impairment, and it is more feasible that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of the probability that such events might occur.

Objective evidence that a credit instrument is impaired includes observable information such as, among others, the following events:

- a) Significant financial difficulties of the issuer of the instrument;
- b) It is probable that the issuer of the instrument will be declared bankrupt or another financial restructuring will take place;
- c) Noncompliance with the contractual clauses, such as default on payment of interest or principal;
- d) Disappearance of an active market for the instrument in question due to financial difficulties, or
- e) A measurable decrease in the estimated future cash flows of a group of securities since the initial recognition of such assets, even though the decrease cannot be matched with the individual securities of the group, including:
 - i. Adverse changes in the payment status of the issuers in the group, or
 - ii. Local or national economic conditions which are correlated with defaults on the securities of the group.

Management has not identified objective evidence of impairment of a credit instrument held as of December 31, 2016.

Repurchase agreements - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and undertakes, in the agreed-upon term and upon a payment of the same price plus a premium, to transfer ownership of similar securities to the seller. Unless otherwise agreed, the premium is for the benefit of the buying party.

For legal purposes, repurchase transactions are considered as a sale in which an agreement to repurchase the transferred financial assets is executed. Notwithstanding, the economic substance of repurchase transactions is that of a secured financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as collateral in the event of default.

The repurchase transactions are recorded as indicated below:

On the contracting date of the repurchase transaction, when the Institution acts as the selling party, the entry of the cash or asset or a debit settlement account is recognized, as well as an account payable at fair value, which represents the obligation to repay such cash to the buying party. The account payable is valued during the term of the repurchase transaction at its amortized cost, recognizing the interest in results as they are earned.

When the Institution acts as the buying party on the contracting date of the repurchase transaction, the withdrawal of funds available or a credit settlement account is recognized, recording an account receivable at its fair value, which is equal to the agreed price, representing the right to recover the cash delivered. The

account receivable is valued subsequently during the useful life of the repurchase agreement at its amortized cost, recognizing the interest on the repurchase agreement.

When the transactions performed are classified as cash-oriented, the seller's intention is to obtain cash financing by using financial assets as collateral while the buying party obtains a return on its investment and, as it does not seek ownership over specific securities, receives financial assets held as collateral which serve to mitigate the exposure to risk face by the party in relation to the selling party. The selling party repays to the buying party the interest calculated based on the agreed rate of the repurchase agreement. Also, the buying party obtains yields on its investment, which is secured by the collateral.

When the transactions performed are considered as securities-oriented, the intention of the buying party is to temporarily access certain specific securities held by the selling party, by granting cash as collateral, which serves to mitigate the exposure to risk faced by the selling party in relation to the buying party. In this regard, the selling party pays the buying party the interest agreed at the repurchase agreement rate for the implicit financing obtained on the cash that it received, in which such repurchase rate is generally lower than that which would have been agreed in a "cash-oriented" repurchase agreement.

Regardless of the economic intent, the accounting for "cash-oriented" or "securities-oriented" repurchase transactions is identical.

Noncash collateral granted and received in repurchase transactions - In relation to the collateral granted by the selling party to the buying party (other than cash), the buying party recognizes the collateral received in memorandum accounts, following the valuation guidelines for the securities established in treatment B-9 "Custody and Management of Assets". The selling party reclassifies the financial asset in its consolidated balance sheets to restricted assets, which follows the valuation, presentation and disclosure standards as applicable.

When the buying party sells or pledges the collateral, the proceeds from the sale are recorded, and a liability for the obligation to repay the collateral to the selling party (measured initially at the fair value of the collateral) and is subsequently valued at fair value in a sale, and at amortized cost if is considered as a pledge in another repurchase transaction (in which case, any difference between the price received and the fair value of the liability is recognized in results of the year). For purposes of presentation, the liability is offset by accounts receivable referred to as Repurchase agreements, which is generated when the purchases are reported. The debit or credit balance is shown under Repurchase agreements or sold collaterals or pledged as security as appropriate.

Similarly, if the buying party becomes a selling party due to another repurchase transaction with the same collateral as the initial transaction, the interest on the second repurchase transaction must be recognized in results for the year as earned, based on the liability valued at amortized cost.

Memorandum accounts recognized for collateral received by the buying party are cancelled when the repurchase transaction matures or when the selling party defaults.

For transactions where the buying party sells or pledges the collateral received (for example, when another repurchase or securities loan transaction is agreed), memorandum accounts are used to control such collateral sold or pledged, which is valued using the standards applicable to custody transactions included in Criterion B-9 "Custody and Assets Management".

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged by the buying party are cancelled when the collateral sold is purchased to return it to the selling party, or when the second transaction matures or the other party defaults.

Derivative instrument transactions- The Institution has two types of transactions with derivative financial instruments:

- Hedging purposes - Its objective is to mitigate the risk of an open risk position through operations with financial derivative instruments.
- Trading purposes - Its objective is different from that of covering open risk positions by assuming risk positions as a participant in the derivatives market.

The Institution initially recognizes all of its derivatives (including those that are part of a hedging relationship) as assets or liabilities (depending on the related rights and/or obligations) in the balance sheet at fair value, which is presumed to be equal to the price agreed in the transaction.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives are valued at fair value without deducting any transactions costs incurred during the sale or any other type of disposal, recognizing the valuation effect in results for the period under "Gains/losses on financial assets and liabilities (net)", except when the derivative financial instrument forms part of a cash flow hedge relationship.

The rights and obligations of derivatives that are traded in recognized markets or stock exchanges are considered to have matured when the risk position is closed, i.e., when an opposite derivative with the same characteristics is traded in such market or stock exchange.

The rights and obligations of derivatives that are not traded in recognized markets or stock exchanges are considered to have matured when they reach their maturity date, when the rights are exercised by either party or when the parties early exercise the rights in accordance with the related conditions and the agreed consideration is settled.

Derivatives are presented in a specific heading of assets or liabilities, depending on whether their fair value (as a result of the rights and/or obligations established) refers to a debit balance or credit balance, respectively. Such debit or credit balances may be offset as long as they comply with the respective offsetting rules. The Institution presents this item under the caption "Derivatives" (debit or credit balance) on the consolidated balance sheet by segregating derivatives for trading purposes from derivatives for hedging purposes.

Derivatives held for trading

Forward and future contracts for trading:

Forward and future contracts for trading are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established amount, quality and price on a trading contract. Both forward and futures contracts are recorded by the Institution as assets and liabilities in the consolidated balance sheets at the exchange rate established in the related underlying asset purchase-sale contract, to recognize the right and the obligation to receive and/or deliver the underlying asset, and the right and the obligation to receive and/or deliver cash equivalent to the underlying asset specified in the contract.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

For forward contracts, the exchange difference between the exchange rate agreed in the contract and the monthly forward exchange rate, as well as the valuation effects, are recorded in the statement of income under "Gains/losses on financial assets and liabilities (net)".

For futures contracts, a margin account is created whose counterparty is a clearing house, so as to minimize counterparty credit risk.

The margin account given in cash, does not form part of the initial net investment of the derivative, which is accounted for separately from the derivative.

For financial statement classification purposes, with respect to derivative instruments that incorporate both rights and obligations, such as futures, forwards and swaps, such rights and obligations are offsetted by contract and the resulting net debit or credit balances are recognized a derivative asset or liability, respectively.

Option contracts:

Options are contracts that, in exchange for a premium, grant the right, but not the obligation, to buy or sell a specified number of underlying instruments at a fixed price within a specified period. For the rights that grant the options are divided in purchase options (call) and sale options (put).

The holder of a call has the right, but not the obligation, to purchase from the issuer a specified number of underlying assets at a fixed price (exercise price) within a specified period.

The holder of a put has the right, but not the obligation, to sell a specified number of underlying assets at a fixed price (exercise price) within a specified period.

Options may be exercised at the end of the specified period (European options) or at any time during the period (American options); the exercise price is established in the contract and may be exercised at the holder's discretion. The instrument used to set this price is the reference value or underlying asset. The premium is the price paid by the holder to the issuer in exchange for the rights granted by the option.

The Institution records the premium paid/received for the option on the transaction date as an asset or liability. Any fluctuations in the fair value are recognized in the consolidated statements of income under the heading "Gains/losses on financial assets and liabilities (net)". When an option matures or is exercised, the premium recognized is cancelled against results for the year, also under "Gains/losses on financial assets and liabilities (net)".

Recognized options that represent rights are presented, without offsetting, as a debit balance under the asset line item Derivatives. Recognized options that represent obligations are presented, without offsetting, as a credit balance under the liability line item Derivatives.

Trading option contracts are recorded in memorandum accounts at their exercise price, multiplied by the number of securities, distinguishing between options traded on the stock market from over-the-counter transactions, in order to control risk exposure.

All valuation gains or losses recognized before the option is exercised or before its expiration, are treated as unrealized and are not capitalized or distributed to stockholders until realized in cash.

Swaps:

A swap contract is an agreement between two parties establishing a bilateral obligation for the exchange of a series of cash flows within a specified period and on previously determined dates.

Swaps are initially recognized by the Institution in the balance sheet as an asset or liability, at fair value, which presumably is equal to the agreed-upon price.

The Institution recognizes in the balance sheet an asset and a liability arising from the rights and obligations of the contractual terms, valued at the present value of the future cash flows to be received or delivered according to the projection of the implicit future rates to be applied, discounting the market interest rate on the valuation date using curves provided by the price vendor, which are reviewed by the market risk area.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives other than hedging derivatives are valued at fair value without deducting any transaction costs incurred during the sale or any other type of disposal, recognizing the valuation effect in the results of the year.

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in the results of the year. If the impairment situation subsequently disappears, the impairment is reversed up to the amount of the previously recognized impaired loss, recognizing this effect in the results of the period in which this occurs.

A swap contract may be settled in kind or in cash, according to the conditions established.

The result of offsetting the asset and liability positions, whether debit or credit, is presented as part of the Derivatives line item.

Hedging derivatives

Management enters into transactions with derivatives for hedging purposes using swaps.

Financial assets and liabilities which are designated and fulfill the requirements to be designated as hedged items, as well as financial derivatives which form part of a hedging relationship, are recognized in conformity with the hedge accounting provisions for the recognition of the gain or loss on the hedging instrument and of the hedged item in conformity with that established in Accounting Criterion B-5, Derivatives and hedging transactions, issued by the Commission.

A hedge relationship qualifies for designation as such when all of the following conditions are fulfilled:

- Formal designation and sufficient documentation of the hedging relationship.
- The hedge should be highly effective in achieving the offsetting of the changes in fair value or in the cash flows attributable to the risk covered.
- For cash flow hedges, the forecast transaction proposed for hedging should be very likely to occur.
- The hedge should be reliably measurable.
- The hedge should be valued continuously (at least quarterly).

All the derivatives for hedging purposes are recognized as assets or liabilities (depending on the rights and/or obligations they contain) on the consolidated balance sheet, initially at fair value, which is the price agreed in the transaction.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged and forms part of the caption "Derivatives" on the consolidated balance sheet and the interest accrued is recorded in the consolidated statement of income under the caption "Interest income" or "Interest expense".

Derivatives transactions for hedging purposes are valued at market price and the effect is recognized depending on the type of accounting hedge, as follows:

- a. Fair value hedges – Represents a hedge against exposure to changes in the fair value of recognized assets or liabilities or of firm commitments not recognized, or a portion of both, which is attributable to a specific risk and which may affect the results for the period.
The primary position of the risk hedged and the derivative hedge instrument are valued at market price, with the net effect recorded in of results of the period in the heading "Gains/losses on financial assets and liabilities (net)".

In fair value hedges, the adjustment to the book value for the valuation of the hedged item is presented in a separate caption on the consolidated balance sheet.

- b. Cash flow hedges – Represents a hedge against exposure to variations in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect the result of the period. The hedged derivative instrument is valued at market price. The effective portion of the gain or loss on the hedge instrument is recorded in the comprehensive profit and loss account as part of stockholders' equity and the ineffective portion is recorded in the results for the year as part of the "Gain/loss on financial assets and liabilities".

The effective hedge component recognized in stockholders' equity associated with the hedged item, is adjusted to equal the lower (in absolute terms) of the accumulated gain or loss on the financial hedge derivative since its inception, and the accumulated change in the present value of the future cash flows expected from the hedged item since the inception of the hedge.

Any residual gain or loss on the hedge instrument is recognized in the results for the period.

The Institution suspends hedge accounting when the derivative has matured, when is canceled or exercised, when the derivative is not sufficiently effective to offset the changes in the fair value or cash flows from the hedged item, when it is established that the forecast transaction will not occur, or when it is decided that the hedged designation will be canceled.

When fair value hedge accounting is no longer applied prospectively, any adjustment to the book value for the valuation of the hedged item attributable to the hedged risk, is amortized in the results for the period. The amortization is performed by the straight-line method over the remaining life of the item originally hedged.

When a cash flow hedge accounting is suspended, the accumulated gain or loss related to the effective portion of the hedge derivative that was recognized in stockholders' equity as part of comprehensive income during the period of time that the hedge was effective, remains in stockholders' equity until the effects of the forecast transaction affect results. If it is no longer probable that the forecast transaction will occur, the gain or loss that was recognized in the comprehensive income account is recorded immediately in the results. When the coverage of a forecast transaction is demonstrated to be effective on a prospective basis and subsequently is not highly effective, the accumulated gain or loss for the effective portion of the hedge derivative that was recognized in stockholders' equity as part of comprehensive income during the period that the hedge was effective, is reclassified proportionally to results, when the forecast transaction is affected in the results.

Derivatives packages listed on recognized markets as a single instrument are recognized and valued collectively (i.e., without disaggregating each financial derivative individually). Derivatives packages not listed on a recognized markets are recognized and valued on a disaggregated basis for each derivative that comprises such packages.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged, as part of the heading "Derivatives" on the consolidated balance sheet.

Embedded derivatives - An embedded derivative is a component of a hybrid (combined) financial instrument that includes a non-derivative contract (known as the host contract) in which certain cash flows vary in a manner similar to that of an standalone derivative. An embedded derivative causes certain cash flows required by the contract (or all cash flows) to be modified according to changes in a specific interest rate, the price of a financial instrument, an exchange rate, a price or rate index, a credit rating or index, or other variables allowed by applicable laws and regulations, as long as any non-financial variables are not specific to a portion of the contract. A derivative that is attached to a financial instrument but that contractually cannot be transferred independently from that instrument or that has a different counterparty, is not an embedded derivative but a separate financial instrument (i.e. structured operations).

An embedded derivative is separated from the host contract for purposes of valuation and to receive the accounting treatment of a derivative, only if all the following characteristics are fulfilled:

- a. The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract;
- b. A separate financial instrument that has the same terms of the embedded derivative would comply with the definition of a derivative, and
- c. The hybrid (combined) financial instrument is not valued at fair value with changes recognized in the results (for example, a derivative that is not embedded in a financial asset or a financial liability valued at fair value should not be separated).

The effects of the valuation of embedded derivatives are recorded under the same line item in which the host contract is recorded.

A foreign currency embedded derivative in a host contract, which is not a financial instrument, is an integral part of the agreement and therefore clearly and closely related to the host contract provided that it is not leveraged, does not contain an optional component and requires payments denominated in:

- The functional currency of one of the substantial parties to the contract;
- The currency in which the price of the related good or service that is acquired or delivered is regularly denominated for commercial transactions around the world;
- A currency which has one or more characteristics of the functional currency for one of the parties.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate in effect on the transaction date. Assets and liabilities denominated in foreign currency are adjusted at the year-end exchange rates determined and published by the Central Bank.

Revenues and expenses from foreign currency transactions are translated at the exchange rate in effect on the transaction date, except for transactions carried out by the foreign subsidiaries, which are translated at the fix exchange rate at the end of each period.

Foreign exchange fluctuations are recorded in the statements of income of the year in which they occur.

Commissions collected and related costs and expenses - The commissions collected for the initial granting of the loans are recorded as a deferred credit under deferred credits and advance collections, which is amortized against results of the year under Interest income using the straight-line method over the loan term.

The commissions collected for loan restructurings or renewals are added to any commissions recorded at loan origination, and are recognized as a deferred credit which is amortized in results using the straight-line method over the new term of the loan.

Any commissions recognized after the initial granting of the loans are those incurred as part of the maintenance of such loans, or those collected on loans which were not placed and are recognized in results at the time they are incurred or earned.

Incremental costs and expenses associated with the initial granting of the loan are recognized as a deferred charge, which are amortized to results as Interest expense during the same accounting period in which the revenues from commissions collected are recognized.

Any other cost or expense different from those described above, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other secondary activities related to the establishment and monitoring of credit policies, is recognized directly in the results of the year as it is accrued and classified in accordance with the nature of the cost or expense.

Performing loan portfolio - The Institution applies the following criteria to classify loans within performing portfolio:

- Loans that are current in the payments of both principal and interest.
- Loans with extension of the loan payment, as well as those loans with payment of principal and overdue interest which had no classified as non performing portfolio, and
- Restructured or renewed loans, which were previously classified as non-performing loan portfolio, which have evidence of sustained payment.

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

1. If the borrowers are declared bankrupt, except for those loans:
 - i. For which the Institution continues to receive payment under the terms of section VIII of Article 43 of the Bankruptcy Law, or
 - ii. That are granted under Article 75 in relation to Sections II and III of Article 224 of the above mentioned Law.
2. Loans with outstanding principal, interest or both, with the following characteristics:
 - a) Loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the date of maturity.
 - b) Loans with a single payment of principal at maturity and with periodic interest payments are classified as non-performing 90 calendar days after interest is due or 30 calendar days after principal is due.
 - c) Loans, including housing loans, whose principal and interest payments have been agreed in periodic installments are classified as non-performing 90 calendar days after they become due.
 - d) Revolving loans for which the borrower has failed to render payment on two monthly billing periods, or, if the billing period is different from monthly, are 60 or more calendar days overdue.
 - e) Immediate collection documents referenced in accounting criteria B-1 "Funds available" will be reported in the non-performing portfolio at the date of the overdraft.
3. Repayments that were not fully settled under the terms originally agreed and present 90 or more days in arrears:
 - a) Payments for loans acquired from INFONAVIT, based on the respective payment modality (REA or ROA), as well as
 - b) Loans made to individuals intended for remodeling or improvement of the home for non-profit-making purposes which are backed by the savings from the housing subaccount of the borrower.

The transfer to non-performing portfolio of the loans referred to in numeral 3 will be subject to the exceptional deadline of 180 or more days in arrears from the date that:

- a. The loan resources are used for the purpose for which they were granted;
- b. The borrower begins a new employment relationship for which they have a new employer, or
- c. The Institution has received the partial payment of the respective payment. The exception contained in this subsection will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represent at least 5% of the payment agreed.

These exceptions will not be mutually exclusive.

In the case of loan portfolio acquisitions, to determine the days in arrears and the respective transfer to non-performing portfolio, any defaults which the borrower has presented since the start must be taken into account.

Classification of loan portfolio and allowance for loan losses - In accordance with the Provisions, the Institution has classified its loan portfolio as follows:

- a. Commercial: Direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency, investment units ("UDIS") or multiples of the minimum wage ("VSM"), together with any accrued interest, which are granted to corporations or individuals with business activities and are used in connection with commercial or corporate activity; includes loans granted to financial entities (other than interbank loans with maturities of less than 3 business days), loans arising from financial factoring, discounts and the assignment of credit rights and leasing transactions executed with such corporations or individuals; loans granted to trustees who act under the protection of trusts; and the credit schemes commonly known as "structured" in which the affected assets to enable individual assessment of the risk associated with the scheme. Also, are included loans granted to states, municipalities and their decentralized agencies, as well as those in charge of the Federal Government with a guaranty established by the Federation, included in the SHCP and the Central Bank.
- b. Housing loans: Direct loans denominated in Mexican pesos, foreign currency, UDIS or in VSM, and the interest they generate, granted to individuals and intended for acquisition or construction of homes for non-profit-making purposes which have a mortgage guarantee on the home of the borrower. Home loans are also deemed to include those intended for the remodeling or improvement of homes which are backed by the savings from the housing subaccount of the borrower, or which have a guarantee granted by a development bank institution or a public trust established by the Federal Government for economic development. They also include loans granted for such purposes to former employees of the entities and those cash loans guaranteed by the home of the borrower.

The Institution recognizes reserves created to credit risks in accordance with such provisions, as follows:

Commercial loan portfolio:

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

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

Where:

- Ri = Amount of the allowance for loan losses to be created for the nth loan.
 PIi = Probability of default of the nth loan.
 SPi = Severity of loss of the nth loan.
 EIi = Exposure to default of the nth loan.

Default Exposure (EI) is the balance of revocable credit lines plus the unused portion of irrevocable credit lines. The Probability of Default (PI) is the probability of customer default, which considers quantitative and qualitative information, the Institution classifies the commercial loan portfolio in groups to calculate the PI. The Loss Severity (SP) is the percentage of the EI that would be lost in the event of loan default and depending on the loan enhancements and portfolio type.

The parameter EI, should be calculated each month, the PIi; and the SPi at least each quarter.

a) *The probability of default*

The probability of default of each loan (PI i), is calculated using the following formula:

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

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

For purposes of the above:

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

$$Total\ CreditScore_i = \alpha \times (QuantitativeCreditScore) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

Quantitative Credit Score i = is the score obtained for the nth borrower when evaluating the risk factors.

Qualitative Credit Score i = is the score obtained for the nth borrower when evaluating the risk factors.

α = is the relative weight of the quantitative credit score.

b) *Loss Severity*

The Loss Severity (*SP_i*) for commercial loan portfolio and which lack actual or personal guarantees and those derived from the loan itself will be:

- 45% to loans which lack actual or personal guarantees and those derived from the loan.
- 75% to syndicated loans. In those contractually subordinated to those of other creditors for payment prioritization purposes.
- 100% for loans with payments that are 18 months or more past-due based on the settlement terms under the originally agreed terms.

The Institution may recognize mortgage collateral, personal guarantees, and credit derivatives in the estimation of the Severity of the Loss on the loans, for the purpose of decreasing the loan reserves originated by the loan portfolio rating. In any case, it may elect to not recognize the guarantees if they result in larger loan reserves. For such purpose, the Provisions established by the Commission are applied.

c. *Default exposure*

The default exposure of each loan (*EI_i*) is determined by considering the following factors:

- Uncommitted credit lines that can be unconditionally canceled or automatically canceled at any time without the Institution giving prior notice.

$$EI_i = Si$$

- For the other lines of credit:

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

Where:

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

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

The allowance for loan losses of commercial loan portfolio of a Multiple Purpose Financial Entity, in which the institutions held less than 99% of their capital stock, is calculated by multiplying the exposure to default by 0.5% in accordance to the Provisions.

Loans granted under the terms of the Bankruptcy Law

In the case of loans granted under the terms of section II of article 224 of the Bankruptcy Law, the Severity of the Loss is subject to the following treatment:

$$SP_i = \text{Max} \left(\text{Min} \left(1 - \frac{\text{Credit Enhancements} + \text{Adjusted Net Worth}}{Si}, 45\% \right), 5\% \right)$$

In which:

Credit Enhancements = The credit enhancements provided pursuant to article 75 of the Bankruptcy Law by applying, as the case may be, the required adjustment factors or discount percentages based on each type of admissible enhancement.

Adjusted Net Worth = Net Worth, as defined by the Bankruptcy Law, after deducting the amount of obligations referred to by section I of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount.

Si = the outstanding balance of loans granted under the terms of section II of article 224 of the Bankruptcy Law at the rating date.

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

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

In which:

Adjusted Net Worth = Net Worth, as defined by the Bankruptcy Law, by deducting the amount of the obligations referred to by sections I and II of article 224 of that Law and applying a 40% discount rate to the resulting amount.

Si = the outstanding balance of loans granted under the terms of section III of article 224 of the Bankruptcy Law at the rating date.

Housing loan portfolio:

When classifying the housing loan portfolio, the Institution considers the type of loan, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the loan's collateral and the exposure to default.

Furthermore, the Institution rates, calculates and records the allowances for loan losses on the housing loan portfolio as follows:

Due and Payable Amount- Amount which the borrower is obligated to pay in the agreed billing period without considering any previous due and payable amounts that were not paid. If the billing is semi-monthly or weekly, the due and payable amounts of the two semi-monthly payments or four weekly payments in the month, respectively, must be added up so that the due and payable amount reflects a monthly billing period.

The discounts and rebates may reduce the due and payable amount only when the borrower complies with the conditions required in the credit contract for such purpose.

Payment made- Includes total payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the loan or group of loans are not considered as payments.

If the billing is semi-monthly or weekly, the two semi-monthly payments or four weekly of a month, respectively, must be added up so that the payment made reflects one full monthly billing period. The variable "payment made" must be greater than or equal to zero.

Credit Balance S_i - The unpaid balance at the classification date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less any insurance payments which were financed, collections of principal and interest, as well as reductions, amounts forgiven, rebates and discounts granted, as the case may be.

Days in arrears- Number of arrears observed at the calculation date of reserves.

Times: Number of times that the borrower pays the original amount of the loan. This number will be the coefficient resulting from dividing the sum of all the scheduled payments at the time of origination, by the original amount of the loan.

If the loan payments consider a variable component, the Institution's best estimate will be used to determine the value of the sum of all the scheduled payments that the borrower has to make. The value of such sum cannot be less than or equal to the original amount of the loan.

The total amount of the allowance for loan losses to be established by the Institution will be equal to the allowance for loan losses on each loan, as follows:

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

Where:

R_i = Amount of reserves to be created for the nth loan.

PI_i = Probability of default on the nth loan.

SP_i = Severity of the loss on the nth loan.

EI_i = Exposure to default on the nth loan.

Evidence of sustained payment:

If loans are recorded in non-performing loan portfolio, the Institution holds them in this classification until there is evidence of sustained payment, as follows:

1. Payment compliance by the borrower without arrears for the total due and payable amount of principal and interest, of at least three consecutive repayments under the loan payment scheme, or in the case of loans with repayments which cover periods longer than 60 calendar days, the settlement of one payment.

In the case of loans which the Institution has acquired from the INFONAVIT, where the terms that the aforementioned agencies contracted with borrowers must be respected, sustained payment of the loan is deemed to exist when the borrower has covered without any arrears, the total due and payable amount of principal and interest, of at least one repayment of the loans under the Ordinary Repayment Regime (ROA) and three repayments for loans under the Special Repayment Regime (REA).

2. For loan restructurings with periodic payments of principal and interest whose repayments are lower than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered. For loans which remain under a single payment scheme for principal at maturity, which are established in numeral 4 below will be applied.
3. In the case of consolidated loans, where two or more loans originated the transfer to non-performing loan portfolio, to determine the required repayments, the original loan payment scheme whose repayments are equal to the longest period in question must be applied.

In any case, there must be evidence that the borrower has the capacity to pay at the time the restructuring or renewal is performed in order to fulfill the new credit conditions. The factors which must be considered include all of the following: the probability of intrinsic default by the creditor, the collateral established for the restructured or renewed loan, the payment priority in relation to other creditors and the liquidity of the borrower in light of the new financial structure of the loan.

4. In the case of loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, sustained payment of the loan is deemed to exist when either of the following assumptions is fulfilled:
 - 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 accrued interest was covered in accordance with the restructuring or renewal payment scheme for a period of 90 days.

The advance payment of the repayments of restructured or renewed loans, other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered evidence of sustained payment. Such is the case with repayments of restructured or renewed loans which are paid without the calendar days equivalent to the required periods having elapsed pursuant to numeral 1 above.

Distressed portfolio:

For disclosure purposes in the financial statements, the Institution considers distressed portfolio commercial loans for which it is determined that, based on current information and events as well as the results of the loan review process, there is significant possibility that the outstanding principal and interest balances of the loan may not be recovered in full in accordance with the terms and conditions originally agreed. Both the performing and non-performing portfolio are likely to be identified as distressed portfolio.

Restructuring processes and renewals - A restructuring process is a transaction derived from any of the following situations:

- a) The extension of the guarantees covering the loan in question, or
- b) The modification of the original loan conditions or payment scheme, including the following:
 - The modification of the interest rate established for the remaining loan period;

- The change of currency or unit of account, or
- The concession of a grace period regarding the payment obligations established according to the original loan terms, unless this concession is granted following the conclusion of the originally agreed period, in which case it is considered as a renewal.
- Extension of the loan payment period.

A renewal occurs when the loan balance is settled partially or totally, through an increase in the original amount of the loan, or with the product derived from another loan contracted with the same entity, to which the same borrower is party, a joint obligor of such borrower or another person who due to his property links assumes common risks.

Notwithstanding the above, a loan will not be considered as renewed for the dispositions made during the effective term of a pre-established credit line, as long as the borrower has settled the total amount of the payments which are due and payable under the original conditions of the loan.

The specific standards related to the recognition of restructurings and renewals are as follows:

1. Non-performing loans which are restructured or renewed will remain in the non-performing loan portfolio until there is evidence of sustained payment.
2. Loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, which are restructured during their term or renewed at any time, will be considered as non-performing portfolio until there is evidence of sustained payment.
3. Loans granted under a line of credit, whether revolving or not, which are restructured or renewed at any time, may be kept in the performing portfolio provided that there were elements to justify the payment capacity of the borrower. Additionally, the borrower must have:
 - a. Settled the total due and payable interest, and
 - b. Total payments required under the terms of the contract at the date of the restructuring or renewal, are covered.
4. In the case of dispositions made under a line of credit, when they are restructured or renewed independently from the credit line supporting them, they must be evaluated in accordance with the provisions based on the characteristics and conditions applicable to the restructured or renewed dispositions. When as a result of such analysis it is concluded that one or more of the dispositions made under a credit line should be transferred to non-performing loan portfolio due to the effect of their restructuring or renewal, and whether individually or collectively, represent at least 25% of the total balance exercised of the line of credit at the date of the restructuring or renewal, such balance, as well as subsequent dispositions, must be transferred to non-performing loan portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing loan portfolio. Also, the total dispositions made under the line of credit have complied with the due and payable obligations at the date of the transfer to performing loan portfolio.
5. Performing loans with characteristics different from those included in numerals 2 through 4 before, those which are restructured or renewed, without at least 80% of the original loan term, will still be considered as performing, only when:
 - a. The borrower has settled the total amount of the accrued interest at the date of the renewal or restructuring, and
 - b. The borrower has settled the principal of the original amount of the loan, which should have been settled at the date of the renewal or restructuring.

Absent compliance with all the conditions described in the preceding numeral, loans will be considered as non-performing loan portfolio since the time they are restructured or renewed until there is evidence of sustained payment, as the case may be.

6. Performing loans with characteristics different from those established in numerals 2 through 4 which are restructured or renewed during the course of the final 20% of the original loan term, will be considered as performing only when the borrower has:
 - a. Settled the total interest accrued as of the date of the renewal or restructuring;
 - b. Settled the principal of the original amount of the loan, which should have been settled as of the date of the renewal or restructuring, and
 - c. Settled the 60% of the original amount of the loan.

Absent compliance with all the conditions described in the preceding numeral, they will be considered as non-performing loan portfolio from the moment they are restructured until there is evidence of sustained payment.

The requirements referred to the numerals 5 and 6 of subsection) above, will be considered as fulfilled when, after the interest accrued as of the last cutoff date has been settled, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half the payment period in question or 90 days.

Performing loans with partial periodic payments of principal and interest restructured or renewed on more than one time, may remain in performing loan portfolio if, in addition to the conditions established in numerals 5 or 6 above, as the case may be, the Institution has elements to substantiate the payment capacity of the borrower. Elements must be clearly documented and included in the loan file in the case of commercial loans.

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

The foregoing shall not applicable to those restructurings which at the transaction date submit payment for the total amount of the principal and interests and only modify one or more of the following original loan conditions:

- Guarantees: only when they involve the extension or substitution of guarantees by others of better quality
- Interest rate: when the interest rate to the borrower is improved.
- Currency or unit of account: Provided that the Exchange rate corresponding to the new currency or unit of account is applied.
- Payment date: Only in the case that the exchange rate does not imply to exceed or modify the periodicity of the payments. In no case shall the change of the payment date must allow the omission of payment in any period.

Other receivables and payable accounts, net - These items primarily represent receivable or payable amounts derived from the purchase-sale of currency in which immediate settlement was not agreed (value date exchange transactions). These transactions are recorded on the day they are agreed and settled within a periods of 24, 48, 72 or 96 hours.

The Institution has a policy of reserving in the results those receivable accounts identified and not identified within 90 days and 60 days after the initial recognition, respectively.

Furniture and fixtures, net - Furniture and fixtures are recorded at acquisition cost. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful life.

Investments in share of associates - Permanent investments made by the Institution in entities where it has neither control, nor joint control, nor significant influence, are initially recorded at acquisition cost. Any dividends received are recognized in current earnings, except when they are taken from earnings of periods prior to the acquisition, in which case, they are deducted from the permanent investment.

Other assets - Other assets are mainly represented by software, advance payments, operational deposit and intangible assets identified in the acquisition of Tempus and Monex Europe.

The amortization of the software and the assets with finite useful lives is calculated using the straight line method over their estimated economic useful life.

Furthermore, the heading "Other assets" includes financial instruments of the pension and retirement fund held in a trust administrated by the Institution. Those investments in the fund are maintained to cover the obligations for severance and seniority premiums of employees.

Investments in securities acquired to cover the severance and seniority premium are recorded at fair value.

For the purposes of presentation in the financial statements, if the investment in securities acquired to cover the pension plan and seniority premium exceed the liability recognized, such excess will be presented under the heading of "Other assets". If assets are less than related obligations, such balance is included in the heading "Sundry creditors and other payables". As of December 31, 2016, 2015 and 2014, the balance applicable to the Institution is presented by decreasing the heading of "Sundry creditors and other payables".

Goodwill - Goodwill is mainly attributable to the excess of the purchase price paid over the fair value of the net assets of Tempus and Monex Europe as of their acquisition date (November 23, 2010 and July 2, 2012, respectively), which is not amortized but is subject to impairment tests at least once a year. The Institution records the goodwill of the non-controlling interest.

Impairment of long-lived assets in use - The Institution reviews the book value of long-lived assets in use for impairment when there are indicators that the net carrying amounts of the assets may not be recoverable. The impairment is recorded to the extent that the book value of the asset exceeds the recoverable amount, which is defined as the higher of the present value of net future cash flows or the estimated sales price. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period which, if combined with a history or projection of losses, depreciation and amortization charged to results as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors.

Deposits - This heading is comprised of call deposits made by the general public, including money market funds, saving accounts and current account deposits. Interest is recognized in results when accrued.

The deposits include, among others, certificates of deposit removable preset days and promissory notes payable at maturity, such deposits shall be broken down into the balance sheet as of the general public and raised through market transactions money, the latter referring to deposits made with other financial intermediaries, as well as treasuries of corporations and government entities.

The debt securities issued will be presented as a separate category, as part of these, bank bonds.

Interest is recognized in results when accrued.

The global account for inactive deposits includes the principal and interest on deposit instruments which do not have a date of maturity, or which, if they do, are renewed automatically, as well as transfers or investments which are overdue or unclaimed, as referred to in article 61 of the Credit Institutions Law.

Bank and other loans - Direct short and long-term loans received from Mexican banks are recorded under this heading, together with loans obtained from development banks. Interest is recognized in results when accrued.

Obligations arising from settlement of transactions - Represent amounts payable for currency purchase-sale transactions in which no immediate settlement is agreed, (foreign exchange trading value date). They are recorded on the day they are negotiated and settled within 24, 48, 72 or 96 hours.

Provisions - Provisions are recognized when there is a present obligation derived from a past event, for which the use of economic resources is deemed probable, and can be reasonably estimated.

Employee benefits - Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by the employee, which include all kinds of remuneration earned, as follows:

- i. **Direct employee benefits** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly commissions, bonus and other incentives.
- ii. **Employee benefits from termination, retirement and other** - The liability for seniority premium, pensions and severance for termination of the employment relationship is recorded as accrued, which is calculated by independent actuaries based on the projected unit credit method using nominal interest rates.
- iii. **Statutory employee profit sharing (PTU)** - PTU is recorded in the results of the year in which it is incurred. As result of the *2014 Tax Reform*, as of December 31, 2016, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 9 of the Income Tax Law. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

PTU and deferred PTU is presented in the consolidated statement of income under “Administrative and promotional expenses”.

Income taxes - Income Tax (“ISR”) is recorded in the results of the year in which it is incurred. In order to recognize deferred income tax, financial and tax projections are used to determine whether the Institution and its subsidiaries will incur ISR so as to recognize the respective deferred tax. The Institution determines deferred tax by considering temporary differences, tax losses and tax credits from the initial recognition of these items and until the end of each period. The deferred tax derived from temporary differences is recognized by utilizing the assets and liabilities method, which matches the accounting values of assets and liabilities. This comparison generates deductible and accruable temporary differences. The tax rate is then applied to the items that will be subsequently reversed. The amounts derived from these three items relate to the recognized deferred tax asset or liability.

Deferred tax is recorded on results or stockholders’ equity depending on the item giving rise to prepaid tax (deferred).

In accordance with NIF D-4 “Taxes on income”, for purposes of presentation on the balance sheet, the Institution offsets the deferred tax liabilities and assets only when it has the right to offset the balances with the same tax authority.

Financial margin - The financial margin of the Institution is composed of the difference between total interest incomes less interest expense.

Interest income is composed of the yields generated by the loan portfolio, based on the terms established in the contracts executed with the borrowers, the agreed interest rates, the repayment of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities loans, as well as debt placement premiums, commissions charged on initial loan grants, and net equity instrument dividends.

Interest expense is composed of premiums, discounts and interest on deposits with the Institution, bank loans and repurchase agreements. The amortization of costs and expenses incurred during the origination of the loan is also included under interest expense.

Both interest income and expense are periodically adjusted based on the market situation and the economic environment.

Loan interest is recognized in the statements of income as it is accrued and is based on the periods established in contracts executed with borrowers and agreed interest rates, which are normally periodically adjusted in accordance with market and general economic conditions.

Recognition of revenues derived from securities transactions and the result of the purchase-sale of securities - The commissions and tariffs generated by transactions performed with customers' securities are recorded when the transaction is agreed. The results derived from the purchase-sale of securities are recorded when each transaction is performed.

The gains or losses resulting from currency purchase-sale transactions are recorded in the statements of income under the "Gains/losses on financial assets and liabilities (net)".

Comprehensive income - Comprehensive income presented in the accompanying statements of changes in stockholders' equity is the result of transactions other than those carried out by the Institution's stockholders during the period and consists of the effect from the valuation of securities available for sale, the cumulative effects from conversion and the net income.

Expenses - Expenses are recognized as they accrue.

Statement of cash flows - In accordance with D-4 of the criteria of the Commission, the cash flow statement shows the sources of cash and cash equivalents, as well as the disbursements to settle its obligations.

The cash flow statement together with the rest of the financial statements provides information that allows:

- Analysis of changes in the assets and liabilities of the Institution and in its financial structure.
- Analysis of the amounts and dates of collection and payments to adapt to the circumstances and the opportunities to generate and/or apply cash and cash equivalents.

Memorandum accounts -

- *Loan commitments:*

This item represents the amounts of letters of credit granted by the Institution, which are considered irrevocable commercial credit. It includes the lines granted to clients, not willing.

Items under this account are subject to qualification.

- *Assets in trust or mandate (Unaudited):*

Different management trusts are kept to independently account for assets received. Mandates include the declared value of the assets subject to mandate contracts entered into by the Institution. In the Mandate is recorder the declared value of the assets established by the mandate contracts celebrated by the Institution.

- *Collateral received:*

The balance is composed of all collateral received in repurchase transactions in which the Institution is the buying party.

– *Collateral received and sold or pledged as guarantee:*

The collateral received when the Institution was the buying party, and which was in turn sold by the Institution when it was the selling company, is included.

– *Uncollected interest earned on non-performing loan portfolio (Unaudited):*

Represents the interests accrued not collected of non-performing loan portfolio, as well as the financial revenues accrued not collected.

– *Other record accounts (Unaudited):*

This account includes loan amounts by determined level of risk and not qualified, as well as securities and derivative operations.

4. Funds available

As of December 31, 2016, 2015 and 2014, funds available were as follows:

Funds available	2016			2015	2014
	Mexican pesos	Foreign currency	Total	Total	Total
Cash	\$ 43	\$ 39	\$ 82	\$ 39	\$ 99
Deposits in banks	209	6,506	6,715	5,620	5,642
Immediate collection documents	3	5	8	4	4
Remittance	-	2	2	6	6
Foreign currency sale from 24 to 96 hours (1)	-	(14,698)	(14,698)	(11,154)	(10,067)
	255	(8,146)	(7,891)	(5,485)	(4,316)
Restricted funds available:					
Foreign currency purchase from 24 to 96 hours (1)	-	23,487	23,487	20,863	20,235
Regulatory monetary deposits (2)	229	-	229	229	229
	229	23,487	23,716	21,092	20,464
Total net	\$ 484	\$ 15,341	\$ 15,825	\$ 15,607	\$ 16,148

- (1) This item refers to currency purchase-sale transactions to be settled in 24 to 96 hours and which are considered as restricted until their settlement date. At December 31, 2016, 2015 and 2014, balances denominated in foreign currency and the equivalent amounts in Mexican pesos are comprised as follows:

(2)

	2016				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 23,292	\$ 152	\$ 18	\$ 25	\$ 23,487
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(14,388)	(196)	(83)	(31)	(14,698)
Total included in funds available (Mexican pesos)	\$ 8,904	\$ (44)	\$ (65)	\$ (6)	\$ 8,789

The exchange rate as of December 31, 2016 was \$20.6194, \$21.7534 and \$25.4814 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2015				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 20,232	\$ 439	\$ 130	\$ 62	\$ 20,863
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(10,457)	(466)	(140)	(91)	(11,154)
Total in funds available (Mexican pesos)	\$ 9,775	\$ (27)	\$ (10)	\$ (29)	\$ 9,709

The exchange rate as of December 31, 2015 was \$17.2487, \$18.7493 and \$25.4366 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2014				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 19,154	\$ 770	\$ 168	\$ 143	\$ 20,235
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(9,089)	(646)	(176)	(156)	(10,067)
Total in funds available (Mexican pesos)	\$ 10,065	\$ 124	\$ (8)	\$ (13)	\$ 10,168

The exchange rate as of December 31, 2014 was \$14.7414, \$17.8385 and \$22.9847 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

- (3) In accordance with the monetary policy established by the Central Bank and in order to regulate its money market liquidity, the Institution must maintain minimum deposits for indefinite periods, which accrue interest at the average bank rate. At December 31, 2016, 2015 and 2014, these deposits amounted to \$229 in the three years. Interest income from these deposits is payable every 28 days by applying the rate established by the Central Bank's regulations.

5. Margin accounts

As of December 31, 2016, 2015 and 2014, the margin account is as follows:

	2016	2015	2014
Collaterals delivered as security	\$ 541	\$ 382	\$ 650
Valuation of futures	<u>181</u>	<u>(3)</u>	<u>(129)</u>
	<u>\$ 722</u>	<u>\$ 379</u>	<u>\$ 521</u>

As of December 31, 2016, 2015 and 2014, margin accounts for cash collateral submitted in organized operating markets are remained as follows:

	2016	2015	2014
Scotiabank Inverlat, S.A.	\$ 477	\$ 324	\$ 152
Banco Santander México, S.A.	51	27	84
BBVA Bancomer, S.A.	-	-	410
RJO Brien	<u>13</u>	<u>31</u>	<u>4</u>
	<u>\$ 541</u>	<u>\$ 382</u>	<u>\$ 650</u>

Security deposits cover rate futures operations, CPI futures, dollar futures, and national currency and other futures options.

6. Investment in securities

Trading securities - As of December 31, 2016, 2015 and 2014, trading securities were as follows:

	2016				2015	2014
	Acquisition cost	Interest accrued	Increase (decrease) due to valuation	Total	Total	Total
Debt instruments:						
Government securities						
Federal Government Development Bonds (BONDS)	\$ 97	\$ -	\$ -	\$ 97	\$ 1,493	\$ 418
Treasury bills (CETES)	59	-	-	59	45	-
Bonds M, M0 and M7	165	1	(1)	165	994	135
Federal Government Development Bonds in Udis (UDIBONDS)	144	-	-	144	382	71
Saving Protection Bonds (BPAT's)	10,893	55	(52)	10,896	6,760	505
United Mexican States Bonds (UMS)	12	-	-	12	259	127
International government securities-						
Debits bonds (NOTES)	24	-	-	24	20	-
Private securities-						
Marketable certificates	3,569	15	(46)	3,538	4,865	5,338
Commercial Paper					175	82
Foreign Station Titles	3,156	-	(3)	3,153	50	45
Private bank issued securities -						
Promissory Note With Yield Payable at Maturity (PRLV)	21	-	-	21	398	-
Marketable Certificates	1,736	15	(50)	1,701	1,231	318
Certificates of Deposit (CEDES)	1,595	4	(72)	1,527	1,597	990
Capital market instruments-						
Mutual funds	36	-	4	40	37	36
Value date transactions-						
Government securities -						
Federal Government Development Bonds (BONDS)	-	-	-	-	2	-
Treasury bills (CETES)	-	-	-	-	6	-
Bonds M, M0 and M7	-	-	-	-	(1,417)	(457)
Federal Government Development Bonds in Udis (UDIBONDS)	-	-	-	-	(90)	(187)
Private bank issued securities -						
Traded Bank Certificates	-	-	-	-	(3)	-
Total trading securities	<u>\$ 21,507</u>	<u>\$ 90</u>	<u>\$ (220)</u>	<u>\$ 21,377</u>	<u>\$ 16,804</u>	<u>\$ 7,421</u>

Restricted trading securities -

At December 31, 2016, 2015 and 2014, the securities under repurchase agreement are as follows:

	2016	2015	2014
Government securities -			
Treasury bills (CETES)	\$ 59	\$ 45	\$ -
Federal Government Development Bonds (BONDS)	97	1,378	-
Bonds M, M0 and M7	165	859	-
Federal Government Development Bonds in Udis (UDIBONDS)	144	324	10
Saving Protection Bonds (BPAT's)	10,433	6,222	-
United Mexican States Bonds (UMS)	<u>12</u>	<u>259</u>	<u>127</u>
Subtotal	10,910	9,087	137
Private securities-			
Marketable Certificates	3,179	3,831	5,292
Commercial Paper	<u>-</u>	<u>175</u>	<u>82</u>
Subtotal	3,179	4,006	5,374
Private bank issued securities-			
Marketable Certificates	1,701	868	156
Certificates of Deposit (CEDES)	<u>1,283</u>	<u>1,597</u>	<u>990</u>
Subtotal	<u>2,984</u>	<u>2,465</u>	<u>1,146</u>
Total	<u>\$ 17,073</u>	<u>\$ 15,558</u>	<u>\$ 6,657</u>

This position is considered restricted within trading securities.

As of December 31, 2016, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

	2016		
Issuer	Maturity date	% rate	Restated valued
SGMEX	453	2.59%	\$ 2,052
BINTER	528	6.74%	347
CEDEVIS	8,778	3.29%	240
FEFA	1,692	7.34%	344
TFOVICB	10,371	3.77%	1,474
PEMEX	2,024	9.47%	1,514
TFOVIS	9,962	3.31%	1,603
NAFI265	12	1.14%	3,092
NAFF	2,435	7.68%	281
MULTIVA	1,013	7.41%	301
BACOMER	1,832	6.57%	1,528
CABEID	1,045	4.91%	<u>598</u>
Total			<u>\$ 13,374</u>

Securities available for sale- As of December 31, 2016, 2015 and 2014, the securities available for sale are as follows:

	2016				2015	2014
	Acquisition cost	Interest accrued	Increase (decrease) due to decrease	Total	Total	Total
Debt instruments:						
Government securities						
Treasury notes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17
Private securities-						
Marketable Certificates						
PEMEX 13-2 95	614	13	(70)	557	40	-
PEMEX3 210121 D2	107	3	-	110	-	-
CEDEVIS 12U 95	4	-	-	4	4	-
CEDEVIS 13U 95	208	3	-	211	219	-
TFOVIS 14U 95	640	-	(26)	614	632	-
TFOVIS 14-3U 95	583	-	(16)	567	608	-
UMS22F2 2022F D1	209	2	(1)	210	-	-
CDVITOT9515U	42	-	-	42	-	-
FACILSA9116	40	-	-	40	-	-
PEMEX9510-2	293	10	(31)	272	-	-
PEMEX9511-3	631	4	(60)	575	-	-
TFOVICB9515-2U	1,033	-	(37)	996	-	-
TFOVIS9514 2U	131	-	(3)	128	-	-
	<u>\$ 4,535</u>	<u>\$ 35</u>	<u>\$ (244)</u>	<u>\$ 4,326</u>	<u>\$ 1,503</u>	<u>\$ 17</u>

As of December 31, 2016, 2015 and 2014, the securities available for sale didn't show signs of impairment.

Restricted securities available for sale

As of December 31, 2016, 2015 and 2014, the restricted securities available for sale are as follows:

	2016	2015	2014
Private securities -			
PEMEX 13-2 95	\$ 557	\$ 40	\$ -
CEDEVIS 12U 95	4	4	-
CEDEVIS 13U 95	211	219	-
TFOVIS 14U 95	614	632	-
TFOVIS 14-3U 95	567	608	-
UMS22F2 2022F D1	210	-	-
CDVITOT9515U	42	-	-
FACILSA9116	40	-	-
PEMEX9510-2	272	-	-
PEMEX9511-3	575	-	-
TFOVICB9515-2U	996	-	-
TFOVIS9514 2U	128	-	-
Total	<u>\$ 4,216</u>	<u>\$ 1,503</u>	<u>\$ -</u>

This position is considered restricted within the securities available for sale.

Securities held to maturity -

As of December 31, 2016, 2015 and 2014, the securities held to maturity are as follows:

	2016	2015	2014
Private securities - TFOVICB9515-2U	\$ 73	\$ -	\$ -
Total	\$ 73	\$ -	\$ -

7. Repurchase agreements

As of December 31, 2016, 2015 and 2014, repurchase agreements were as follows:

When the Institution acts as purchaser:

	2016		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 2,025	\$ (897)	\$ 1,128
Bonds M, M0 and M7	560	-	560
Federal Government Development Bonds in Udis (UDIBONDS)	1	-	1
Saving Protection Bonds (BPAT's)	7,644	(1,287)	6,357
Subtotal	10,230	(2,184)	8,046
Private bank issued securities-			
Certificates of Deposit (CEDES)	615	(615)	-
Marketable Certificates	874	(521)	353
Subtotal	1,489	(1,136)	353
Private securities-			
Private marketable Certificates	907	(539)	368
Subtotal	907	(539)	368
Total	\$ 12,626	\$ (3,859)	\$ 8,767
	2015		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 1,801	\$ 985	\$ 816
Bonds M, M0 and M7	513	104	409
Federal Government Development Bonds in Udis (UDIBONDS)	29	-	29
Saving Protection Bonds (BPAT's)	3,441	1,000	2,441
Subtotal	5,784	2,089	3,695
Private bank issued securities-			
Certificates of Deposit (CEDES)	457	455	2
Promissory Note With Yield Payable at Maturity (PRLV)	57	57	-
Subtotal	514	512	2
Private securities-			
Marketable Certificates	1,361	1,330	31
Subtotal	1,361	1,330	31
Total	\$ 7,659	\$ 3,931	\$ 3,728

	2014		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 1,064	\$ 133	\$ 931
Saving Protection Bonds (BPAT's)	<u>2,401</u>	<u>-</u>	<u>2,401</u>
Subtotal	3,465	133	3,332
Private bank issued securities-			
Certificates of Deposit (CEDES)	60	60	-
Marketable Certificates	<u>9</u>	<u>9</u>	<u>-</u>
Subtotal	69	69	-
Private securities-			
Marketable Certificates	<u>314</u>	<u>314</u>	<u>-</u>
Subtotal	<u>314</u>	<u>314</u>	<u>-</u>
Total	<u>\$ 3,848</u>	<u>\$ 516</u>	<u>\$ 3,332</u>

As of December 31, 2016 and 2015 the repurchase transactions performed by the Institution, acting as purchaser, were agreed at terms ranging around 3 to 27 in 2016, for 2015 and 2014 is to 2 to 20 days.

When the Institution acts as seller:

	2016	2015	2014
	Cash to be delivered	Cash to be delivered	Cash to be delivered
Government securities-			
Treasury bills (CETES)	\$ 59	\$ 45	\$ -
Federal Government Development Bonds (BONDS)	97	1,377	-
Bonds M, M0 and M7	165	858	-
Federal Government Development Bonds in UDIS (UDIBONDS)	144	325	10
Saving Protection Bonds (BPAT's)	10,432	6,223	-
United Mexican States Bonds (UMS)	<u>221</u>	<u>260</u>	<u>127</u>
Subtotal	11,118	9,088	137
Private securities-			
Marketable Certificates	7,537	3,861	5,280
Commercial Paper	<u>-</u>	<u>178</u>	<u>82</u>
Subtotal	7,537	4,039	5,362
Private bank issued securities-			
Certificates of Deposit (CEDES)	1,351	1,580	990
Marketable Bank Certificates	<u>1,748</u>	<u>870</u>	<u>154</u>
Subtotal	<u>3,099</u>	<u>2,450</u>	<u>1,144</u>
Total	<u>\$ 21,754</u>	<u>\$ 15,577</u>	<u>\$ 6,643</u>

For the years ended December 31, 2016, 2015 and 2014, accrued interest on sale agreements are \$526, \$210 and \$155, respectively and the accrued interest expenses on purchase agreements are \$912, \$350 and \$179, respectively.

As of December 31, 2016, 2015 and 2014, the repurchase transactions performed by the Institution, acting as seller, were agreed at terms ranging between 3 to 117 days, 4 to 106 days and 2 to 11 days, respectively.

8. Derivative financial instrument transactions

As of December 31, 2016, 2015 and 2014, the position for transactions with financial derivatives is as follows:

	2016		2015		2014	
	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net
Futures-						
Foreign currency futures	\$ 10,554	\$ -	\$ 5,686	\$ -	\$ 7,234	\$ -
Futures indexes	-	-	3	-	-	-
Futures securities	-	-	-	-	50	-
Forwards-						
Foreign currency forwards	17,855	2,112	8,993	932	102,335	1,315
Forwards indexes	-	-	-	-	4	-
Options-						
Foreign currency options	38	73	15	79	51	270
Rates options	42	91	43	94	49	83
Options indexes	1	1	-	-	-	-
Swaps-						
Rates swaps	<u>12,261</u>	<u>1,536</u>	<u>6,921</u>	<u>295</u>	<u>6,039</u>	<u>21</u>
Total trading derivatives	<u>40,751</u>	<u>3,813</u>	<u>21,661</u>	<u>1,400</u>	<u>115,762</u>	<u>1,889</u>
	<u>40,751</u>	<u>3,813</u>	<u>21,661</u>	<u>1,400</u>	<u>115,762</u>	<u>1,889</u>
Hedging derivatives						
Swaps						
Rates swaps	<u>838</u>	<u>143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total hedging derivatives	<u>838</u>	<u>143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total derivatives	<u>\$ 41,589</u>	<u>\$ 3,956</u>	<u>\$ 21,661</u>	<u>\$ 1,400</u>	<u>\$ 115,762</u>	<u>\$ 1,889</u>

	2016		2015		2014	
	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net
Futures-						
Foreign currency futures	\$ 4	-	\$ 56	\$ -	\$ 5,050	\$ -
Futures indexes	-	-	-	-	330	-
Forwards-						
Foreign currency forwards	32,764	786	25,431	447	115,641	742
Forwards indexes	-	-	-	-	4	-
Options-						
Foreign currency options	47	119	14	31	60	151
Rates options	138	179	72	101	71	96
Swaps-						
Rates swaps	<u>12,323</u>	<u>1,598</u>	<u>7,102</u>	<u>476</u>	<u>6,209</u>	<u>391</u>
Total trading derivatives	<u>45,276</u>	<u>2,682</u>	<u>32,675</u>	<u>1,055</u>	<u>127,365</u>	<u>1,380</u>
	<u>45,276</u>	<u>2,682</u>	<u>32,675</u>	<u>1,055</u>	<u>127,365</u>	<u>1,380</u>
Held for trading						
Swaps						
Rates swaps	<u>704</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total hedging derivatives	<u>704</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total derivatives	<u>\$ 45,980</u>	<u>\$ 2,691</u>	<u>\$ 32,675</u>	<u>\$ 1,055</u>	<u>\$127,365</u>	<u>\$ 1,380</u>

For the years ended December 31, 2016, 2015 and 2014, the valuation effect of the trading derivative instruments is reflected in the statements of income under "Gains/losses on financial assets and liabilities (net)" (See note 29).

Fair value hedging

The Institution has financial derivatives which are used to hedge variances in the market value of its debt instruments issued by Pemex, due to movements in the interest rate, and holds hedge instruments intended to cover the interest rates related to two of the most relevant loans.

Following is a list of the hedge transactions held by the Institution as of December 31, 2016:

Hedged position	Designated Financial Instrument	Market value
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day THIE, plus a spread (2.0414%).	25
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day THIE plus a spread (1.35%).	17

95PEMEX13-2	Interest rate swap which pays fixed rate (7.19%) and receives 28 day TIE plus a spread (1.01%).	52
95PEMEX10-2	Interest rate swap which pays fixed rate (9.1%) and receives 28 day TIE plus a spread (1.4%).	9
AUDI 1	Interest rate swap which pays fixed rate (6.135%) and receives 28 day TIE.	24
AUDI 2	Interest rate swap which pays fixed rate (6.155%) and receives 28 day TIE.	8
CODESA	Interest rate swap which pays fixed rate (5.355%) and receives 28 day TIE	16

In every case the risk to be covered is market rate; i.e., the changes in the values of the positions for interest rate movements. Every month, the gain or loss on all the hedge derivatives is recorded (affecting stockholders' equity and results).

Derivatives and the underlying assets are as follows:

Futures	Forwards	Options	Swaps	Notes
IPC	FX-USD	ORG MXP IPC	IRS-TIE 28	USD/MXN
USD	FX-EUR	OTC MXP IPC	IRS-LIBOR 1M	EUR/MXN
	EQ-IPC	OTC USD/MXN	CCSWAP- TIE LIB	
	EQ-Stock	OTC EUR/MXN	CCSWAP Fixed-	
		IRD CF	Fixed	
			USD/MX	

The guarantees and/or collateral received and delivered for the derivative financing transactions as of December 31, 2016, 2015 and 2014, are comprised as follows:

Received					
Heading	Type of collateral	Market	2016	2015	2014
Sundry creditors and other accounts payable	Cash	OTC	\$ 2,815	\$ 1,550	\$ 1,288
Delivered					
Heading	Type of collateral	Market	2016	2015	2014
Margin accounts	Cash	Recognized markets	\$ 541	\$ 382	\$ 650
Other receivables	Securities	OTC	\$ 184	\$ 530	\$ 879

Upon executing transactions with "Over the counter" (OTC) derivatives, the Institution agrees to deliver and/or receive collateral, to cover any exposure to market risk and the credit risk of such transactions. Such collateral is contractually agreed to with each of the counterparties.

As of December 31, 2016, 2015 and 2014, there are no restricted securities delivered as security for derivative transactions.

Management of derivative financial instrument usage policies

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes.

The main objectives of these products are covering risks and maximizing profitability.

The instruments used include forwards, futures, options, interest rate swaps and currency swaps.

The trading markets are listed and OTC markets and the eligible counterparties may be domestic entities that comply with the 31 requirements established by the Central Bank.

The appointment of calculation agents is established in the legal documentation executed with the counterparties. The prices published by price suppliers are used to value derivative instruments in organized markets and are based on the prices generated in derivative markets. OTC derivatives are valued using prices calculated by the derivatives system, using the risk factor information published by the price supplier.

The main terms or conditions of the contracts are based on those of the International Swaps and Derivatives Association, Inc. (ISDA) or the local outline agreement, which is based on the guidelines provided by the ISDA. The specific policies regarding margins, collateral, and lines of credit are detailed in the Derivatives Manual and any changes thereto must be approved by the Risk Committee.

Authorization levels and processes

Per internal regulations, all derivative products or services associated to derivative products traded by the Institution are approved by the Risk Committee. Any amendments or additions to the original authorization of products or services must also be approved by the Risk Committee.

The Risk Committee includes members from all areas that are involved in the operation of the product or service depending on its nature and which are responsible for accounting, legal instruments, tax treatment, risk assessment, etc.

Independent reviews

The Institution is subject to the supervision and oversight of the Commission and the Central Bank, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports. Similarly, auditors perform periodic reviews.

Generic description of valuation techniques

1. For trading purposes:

- Organized markets- The valuation is made using the closing price of the respective market and the prices are provided by a price vendor.
- “Over The Counter” markets (OTC): OTC derivatives executed with customers are valued by the derivatives system using standard methodologies for the various instruments. The information for the valuation is provided by the price vendor.

The valuation of OTC derivatives that are held with brokers and used to cover those made with customers, are made by the entity designated as the calculation agent for ISDA contract.

The Institution values all of its positions and records the value obtained in conformity with the respective accounting criteria.

2. Reference variables:

The most relevant reference variables are exchange rates, interest rates, shares, baskets and share indexes.

3. Valuation frequency:

Derivative financial instruments for trading purposes are valued daily.

Management of internal and external liquidity sources that may be used for requirements related to derivatives financial instruments

Resources are obtained through the Treasury and the mainly financing resources are:

- Deposits
- Debt securities
- Bank loans
- Cash collateral received
- Stockholders

Changes in the exposure to identified risks, contingencies, and known or expected events of derivative financial instruments

In relation to financial instruments held for trading at December 31, 2016, 2015 and 2014, management is not aware of any situations or events, such as changes in the value of the underlying asset or reference variables which imply that the use of derivative instruments differ from those that were originally conceived, that could require the Institution to assume new obligations, commitments or changes in cash flow affecting liquidity (margin calls), or contingencies affecting current or future periods.

The amount of margin calls made during 2016, 2015 and 2014 was necessary to cover contributions in both the organized and the required collateral contracts markets.

At December 31, 2016, 2015 and 2014, except as mentioned in the previous paragraph, there is no evidence of deterioration in credit risk (counterparty) that requires modifying the carrying amount of derivative financial instruments.

Impairment of financial derivatives -

At December 31, 2016, 2015 and 2014, there is no indication of impairment in credit risk (counterparty) that requires modifying the carrying amount of financial assets from the rights in derivative financial instruments.

Sensitivity analysis -

Identification of risks - The sensitivity of derivative financial instruments is calculated in accordance with the market value variance according to certain variances in the base scenario. Based on the variances, there are different sensitivities.

The risk factors that may generate losses on transactions with derivative financial instruments due to changes in market conditions are interest rate, exchange rate, and changes in share indexes. A sensitivity analysis shows that the consumption in these risks is not relevant.

The sensitivity is assessed using the effect of variances in risk factors on the market value of the positions in effect at a certain date; such position considers the derivatives with customers and the hedging transactions in spot markets and with OTC derivatives with financial intermediaries, i.e., the net position in terms of delta.

The following chart shows the total sensitivity consumption as of December 31, 2016 (unaudited):

Sensitivity analysis	Sensitivity (all factors)
Stage one 1%	(0.49)
Stage two 2%	(0.52)

Stress test -

- **Scenario one:** In this scenario, the risk factors move as follows:
 - The FX risk factors are multiplied by 1.10, i.e., they change 10%.
 - The EQ risk factors are multiplied by 1.20, i.e., they change 20%.
- **Scenario two:** In this scenario, the risk factors move as follows:
 - The FX risk factors are multiplied by 1.20, i.e., they change 20%.
 - The EQ risk factors are multiplied by 1.40, i.e., they change 40%.

As of December 31, 2016 the results for these scenarios are as follows and show the impact on results if they occurred (unaudited):

Risk profile	Stress test (all factors)
Scenario one	\$ (5.4)
Scenario two	\$ (10.8)

9. Loan portfolio

As of December 31, 2016, 2015 and 2014, the performing portfolio and non-performing loan portfolio granted by type of currency are as follows:

	2016		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial	\$ 8,078	\$ 46	\$ 8,124
Loans to financial institutions	1,435	-	1,435
Housing loans-			
Housing loans	180	6	186
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	7,799	21	7,820
Loans to financial institutions	720	-	720
Total	\$ 18,212	\$ 73	\$ 18,285

2015			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial	\$ 4,646	\$ 45	\$ 4,691
Loans to financial institutions	984	-	984
Housing loans-			
Housing loans	9	12	21
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	6,252	51	6,303
Loans to financial institutions	<u>472</u>	<u>-</u>	<u>472</u>
Total	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 12,471</u>

2014			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial	\$ 3,014	\$ -	\$ 3,014
Loans to financial institutions	888	-	888
Housing loans-			
Housing loans	161	6	167
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	<u>3,968</u>	<u>3</u>	<u>3,971</u>
Total	<u>\$ 8,031</u>	<u>\$ 9</u>	<u>\$ 8,040</u>

The Institution grants loans guaranteed by the U.S. Ex-Im Bank, as follows:

Definition of Ex-Im Bank - "*The Export-Import Bank of the United States*", is the U.S. export loan agency. Its mission is to provide financing for the export of U.S. goods and services to international markets.

- a) For long-term loans subject to such guarantees, the Institution receives guarantees covering 100% of the Ex-Im Bank, which is documented in an outline agreement.
- b) For short-term loans with revolving lines of credit guaranteed with loan insurance policies issued by the Ex-Im Bank to the Institution, the policies cover between 90% and 98% of the loan amount.

In the event of default of a loan guaranteed or insured by the Ex-Im Bank, the Institution will claim the settlement and subrogate the collection rights to such bank, which continues collections efforts on the loans.

At December 31, 2016, 2015 and 2014, the portfolio with third participation administered by the Institution. Balances denominated in foreign currency are as follows:

	2016	2015	2014
Short-term	\$ 19	\$ 198	\$ 186
Medium-term	<u>3</u>	<u>8</u>	<u>16</u>
	<u>\$ 22</u>	<u>\$ 206</u>	<u>\$ 202</u>

Housing Loans

Below we show the loans acquired from INFONAVIT through the “Mejoravit” program:

2016				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 180	6,454	\$ 5	459
REA	-		<u>1</u>	21
Total	<u>\$ 180</u>		<u>\$ 6</u>	
2015				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 9	790	\$ 11	1,085
REA	-		<u>1</u>	68
Total	<u>\$ 9</u>		<u>\$ 12</u>	
2014				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 161	26,023	\$ 6	1,085
REA	-		<u>-</u>	68
Total	<u>\$ 161</u>		<u>\$ 6</u>	

The National Workers’ Housing Fund Institute (INFONAVIT) developed the “Mejoravit Loan Program” which enables certain banks to take part in granting loans known as “Mejoravit” intended for the improvement, remodeling and extension of homes of workers affiliated to this Institute. The involvement of the INFONAVIT in this program focuses on the origination, administration and collection of the loans.

In accordance with the rules established, the INFONAVIT reviews and approves the financial conditions of the loans and the Institution provides the economic resources to the borrower.

The Mejoravit loans are guaranteed by the balance of the housing subaccount of the certified stakeholders with an irrevocable guarantee trust managed by “Nacional Financiera S.N.C.” as trustee of the Trust.

As of December 31, 2016, 2015 and 2014, the non-performing housing portfolio is classified as follows:

Terms	2016	2015	2014
From 1 to 180 days	\$ -	\$ -	4
From 181 to 365 days	2	8	2
From 366 to 2 years	<u>4</u>	<u>4</u>	<u>-</u>
Total	<u>6</u>	<u>12</u>	<u>6</u>

Risk diversification -

At December 31, 2016, the Institution maintains the following credit risk operations in conformity with the general diversification rules established for active and passive transactions by the Provisions, as follows:

- The Institution has granted eight loans to borrowers or groups of individuals or entities with a common risk, the individual amount of which exceeds 10% of its basic capital. The joint commitment of these loans in the quarter before is equal to \$4,803, 115% of the Institution's basic capital.
- The total of the loans granted to the Institution's three main borrowers is \$2,235 and represents 53.6% of its basic capital.

According to the Provisions, the limits applicable to the diversification of an Institution's credit operations are determined according to its fulfillment of capitalization requirements, while considering the exceptions established by the Provisions, as follows:

- When granting financing to the same individual or entity or group of individuals or entities with a common risk, the Institution is subject to the maximum financing limit obtained by applying the following:

Capitalization level	Maximum financing limit calculated according to the Institution's basic capital
More than 8% and up to 9%	12%
More than 9% and up to 10%	15%
More than 10% and up to 12%	25%
More than 12% and up to 15%	30%
More than 15%	40%

- The sum of the financing granted to the Institution's three main borrowers must not exceed 100% of its basic capital.
- Financing granted to full-service banking institutions is subject to maximum financing limits, but is nonetheless subject to the maximum limit of 100% of the basic capital of the lending Institution. In the case of foreign institutions in which foreign financial entities hold equity, the aforementioned limit is applicable to the holding company and its subsidiary institutions taken as a whole.
- The financing granted to the state-owned entities and departments of the Federal Public Administration, including public trusts and the productive entities pertaining to the State, must be subject to the maximum limit of 100% of the basic capital of the lending Institution.

These credit limits must be measured quarterly. The applicable limit is calculated by using the basic capital amount and capitalization ratios of the quarter immediately preceding the date on which the calculation is made. These ratios are published by the Commission for each Institution on the following website:
<http://www.cnbv.gob.mx>.

The Commission may reduce the above limits whenever it considers that an institution's comprehensive risk management is inadequate or its internal control system has certain weaknesses.

Loans to related parties - As of December 31, 2016 the loan amounts delivered to related parties in accordance with Article 73 of the Law on Credit Institutions is \$263, at December 31, 2015 and 2014 are \$207 and \$22 respectively, which were approved by the Board of Directors.

Policy and methods used to identify distressed commercial loans - For disclosure purposes in the financial statements, the Institution considers distressed portfolio commercial loans for which it is determined that, based on current information and events as well as in the process of reviewing the loan, there is significant possibility that no can be recovered in full, both its component of principal and interest in accordance with the terms and conditions originally agreed. Both the performing portfolio as non-performing are likely to be identified as distressed portfolio.

The Institution performs the classification of distressed commercial loans, reporting a total of \$142 which represents 1% of the total commercial portfolio as of December 31, 2016.

	2016		
	Performing	Non- performing	Total
Mexican pesos:			
Commercial loans-			
Commercial	\$ 75	\$ 46	\$ 121
Dollars valued in Mexican pesos:			
Commercial loans-			
Commercial	-	21	21
Total	<u>\$ 75</u>	<u>\$ 67</u>	<u>\$ 142</u>

Policy and methods used to identify distressed commercial loans - Concentration risk constitutes an essential element in risk management. The Institution has policies in place to avoid significant concentrations of credit risks in borrowers or business groups, as well as industries and types of loans. Furthermore, constant follow-up is provided at the individual level and at the level of loan portfolios to avoid concentrations.

Credit lines unused by customers - As of December 31, 2016, 2015 and 2014, unused credit lines authorized to customers for \$8,912, \$6,908 and \$1,159, respectively.

As of December 31, 2016, 2015 and 2014, aging of non-performing portfolio is as follows:

	2016	2015	2014
From 90 to 179 days	\$ 1	\$ 98	\$ 4
From 180 to 365 days	2	10	4
Over 365	<u>70</u>	<u>-</u>	<u>1</u>
	<u>\$ 73</u>	<u>\$ 108</u>	<u>\$ 9</u>

10. Allowance for loan losses

As of December 31, 2016, 2015 and 2014, the allowance for loan losses was \$298, \$176 and \$112, respectively, and is assigned as follows:

2016	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial	\$ 15,877	\$ 67	\$ 278
Loans to financial institutions	2,155	-	18
Housing loans-			
Housing loans	<u>180</u>	<u>6</u>	<u>2</u>
Total portfolio	<u>\$ 18,212</u>	<u>\$ 73</u>	<u>\$ 298</u>
2015	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial	\$ 10,898	\$ 96	\$ 165
Loans to financial institutions	1,456	-	8
Housing loans-			
Housing loans	<u>9</u>	<u>12</u>	<u>3</u>
Total portfolio	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 176</u>
2014	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial	\$ 6,982	\$ 3	\$ 103
Loans to financial institutions	888	-	6
Housing loans-			
Housing loans	<u>161</u>	<u>6</u>	<u>3</u>
Total portfolio	<u>\$ 8,031</u>	<u>\$ 9</u>	<u>\$ 112</u>

As of December 31, 2016, 2015 and 2014, the Institution maintained an allowance for loan losses equivalent to 408%, 163% and 1,244%, of the non-performing portfolio, respectively.

The allowance for loan losses resulting from the loan portfolio classification with responsibilities as of December 31, 2016, 2015 and 2014, reported by the Institution, is as follows:

Degree of risk	2016		2015		2014	
	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded
A-1	\$ 9,134	\$ 45	\$ 6,397	\$ 32	\$ 4,078	\$ 18
A-2	7,911	96	4,483	55	3,356	43
B-1	838	15	2,046	34	1,616	26
B-2	717	16	269	7	133	3
B-3	602	18	353	12	338	11

Degree of risk	2016		2015		2014	
	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded
C-1	32	2	91	7	87	6
C-2	109	15	6	1	13	2
D	106	46	72	28	1	-
E	45	45	-	-	3	3
Base rating portfolio	19,494	<u>\$ 298</u>	13,717	<u>\$ 176</u>	9,625	<u>\$ 112</u>
Less - Letter of credit	(1,209)		(1,246)		(1,585)	
Loan portfolio, net	<u>\$ 18,285</u>		<u>\$ 12,471</u>		<u>\$ 8,040</u>	

Below is the activity of the allowances for loan losses for the years ended December 31, 2016, 2015 and 2014

	2016	2015	2014
Opening balances	\$ 176	\$ 112	\$ 64
Provisions (applications) with debit (credit) to:			
Additions charged to results	146	60	48
Cancellation of allowances (1)	(41)	-	-
Exchange result	19	11	4
Applications	(2)	(7)	(4)
Closing balances	<u>\$ 298</u>	<u>\$ 176</u>	<u>\$ 112</u>

- (1) Related to payments on loans granted during 2016, loans which had had allowances recorded during previous years and this year has recorded in "other revenues".

11. Other receivables, net

As of December 31, 2016, 2015 and 2014, the other receivables, are as follows:

	2016	2015	2014
Receivables from liquidation of money market transactions	\$ -	\$ 1,612	\$ 731
Receivables from 24 to 96 hours on foreign exchange transactions	16,892	11,176	10,223
Receivables from transactions	189	297	527
Intercompany administrative services	1	-	1
Employee loans and other debits	20	21	9
Collateral delivered for the derivative financing transactions	184	530	879
Other receivables	9	3	11
	<u>17,295</u>	<u>13,639</u>	<u>12,381</u>
Allowance for doubtful accounts	(68)	(59)	(184)
Total	<u>\$ 17,227</u>	<u>\$ 13,580</u>	<u>\$ 12,197</u>

12. Furniture and fixtures, net

As of December 31, 2016, 2015 and 2014, furniture and fixtures are as follows:

	2016	2015	2014
Office furniture and equipment	\$ 102	\$ 91	\$ 78
Computers and communications equipment	96	71	60
Vehicles	<u>8</u>	<u>8</u>	<u>8</u>
	206	170	146
Less- Accumulated depreciation	<u>(112)</u>	<u>(87)</u>	<u>(60)</u>
Total, furniture and fixtures (net)	<u>\$ 94</u>	<u>\$ 83</u>	<u>\$ 86</u>

The annual depreciation rates were as follows:

	Percentage
Computers and communications equipment	30%
Vehicles	25%
Office furniture and equipment	10%

For the years ended at December 31, 2016, 2015 and 2014, depreciation expense amounted \$27, \$25 and \$24, respectively.

13. Other assets

As of December 31, 2016, 2015 and 2014, goodwill and other assets were as follows:

	2016	2015	2014
Goodwill:			
Tempus	\$ 407	\$ 407	\$ 407
Monex Europe LTD.	326	326	326
Conversion effect	<u>370</u>	<u>253</u>	<u>129</u>
	1,103	986	862
Deferred charges, prepayments and intangible:			
Other intangible assets arising from the acquisition of Tempus (1)	176	176	176
Other intangible assets arising in the acquisition of Monex Europe (1)	635	635	635
Conversion effect	<u>205</u>	<u>161</u>	<u>57</u>
Intangible assets	1,016	972	868
Adjustments and improvements	276	217	209
Software	99	56	25
Prepayments	190	102	65
Investment projects	24	5	-
Other deferred charges	<u>42</u>	<u>8</u>	<u>-</u>
	1,647	1,360	1,167
Less - accumulated amortization	<u>(182)</u>	<u>(147)</u>	<u>(110)</u>
	1,465	1,213	1,057
Other assets:			
Operational deposit	<u>12</u>	<u>11</u>	<u>6</u>
	<u>\$ 2,580</u>	<u>\$ 2,210</u>	<u>\$ 1,925</u>

	Tempus	Monex Europe	Total		
			2016	2015	2014
Licenses	\$ 71	\$ -	\$ 71	\$ 71	\$ 71
Sales force	42	67	109	109	109
Operating agreements with banks	56	401	457	457	457
Software	7	6	13	13	13
No compete agreements	-	161	161	161	161
Total	176	635	811	811	811
Conversion effect			205	161	57
Total assets for the period			1,016	972	868
Amortization			(66)	(63)	(45)
Total intangible assets			\$ 950	\$ 909	\$ 823

14. Foreign currency position

As of December 31, 2016, 2015 and 2014, foreign currency assets and liabilities of the Institution were as follows:

	Millions of US Dollars			Millions of Euros			Millions of Pounds Sterling			Other foreign currencies in millions of U.S. dollars		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Funds available	USD 623	USD 718	USD 966	€ 49	€ 23	€ 19	£ 56	£ 53	£ 39	USD 6	USD 7	USD 5
Margin accounts	4	5	3	-	-	-	-	-	-	-	-	-
Investment in securities	251	45	63	-	9	-	-	-	-	-	-	-
Derivative (assets not offset)	-	896	1,572	-	17	31	71	21	17	-	-	1
Loan portfolio	426	388	265	-	-	-	-	-	-	-	-	-
Other receivables	7	35	115	-	-	-	47	18	22	1	-	-
Other assets	49	48	48	-	-	-	48	45	47	-	-	-
Deposits	(677)	(368)	(463)	(38)	(27)	(11)	(1)	(1)	(1)	(5)	(7)	(5)
Bank and other loans	(13)	(11)	(13)	-	-	-	-	-	-	-	-	-
Liabilities arising from sale and repurchase agreements	(86)	(8)	(60)	-	(2)	(2)	-	-	-	-	-	-
Derivative, (liability not offset)	(4)	(1,581)	(2,874)	-	(18)	(38)	(8)	-	(1)	-	-	-
Collateral	(37)	(10)	-	-	-	-	(66)	(43)	-	-	-	-
Sundry creditors and other payables	(33)	(63)	(98)	(4)	(3)	(2)	(76)	(27)	(57)	(2)	-	(1)
Deferred credits and prepayments	(4)	(2)	(1)	-	-	-	-	-	-	-	-	-
Collateral sold or pledged in guarantee	-	-	-	-	-	-	-	-	-	-	-	-
Asset (liability) position	USD 506	USD 92	USD (478)	€ 7	€ (1)	€ (3)	£ 71	£ 66	£ 66	USD -	USD -	USD -
Mexican peso equivalent	\$ 10,433	\$ 1,587	\$ (7,046)	\$ 152	\$ (19)	\$ (54)	\$ 1,809	\$ 1,679	\$ 1,517	\$ -	\$ -	\$ -

As of December 31, 2016, 2015 and 2014, the “Fix” (48-hour) exchange rate submitted by the Central Bank and used was \$20.6194, \$17.2487 and \$14.7414 per U.S. dollar, respectively.

As of December 31, 2016, 2015 and 2014, the “Euro” exchange rate submitted by the Central Bank and used was \$21.7534, \$18.7493 and \$17.8385 per Euro, respectively.

On February 28, 2017, the foreign currency position (unaudited) is similar to the position of the end of the year. The foreign exchange “Fix” at this date is \$19.9957 per U.S. dollar and \$21.1984 per Euro.

The Central Bank sets the ceilings for foreign currency liabilities and the liquidity ratio that the Institution obtains directly or through its foreign agencies, branches or affiliates, which must be determined daily for such liabilities to enable the Institution to structure their contingency plans and promote longer term funding within a reasonable time frame.

The Institution performs a large number of foreign currency transactions mainly in U.S. dollar, Euro, Sterling pound, Canadian dollar, Japanese Yen and other currencies. Given that the parities of other currencies against the Mexican peso are linked to the U.S. dollar, the overall foreign currency position is consolidated into U.S. dollars at each month-end closing.

15. Deposits

As of December 31, 2016, 2015 and 2014, deposits were as follows:

	2016	2015	2014
Demand deposits	\$ 15,384	\$ 8,495	\$ 7,985
Time deposits-			
General public	10,733	4,984	5,483
Money market:			
Deposit certificates	434	2,033	656
Promissory notes with interest payable at maturity (BMONEX)	-	2,149	280
Debt securities			
Debt securities (Bonds) (1)	1,440	1,084	156
Global account for inactive deposits	3	3	-
Total deposits	<u>27,994</u>	<u>\$ 18,748</u>	<u>\$ 14,560</u>

Short-term maturities which generated interest at an average 7.33%, 3.43% and 2.91% rate, in 2016, 2015 and 2014, respectively.

- (1) In 2015, the Institution made its first public offering of securitization certificates under ticker symbol “BMONEX15”, which were registered with the National Securities Registry and listed with the Mexican Stock Exchange, the offering securitization was for the amount of \$1,000 according to the program created for long-term revolving securitization certificates for up to the amount of \$8,000. The securitization certificates were issued for a period of 1,092 days, which is equal to three years, and placed at the TIIE 28-day rate + 90 basis points.

16. Bank and other loans

As of December 31, 2016, 2015 and 2014, bank loans were as follows:

	2016			2015	2014
	Mexican pesos	Foreign currency	Rate	Total	Total
Demand deposits-					
“Call Money” received	\$ 344	\$ -	5.68%	\$ 344	\$ 200
Total demand deposits	344	-		-	200
Short term-					
FIRA	50	-	5.84%	50	8
Clusters	759	260	4.49%	1,019	584
Digital loans	9	-	5.10%	9	-
Total short term	<u>818</u>	<u>260</u>		<u>1,078</u>	<u>592</u>
Total bank loans and other loans	<u>\$ 1,162</u>	<u>\$ 260</u>		<u>\$ 880</u>	<u>\$ 792</u>

Loans with Development Bank Institutions - Loans are granted by Nacional Financiera, S.N.C. (NAFIN) and Fideicomiso of Central Bank (FIRA), which represent a direct obligation of the Institution with these entities. Accordingly, the Institution grants loans in Mexican pesos and U.S. dollars to their customers for financial support.

Lines of credit for discounts and loans, granted in Mexican pesos and U.S. dollars by the development funds mentioned above operate under the authorizations of the internal risk units of the Institution. The financial conditions are set under fixed and variable rate programs, both in U.S. dollars and Mexican pesos, and the term is based on the specific program or transaction determined for each project.

17. Comparative maturities of principal assets and liabilities

The maturities of the significant assets and liabilities held as of December 31, 2016 were as follows:

	6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Assets:					
Funds available (1)	\$ 15,596	-	-	\$ 229	\$ 15,825
Margin accounts	722	-	-	-	722
Investment in securities	3,296	3,386	13,233	5,861	25,776
Repurchase agreements	8,767	-	-	-	8,767
Derivatives	1,337	655	1,083	881	3,956
Loan portfolio (net)	7,575	551	7,273	2,813	18,212
Other receivables (net)	<u>17,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,227</u>
Total assets	<u>54,520</u>	<u>4,592</u>	<u>21,589</u>	<u>9,784</u>	<u>90,485</u>
Liabilities:					
Deposits	26,964	30	1,000	-	27,994
Bank and loans	1,363	13	46	-	1,422
Liabilities arising from sale and repurchase agreements	21,754	-	-	-	21,754
Derivatives	806	176	902	807	2,691
Obligations arising from settlement of transactions	25,746	-	-	-	25,746
Liabilities arising from cash collateral received	2,815	-	-	-	2,815
Other accounts payables	<u>2,024</u>	<u>-</u>	<u>-</u>	<u>220</u>	<u>2,244</u>
Total liabilities	<u>81,472</u>	<u>219</u>	<u>1,948</u>	<u>1,027</u>	<u>84,666</u>
Assets less liabilities	<u>\$ (26,952)</u>	<u>\$ 4,373</u>	<u>\$ 19,641</u>	<u>\$ 8,757</u>	<u>\$ 5,819</u>

- (1) The heading of Funds available includes Monetary Regulation Deposits with Central Bank. Such deposits are \$229 for the three years. This deposit cannot be freely available.

18. Related party transactions and balances

Transactions carried out among the companies that are related parties with respect to the Institution include, such as investments, deposits, rendering of services, etc., most of which generate income for one entity and an expense for another. Transactions and balances among consolidating companies were eliminated, while those of unconsolidated entities remain in effect.

As of December 31, 2016, 2015 and 2014, the receivable and payable accounts with related companies are as follow:

	2016	2015	2014
Asset-			
Funds available	\$ 9,116	\$ 9,710	\$ 9,614
Repurchase agreements	\$ 12,627	\$ -	\$ 1,152
Other receivables	\$ 11,771	\$ 1,758	\$ 1,506
Other assets	\$ 9	\$ 7	\$ 5
Liability-			
Deposits	\$ 175	\$ 129	\$ 162
Repurchase agreements	\$ 7,307	\$ 1,103	\$ 5,490
Derivatives	\$ 7	\$ 5	\$ 32
Other payables accounts	\$ 2,693	\$ 11,454	\$ 11,116
Collateral sold or pledged on guarantee	\$ 16,396	\$ -	\$ -

As of December 31, 2016, 2015 and 2014, the most significant transactions carried out by the Institution with related and affiliated companies (at face values) were as follows:

	2016	2015	2014
Income by-			
Interest	\$ 376	\$ 178	\$ 154
Corporate services	\$ 8	\$ 7	\$ 19
Expenses by-			
Interest and commissions	\$ 702	\$ 285	\$ 168
Corporate services	\$ 85	\$ 66	\$ 130
Gains/losses on financial assets and liabilities (net)	\$ 92	\$ 1,701	\$ 1,655

Management considers that transactions with related parties were performed according to the terms that would be utilized with or between independent parties for comparable transactions.

19. Labor benefits

Under Mexican Labor Law, the Institution is liable for pensions, severance payments and seniority premiums to employees terminated under certain circumstances.

Each year, the Institution records the net periodic cost for defined benefits (PNBD) to create an obligation from seniority premiums, pensions and severance payments as it accrues based on actuarial calculations prepared by independent actuaries, which are based on the projected unit credit method and the parameters established by the Commission. Therefore, the liability is being accrued which at present value will cover the obligation from benefits projected to the estimated retirement date of the Institution's employees.

As of December 31, 2016, 2015 and 2014, balances and activity reflected in employee benefits, which include, seniority premiums, pensions and severance payments, were as follows:

	2016	2015	2014
Defined benefit obligation	\$ 493	\$ 456	\$ 375
Plan assets	(150)	(144)	(140)
Underfunded status	343	312	235
Unamortized:			
Past service cost	(107)	(133)	(141)
Past services not recognized	(16)	(21)	7
Net projected liability	\$ 220	\$ 158	\$ 101

As of December 31, 2016, 2015 and 2014, the net projected liabilities for severance payments at the end of the employment relationship for reasons other than restructuring are \$64, \$66 and \$53, respectively.

Net periodic cost for defined benefits consists of the following:

	2016	2015	2014
Service cost for the year / Interest net related to PNBD	\$ 38	\$ 35	\$ 26
Financial cost and expected return on plan assets	23	14	8
Recycling of unrecognized gains or losses	1	-	-
Amortization of transition liability, labor cost of past service and actuarial gain	<u>(32)</u>	<u>8</u>	<u>1</u>
Net cost	<u>\$ 30</u>	<u>\$ 57</u>	<u>\$ 35</u>
PNBD remeasurement recorded in comprehensive income	5	-	-
Gradual recognition in retained earnings	<u>27</u>	<u>-</u>	<u>-</u>
Defined benefits cost	<u>\$ 62</u>	<u>\$ 57</u>	<u>\$ 35</u>

The economic assumptions used were as follows:

	2016	2015	2014
Discount rate	8.12%	7.57%	7.09%
Expected rate of return of assets	8.12%	7.57%	7.09%
Rate of wage increases	4.50%	3.50%	4.00%

The changes in the liability net related to defined benefits were as follows:

	2016	2015	2014
Opening balance (face value)	\$ 158	\$ 101	\$ 67
Payment of benefits and fund contributions	-	-	(1)
Net cost of the period and profit and losses recognition	<u>62</u>	<u>57</u>	<u>35</u>
Net projected liability	<u>\$ 220</u>	<u>\$ 158</u>	<u>\$ 101</u>

As of December 31, 2016, 2015 and 2014, such assets were invested as follows:

	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Capital market	\$ 40	27%	\$ 28	20%	\$ 39	28%
Money market	98	65%	116	80%	91	65%
Repurchase market	<u>12</u>	8%	<u>-</u>	-	<u>10</u>	7%
Total	<u>\$ 150</u>		<u>\$ 144</u>		<u>\$ 140</u>	

As of December 31, 2016, 2015 and 2014, there is no fund created for severance payments at the end of the employment relationship for reasons other than restructuring.

Changes in the present value of the defined benefits obligation:

	2016	2015	2014
Present value of the defined benefits obligation as of January 1	\$ 456	\$ 375	\$ 270
Actual payment of benefits during the year	-	(7)	(14)
Actuarial (loss) profit in defined benefit obligation	(3)	27	71
Cost of the year	<u>40</u>	<u>61</u>	<u>48</u>
Present value of the defined benefits obligation as of December 31, of each year	<u>\$ 493</u>	<u>\$ 456</u>	<u>\$ 375</u>

The main items giving rise to a deferred PTU asset (liability) are:

	2016	2015	2014
Deferred PTU asset:			
Provisions	\$ 8	\$ 22	\$ 18
Labor benefits	21	15	11
Gain on derivative financial instrument transaction	67	-	-
Allowance for loan	30	17	5
Others	<u>14</u>	<u>9</u>	<u>-</u>
Total	<u>140</u>	<u>63</u>	<u>34</u>
Deferred PTU liability:			
Loss on derivative financial instrument transaction	-	(12)	(15)
Advance payments	(7)	(4)	-
Others	<u>-</u>	<u>-</u>	<u>(3)</u>
Total	<u>(7)</u>	<u>(16)</u>	<u>(18)</u>
Total asset	<u>\$ 133</u>	<u>\$ 47</u>	<u>\$ 16</u>

The deferred PTU recorded in the results of the period amounted \$(85), \$(31) and \$4 in 2016, 2015 y 2014, respectively.

20. Obligations arising from settlements of transactions

As of December 31, 2016, 2015 and 2014, obligations arising from settlement of transactions are as follows:

	2016	2015	2014
Creditors from operations by foreign exchange from 24 to 96 hours	\$ 25,704	\$ 20,862	\$ 20,249
Creditors for settlement of transactions of securities loan	-	110	95
Creditors for settlement of transactions of derivatives	42	10	18
Total	<u>\$ 25,746</u>	<u>\$ 20,982</u>	<u>\$ 20,362</u>

21. Sundry creditors and other payables

As of December 31, 2016, 2015 and 2014, sundry creditors and other payables were as follows:

	2016	2015	2014
Employee retirement obligation provision	\$ 370	\$ 302	\$ 241
Funds	<u>(150)</u>	<u>(144)</u>	<u>(140)</u>
	220	158	101
Suppliers	57	45	30
Creditors from operations (1)	513	452	378
Intercompany payables	4	3	6
Payable commissions, bounds and other gratifications	515	281	140
Contingent liabilities	81	52	-
Various taxes and social security contribution	119	56	35
Taxes withheld	61	43	45
Reclassification of creditors bank balances	103	54	30
Others	<u>571</u>	<u>299</u>	<u>429</u>
	<u>\$ 2,244</u>	<u>\$ 1,443</u>	<u>\$ 1,194</u>

- (1) Based on the internal accounting policy for the cancellation of unidentified customer deposits, whose aging equals or exceeds three years as of the deposit date, at December 31, 2016, 2015 and 2014 the Institution canceled a balance of \$42, \$31 and \$92, respectively.

22. Income taxes

The Institution is subject to ISR, in accordance with ISR Law as of December 31, 2016 and 2015, the rate was at 30% and will continue at the same percentage thereafter.

Reconciliation of the accounting tax result - The main items affecting the determination of the Institution's tax result were the annual adjustment for inflation, provisions, the difference between depreciation and accounting and tax depreciation and amortization, the difference between the accounting increase of the preventive credit risk estimate, provisions created for the expenses of prior years that were settled during the current year and the valuation of the financial derivatives instruments.

Tax loss carryforwards - As of December 31, 2016, the Institution does not have ISR tax loss carryforwards.

Deferred taxes - Deferred taxes amounted \$615, \$223 and \$75 as of December 31, 2016, 2015 and 2014, respectively.

Management does not record a reserve on deferred tax (asset), since it considers a high probability that it can be recovered, in accordance with the financial and tax projections.

The deferred tax is recorded in the statement of income or in the shareholders' equity in accordance with the item that gives origin it.

At December 31, 2016, 2015 and 2014, deferred taxes are composed as follows:

	2016	2015	2014
Deferred ISR asset:			
Provisions	\$ 24	\$ 65	\$ 15
Labor obligations	64	46	32
Allowance for loan losses	89	52	14
Financial instruments valuation	201	-	-
Others	127	60	14
Subtotal	505	223	75
Deferred ISR liability:			
Prepaid expenses	(23)	(13)	-
Valuation of derivative instrument	-	(35)	-
Others	-	-	(9)
Subtotal	(23)	(48)	(9)
Deferred PTU asset	133	47	16
Deferred taxes of subsidiaries	(135)	(110)	(76)
Net deferred taxes assets (liabilities)	<u>\$ 480</u>	<u>\$ 112</u>	<u>\$ 6</u>

The reconciliation of the legal ISR and the effective rate of main entities of the Institution, expressed as a percentage of profit before ISR are:

	2016	2015	2014
Legal rate	30%	30%	30%
Valuation of investment securities	6%	6%	(7%)
Annual adjustment for inflation	(1)%	(3%)	12%
Non deductible	-	1%	(5%)
Others	(17)%	(4%)	-
Effective tax rate	<u>18%</u>	<u>30%</u>	<u>30%</u>

Other tax issues:

As of December 31, 2016, 2015 and 2014, the Institution, as individual entity, has the following balances for significant tax measures:

	2016	2015	2014
Contributed capital account	<u>\$ 3,666</u>	<u>\$ 2,931</u>	<u>\$ 2,270</u>
Net tax income account	<u>\$ 3,833</u>	<u>\$ 2,741</u>	<u>\$ 2,496</u>

23. Stockholders' equity

As of December 31, 2016, 2015 and 2014, capital stock, at par value, was as follows:

	Number of shares			Amount		
	2016	2015	2014	2016	2015	2014
Fixed capital - Series "O" Shares	<u>2,740,471</u>	<u>2,124,571</u>	<u>1,524,573</u>	<u>\$ 2,741</u>	<u>\$ 2,125</u>	<u>\$ 1,525</u>
Total	<u>2,740,471</u>	<u>2,124,571</u>	<u>1,524,573</u>	<u>\$ 2,741</u>	<u>\$ 2,125</u>	<u>\$ 1,525</u>

The Stockholders' Ordinary General Meeting of March 22, 2016 declared dividends of \$156.

Through Document No. 312-3/113694/2016, the Commission approved the capital increase of \$616 through contributions for future capital increases paid on September 2015 and pending approval.

Foreign corporations that exercise functions of authority may not participate under any circumstances in the capital of the Institution. National financial entities cannot do either, including those which form part of the Institution, except when they act as institutional investors, pursuant to Article 13 of the Law of Credit Institutions.

In cases where dividends are distributed prior to paying the taxes applicable to the Institution, such tax must be paid when the dividend is distributed; therefore, the Institution must keep track of profits subject to each rate.

Capital reductions will incur in taxes on the excess of the amount distributed against the capital tax value, as set forth in the Income Tax Law.

The Institution requires the creation of a legal reserve equal to 10% of net profits of each year, should be separated and transferred to a capital reserve, until it equals the amount of the share capital paid. While these entities exist, this reserve can only be distributed to stockholders as share dividends.

Dividends paid from the profits generated from January 1, 2014 to residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Institution. Nonresidents may apply treatments to avoid double taxation.

24. Capital ratio (latest information submitted to Central Bank) (Unaudited)

As of December 31, 2016, 2015 and 2014, in accordance with the capital requirements in effect applicable to full service banks, the Institution presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

	2016	2015	2014
Net capital / required capital	1.85%	2.08%	1.99%
Basic capital / assets subject to credit, market and operational risk	14.77%	16.62%	15.95%
Net capital / assets subject to credit risk	19.26%	24.43%	22.60%
Net capital / assets subject to credit, market and operational risk	14.77%	16.62%	15.95%

The capitalization ratio of the Institution was updated and submitted to the Central Bank on January 20, 2017.

As of December 31, 2016, 2015 and 2014, the net capital used to calculate the capital ratio is as follows:

	2016	2015	2014
Basic capital:			
Stockholder's equity disregarding convertible securities and subordinate debt	\$ 5,770	\$ 5,746	\$ 4,402
Less:			
Organization costs and other intangible	(328)	(44)	(173)
Investment in shares of entities	(1,375)	(1,254)	(1,381)
	(1,703)	(1,298)	(1,554)
Complementary capital:			
Allowance for loan losses	298	176	112
Total net capital	\$ 4,365	\$ 4,624	\$ 2,960

	2016		2015		2014	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Market risk:						
Transactions with nominal rate and above par rate in Mexican pesos	\$ 1,600	\$ 128	\$ 2,402	\$ 192	\$ 1,897	\$ 152
Transactions with real rate	1,650	132	1,940	155	275	22
Transactions with nominal rate in foreign currency	800	63	891	71	556	44
Transactions with shares and related to shares	150	12	154	12	90	7
Foreign exchange transactions	376	30	135	11	618	49
Transactions in UDIS relating INPC	11	1	10	1	9	-
For impact Gamma	-	-	137	11	-	-
Subtotal	4,587	366	5,669	453	3,445	274
Credit risk:						
Deposits and loans	18,275	1,462	11,612	929	8,303	664
From repurchase and derivatives counterparties	1,350	108	576	46	621	48
From issuers of debt securities in position	1,475	119	1,373	110	960	79
From long-term investment in shares and other assets	713	57	1,150	92	1,424	114
From guarantees and credit lines and securitization	837	66	892	71	598	48
From collateral issuers and persons received	12	1	7	1	-	-
Transactions with related parties	-	-	626	50	-	-
Subtotal	22,662	1,813	16,236	1,299	11,906	953

	2016		2015		2014	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Operational risk:	<u>2,293</u>	<u>183</u>	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>
Total assets at risk	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>

At December 31, 2016, 2015 and 2014, weighted positions by market risk are as follows:

	2016		2015		2014	
	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement
Market risk	\$ 4,587	\$ 366	\$ 5,669	\$ 453	\$ 3,445	\$ 274
Credit risk	22,662	1,813	16,236	1,299	11,906	953
Operational risk	<u>2,293</u>	<u>183</u>	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>
	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>

See the web page www.monex.com.mx for more information related to Appendix 1-0 of the Provisions.

25. Ratings

As of December 31, 2016, the Institution has the following ratings:

	Standard & Poor's	Fitch Ratings
National level-		
Short- term	MxA-1	F1(mex)
Long-term	MxA+	A+(mex)
Financial strength-		
Outlook	Stable	Stable
Released date	April 29, 2016	Nov 24, 2016

26. Contingencies and commitments

- Lawsuits** - Over the normal course of business, the Institution has been involved in certain lawsuits which are not expected to significantly affect their financial position or future results of operations. Provisions have been recognized for those matters representing probable losses. As of December 31, 2016, the Institution has contingency reserves for \$81, which are included in "Sundry creditors and other accounts payable". The Institution's management considers the reserve is reasonable in accordance with its internal and external legal counsel opinion. As of December 31, 2015 and 2014 the Institution does not have provisions for contingencies.
- Administered loan portfolio** - As discussed in Note 9, the portfolio administered by the Institution derived from the sales made and equity held under the outline agreement executed with Exim-Bank and Pefco is for the amount of \$22, \$206 and \$202 at December 31, 2016, 2015 and 2014, respectively. In relation to this loan portfolio, the Institution has committed to assume all credit risks in the event of noncompliance with the terms agreed with Exim-Bank regarding the documentation of each loan. However, management considers that the possibility of a refund to Exim-Bank is unlikely.
- Commitment** - As of December 31, 2016 the Institution has service contracts (to receive), related to its operation, for 3% and at December 31, 2015 represents 4.9% and at December 31, 2014 in less than 4.0%, of expenses, which are part of the Institution's current expenses.

27. Memorandum accounts

Memorandum accounts are not included in the balance sheet and only the memoranda accounts in which transactions directly related to the balance sheet are recorded, such as collateral received in guarantee by the Institution, loan commitments, collateral received and sold or delivered in guarantee and accrued interest not collected of non performing portfolio.

Aside from the above memoranda accounts, the Institution also has the following:

a. *Trust mandate transactions (unaudited) –*

As of December 31, 2016, 2015 and 2014, the Institution administered the following trusts and mandates:

	2016	2015	2014
Trusts under-			
Administration	\$ 82,727	\$ 71,859	\$ 62,234
Guarantee	4,517	4,302	2,239
Investment	<u>1,689</u>	<u>2,439</u>	<u>4,055</u>
Total transactions under trust or mandate	<u>\$ 88,933</u>	<u>\$ 78,600</u>	<u>\$ 68,528</u>

As of December 31, 2016, 2015 and 2014, the income from the administration of such assets was \$94, \$77 and \$61, respectively.

b. *Goods held in custody or administration (unaudited) -*

As of December 31, 2016, 2015 and 2014, other record accounts have a balance of \$3,660, \$3,106, and \$2,707, respectively.

28. Financial margin

As of December 31, 2016, 2015 and 2014, the financial margin was as follows:

	2016	2015	2014
Interest income:			
Investment securities, debt and equity	\$ 1,295	\$ 780	\$ 524
Bank and other loans	3	7	19
Deposits with financial institutions	39	18	29
Loan portfolio	953	544	364
Others	<u>44</u>	<u>25</u>	<u>34</u>
	2,334	1,374	970
Interest expenses:			
Interest from repurchase agreements	(893)	(350)	(171)
Interest on bank and other loans	(60)	(42)	(30)
Demand deposits	(54)	(46)	(53)
Time deposits	(536)	(318)	(336)
Others	<u>(5)</u>	<u>(2)</u>	<u>-</u>
	(1,548)	(758)	(590)
Financial margin	<u>\$ 786</u>	<u>\$ 616</u>	<u>\$ 380</u>

29. Gains/losses on financial assets and liabilities (net)

For the years ended December 31, 2016, 2015 and 2014, the main items comprising the gains/losses on financial assets and liabilities (net) are as follows:

	2016	2015	2014
Foreign exchange result:			
Valuation	\$ (6)	\$ (3)	\$ 29
Realized gains or losses	<u>2,454</u>	<u>3,380</u>	<u>2,865</u>
	2,448	3,377	2,894
Derivatives result:			
Valuation	(185)	(64)	323
Realized gains or losses	<u>2,654</u>	<u>620</u>	<u>(136)</u>
	2,469	556	187
Trading securities result:			
Valuation	(136)	(16)	24
Realized gains or losses	<u>292</u>	<u>(121)</u>	<u>138</u>
	156	(137)	162
Equity result:			
Valuation	4	1	1
Realized gains or losses	<u>-</u>	<u>-</u>	<u>-</u>
	4	1	1
Total	<u>\$ 5,077</u>	<u>\$ 3,797</u>	<u>\$ 3,244</u>

30. Segment information

As of December 31, 2016, 2015 and 2014, the Institution identified operating segments within its different business and it considers each as part of its internal structure and with its own profit risks and opportunities. These segments are regularly reviewed in order to assign operating monetary resources and evaluate their performance.

2016	Foreign exchange	Banking products	International	Derivative	Loans and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 1,295	\$ 4	\$ 36	\$ 956	\$ -	\$ 43	\$ 2,334
Interest expense	-	(893)	-	-	(650)	-	(5)	(1,548)
Allowance for loan losses	-	-	-	-	(146)	-	-	(146)
Commission and fee income	81	1	11	-	43	94	3	233
Commission and fee expense	(6)	(10)	(29)	(11)	-	-	(81)	(137)
Gains/losses on financial assets and liabilities (net)	2,467	160	1,930	520	-	-	-	5,077
Administration and marketing expenses	(1,328)	(758)	(1,522)	(290)	(542)	(49)	(131)	(4,620)
Other operating income (expenses), net	-	-	(4)	-	41	-	109	146
Current income taxes	(197)	(113)	(86)	(43)	(80)	(7)	(19)	(545)
Deferred income taxes	122	70	(3)	27	49	5	12	282
Total	\$ 1,139	\$ (248)	\$ 301	\$ 239	\$ (329)	\$ 43	\$ (69)	\$ 1,076
2015	Foreign exchange	Banking products	International	Derivative	Loans and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 780	\$ 5	\$ 24	\$ 544	\$ -	\$ 21	\$ 1,374
Interest expense	-	(350)	-	-	(364)	-	(44)	(758)
Allowance for loan losses	-	-	-	-	(60)	-	-	(60)
Commission and fee income	76	1	9	-	43	77	3	209
Commission and fee expense	-	(15)	(22)	(9)	(3)	-	(95)	(144)
Gains/losses on financial assets and liabilities (net)	2,319	(137)	1,281	334	-	-	-	3,797
Administration and marketing expenses	(1,486)	(399)	(975)	(222)	(364)	(48)	(163)	(3,657)
Other operating income (expenses), net	-	-	4	-	-	(57)	231	178
Current income taxes	(163)	(44)	(59)	(24)	(40)	(5)	(18)	(353)
Deferred income taxes	58	15	(21)	9	14	2	6	83
Equity in income of unconsolidated associate companies	-	-	-	-	-	-	1	1
Total	\$ 804	\$ (149)	\$ 222	\$ 112	\$ (230)	\$ (31)	\$ (58)	\$ 670
2014	Foreign exchange	Banking products	International	Derivative	Loans and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 524	\$ 3	\$ -	\$ 364	\$ -	\$ 79	\$ 970
Interest expense	-	(171)	-	-	(389)	-	(30)	(590)
Allowance for loan losses	-	-	-	-	(48)	-	-	(48)
Commission and fee income	66	-	9	-	74	61	7	217
Commission and fee expense	-	(13)	(14)	(11)	(18)	-	(109)	(165)
Gains/losses on financial assets and liabilities (net)	2,052	163	862	167	-	-	-	3,244
Administration and marketing expenses	(1,356)	(440)	(652)	(129)	(281)	(39)	(139)	(3,036)
Other operating income (expenses), net	-	-	(5)	-	-	(1)	155	149
Current income taxes	(89)	(29)	(41)	(8)	(18)	(3)	(9)	(197)
Deferred income taxes	(2)	(1)	(19)	-	(1)	-	-	(23)
Total	\$ 671	\$ 33	\$ 143	\$ 19	\$ (317)	\$ 18	\$ (46)	\$ 521

31. Comprehensive risk management (unaudited)-

Applicable standards-

This disclosure is supplemental to the obligation to disclose information on adopted risk management policies, procedures and methodologies, together with information on potential losses by risk and market type.

Management has policies and procedures manuals which follow the guidelines established by the Commission and Central Bank to prevent and control the risks exposure the Institution is incurs based on the transactions it performs.

The assessment of policies, procedures, functionality of risk measurement models and systems, compliance with risk management procedures and assumptions, parameters and methodologies used by risk analysis information systems is carried out by an independent expert, as required by the Commission.

This assessment presented in “Prudential risk management provision” and “Review of risk measurement valuation and procedures model” reports, which are presented to the Board of Directors, Risk Committee and General Management.

a. *Environment -*

The Institution identifies, manages, supervises, controls, discloses and provides information on risks through its Comprehensive Risk Management Unit (UAIR) and the Risk Committee, which jointly analyze the information received from business units.

To enable it to measure and evaluate the risks resulting from its financial transactions, the Institution has technological tools to calculate the Value at Risk (VaR), while also performing supplemental stress testing. Likewise, the Institution has developed a plan allow operations continuity in the event of a disaster.

The UAIR distributes daily risk reports, together with monthly risk information to the Risk Committee and Audit Committee. Similarly, it presents quarterly risk reports to the Board of Directors.

b. *Risk management entities -*

The Board of Directors is responsible for establishing risk management policies. However, according to established policies, it delegates responsibilities for implementing risk identification, measurement, supervision, control, information and disclosure procedures to the Risk Committee (RC) and General Management.

The policies approved by the Board of Directors are documented in the Comprehensive Risk Management Manual (MAIR), which includes risk management objectives, goals, procedures and maximum risk exposure tolerances.

The RC holds monthly meetings and ensures that transactions reflect the operating and control objectives, policies and procedures approved by the Board of Directors. Likewise, the RC delegates responsibility for providing comprehensive risk monitoring and follow-up to the Comprehensive Risk Management Unit (UAIR).

In urgent cases and depending on market conditions or the specific needs of different business units, the RC holds extraordinary meetings to determine the increase of established limits or temporary limit excesses.

The Risk Lines Committee holds weekly meetings to evaluate the risk lines used for foreign exchange transactions.

c. ***Market risk -***

The Institution evaluates and provides follow-up on all positions subject to market risks based on Value at Risk models which measure the potential loss of a position or portfolio associated with risk factor movements with a 99% reliance level and a one-day horizon.

The UAIR also prepares a GAP analysis among rates used for assets and liabilities denominated in Mexican pesos and foreign currency. The GAP analysis is represented by assets and liabilities with rates at different moments in time, while considering the characteristics of the respective rates and time frame.

d. ***Liquidity risk -***

The UAIR calculates daily liquidity GAPS (time at which interest or principal is received) based on the cash flows from total financial assets and liabilities of the Institution.

The Institution quantifies its liquidity risk exposure by preparing cash flow projections which consider all assets and liabilities denominated in Mexican pesos and foreign currency, together with the respective maturity dates.

The Treasury Department of the Institution is responsible for ensuring the conservation of a prudent liquidity level in relation to the Institution's needs. In order to reduce its risk level, the Institution keeps call money lines open in U.S. dollars and Mexican pesos with different financial institutions.

Daily, the Treasury Department monitors the liquidity requirement for foreign currency provisions in Circular 3/2014 of the Central Bank.

e. ***Credit risk -***

The Institution's credit risk is managed in each phase of the credit process: promotion, evaluation, approval, implementation, follow-up, control and recovery.

This risk management is carried out by identifying, measuring, supervising and informing the different corporate bodies and business units of the risks to which the credit portfolios and the individual credits are exposed.

Individual risks are managed by means of expert analysis, and by classifying the portfolio of each borrower and each credit.

For credit portfolios the risk is managed through the establishment and follow-up of criteria such as: concentration limits, financing limits, indicators of portfolio quality, analysis of the evolution of risk indicators and trends.

Furthermore, there is a follow-up methodology in place for the entire portfolio, in which policies and parameters are applied to classify the risk level of the borrowers, and criteria are also established to manage borrowers considered as high risk.

The Recovery Unit plays an active role in the process of risk management and portfolio follow-up, with the aim of minimizing the risks for the Institution. Furthermore, the Institution makes the classification of each customer using the technology established by the Commission, which considers aspects related to financial risk, payment experience and collateral.

As established in the Provisions, the Institution established a maximum credit risk exposure limit equal to 40% of basic capital for an individual or entity or group of entities constituting a joint risk; and report it, periodically, to the UAIR, CR and the Board of Directors.

f. ***Operating risk -***

The Comprehensive Risk Management Manual (MAIR) and Operating Risk Management Manual (MARO) establish policies and procedures for monitoring and control of operating risks. The Institution has implemented the risks headquarters and controls to get a qualitative qualification of the impact and frequency of the risks.

Through the classification of Risks, catalogues of risks are being integrated to determinate possible losses if such risks come true before the realization of operational risk are identified and the will be recognized in the future.

Risk frequency and impact classifications have been utilized to create risk maps for the different processes implemented by the Institution; these risk maps indicate the tolerance levels applicable to each risk.

Scale	Level
1	Low
2	Medium
3	High

- The maximum tolerance level utilized by the Institution is 3.
- Accordingly, each identified operating risk must be classified at levels 1 and 2 (Low - Medium) of the scale.

General Director of the Institution, CR and to the areas involved must be informed immediately, if some identifying operational risks exceed the tolerance levels.

These levels indicate the possible economic loss that could be suffered by the Institution if a given risk materializes.

The Institution has built an historic database with the information of the losses incurred by operational risks. Thus, they will be able to generate quantitative indicators to monitor the operational risk in the operations.

g. ***Legal risk -***

The Institution has established policies and procedures in the MARO and implements the same process as that used for operating risks.

h. ***Technological risk -***

The Institution has policies and procedures for systems operation and development.

Regarding technological risks, the Institution has policies and procedures contained in MARO and implements the same process as that used for operational and legal risks.

i. ***Quantitative information (unaudited)***

a) ***Market risk -***

At December 31, 2016, 2015 and 2014, the VaR was \$30, \$14 and \$6, respectively (unaudited) and with a 99% reliance for one day. This value represents the maximum loss expected during one day and is situated within the limits established by the Institution.

At December 31, 2016, 2015 and 2014, portfolio concentration by segment was as follows (unaudited):

	2016	2015	2014
Farming	\$ 596	\$ 406	\$ 60
Foods	513	257	108
Automotive	1,187	1,026	679
Commerce	1,132	740	805
Housing construction	550	150	119
Specialized construction	1,076	805	481
Pharmacist	12	13	-
Financial	2,155	1,456	897
Government	-	-	-
Hospitality / Restaurants (tourism)	1,290	1,183	540
Chemistry Industry	317	280	209
Real state	1,915	1,552	1,392
Manufacturing (manufacture of plastic)	906	614	484
Manufacturing (manufacture of electrical and electronic)	19	18	60
Manufacturing (manufacture of concrete products)	714	636	226
Manufacturing (other)	726	497	164
Mining and metals	484	351	308
Natural person	680	411	509
Suppliers (PEMEX)	597	902	545
Services	2,371	503	242
Transport and telecommunications	666	342	151
Others	<u>379</u>	<u>329</u>	<u>61</u>
Total	<u>\$ 18,285</u>	<u>\$ 12,471</u>	<u>\$ 8,040</u>

No market risk special treatment was identified in this period for securities available for sale.

Note: As of 31 December 2016 sectoral classification criteria including more industries to identify more accurately the risk are updated. For comparative purposes of this report the information regroups 2015 and 2014.

Market risk statistics

	VaR Minimum	VaR Average	VaR Maximum
Global	2	21	47
Derivatives	1	4	10
Money market	1	5	19
Foreign exchange	0.01	0.43	1.77

*The average value refers to the daily exposure of the money market, derivatives and foreign-exchange as of December 31, 2016.

b) **Credit risk -**

Corporate bonds portfolio.

The credit VaR of the corporate bonds portfolio of the Money market as of December 31, 2016 in the Institution was (0.986%) relative to an investment of \$10,400, whereas the credit stress of such portfolio was (10.48%) at the same date. The credit VaR was calculated using the Monte Carlo Simulation method with a confidence level of 99% on a one-year horizon; the stress was obtained by considering the following lower classification of each instrument.

	VaR	Expected loss	Expected non loss
Minimum	3.15%	0.69%	2.45%
Maximum	3.73%	0.81%	2.93%
Average	3.49%	0.77%	2.72%

Note: The figures presented are expressed in amounts relative to the value of the corporate bonds portfolio, for the daily exposure of December 31, 2016.

Commercial loan portfolio.

Every month the calculation of reserves is made for the commercial loan portfolio, in which the expected loss forms part of the result issued; the methodology applied refers to that established in the Provisions. This method also assigns the degree of risk for the operations.

Expected loss statistics of commercial loan portfolio.

	Minimum	Maximum	Average
Expected loss	253	298	273
Not expected loss	51	58	54
VaR	304	356	327

- The expected loss statistics refer to the daily exposure of December 31, 2016 for the commercial loan portfolio.

No significant variances were identified in this period in financial revenue or the economic value to report.

c) **Liquidity Risk -**

The Institution evaluates the expiration of the assets and liabilities of the balance sheet in Mexican pesos and foreign currency. The gap of liquidity in Mexican pesos is as follows (unaudited):

Year	Requirement ≤ 30 days	Requirement >30 days
2016	\$ (20,270)	\$ 19,123

The gap of liquidity in U.S. dollars is presented as follows (unaudited):

Year	Requirement ≤ 30 days	Requirement >30 days
2016	\$ 611	\$ 578

Liquidity risk statistical.

GAP total depreciation								
Statically	<=30	<=90	<=180	<=360	<=720	<=1800	>1800	Total
Minimum	(7,797)	828	751	1,045	1,875	2,750	2,373	5,890
Maximum	(5,113)	4,217	2,434	1,804	2,186	3,432	3,121	8,634
Average	(6,309)	2,500	1,844	1,519	1,995	3,054	2,845	7,448

GAP maturity total

Statically	<=30	<=90	<=180	<=360	<=720	<=1800	>1800	Total
Minimum	(7,667)	(1,859)	1,507	3,481	5,669	12,167	(5,265)	14,216
Maximum	(1,890)	3,561	4,309	5,506	8,264	16,137	(3,090)	23,376
Average	(5,576)	1,052	2,885	4,264	6,601	13,587	(4,018)	18,794

It corresponds to the statistics of "GAP Total" of the minimum, average and maximum.

*The statistics of the maturity GAP refer to the position of the money market, credit, derivatives and foreign-exchange portfolios of December 31, 2016.

Liquidity or sensitivity analysis considers the asset and liability positions based on an extreme scenario for the assessment of variances in economic value and, in relation to financial revenues, a sensitivity analysis due to interest rate changes (in thousands of Mexican pesos).

Repos renewal effect	Amount mmp	Var Absolut	Effect of Selling off unusual MD	Amount
Actual Cost	(161,647)		Value of securities	21,458,421
Sensitivity 1 *	(177,812)	(16,165)	Sensitivity 1	(4,890)
Sensitivity 2	(193,977)	(32,329)	Sensitivity 2	(48,796)
Stress 1	(210,142)	(48,494)	Stress 1	(477,519)
Stress 2	(226,306)	(64,659)	Stress 2	(931,824)
Sensitivity 1 = 10%,			Sensitivity 1 = 1bp,	
Sensitivity 2 = 20%,			Sensitivity 2 = 10bp,	
Stress 1 = 30%,			Stress 1 = 100bp,	
Stress 2 = 40%.			Stress 2 = 200bp.	
Effect of selling unusual Money market	Amount mmp		Interest paid on deposits	Current MTM MTM variation
Securities' value	29,723,982		Interest paid (actual)	
Sensitivity 1	(351,040)		Sensitivity 1 *	(5,715)
Sensitivity 2	(3,501,758)		Sensitivity 2	(10,202) (4,487)
Stress 1	(34,153,013)		Stress 1	(14,689) (8,975)
Stress 2	(66,384,757)		Stress 2	(19,177) (13,462)
Sensitivity 1 = 1bp,			Sensitivity 1 = 10%,	(23,664) (17,949)
Sensitivity 2 = 10bp,			Sensitivity 2 = 20%,	
Stress 1 = 100bp,			Stress 1 = 30%,	
Stress 2 = 200bp.			Stress 2 = 40%.	

d) ***Risk policies applied to derivative financial instruments-***

Market risks of transactions involving derivative financial instruments are limited because customer transactions are hedged through organized markets or inverse transactions with financial intermediaries.

These transactions involve a counterpart risk which is analyzed by the credit risk. Transaction amounts and initial margins are authorized and/or ratified by the Lines Committee.

For OTC derivatives transactions with customers, operating lines based on the analysis of the financial situation of each of the partners are determined. The credit risk covers customers requesting margins depending on the situation presenting.

In addition, customers are subject to margin calls at the end of the day or during the day if they face significant valuation losses in their open positions.

For foreign exchange transactions, credit risk is analyzed through the credit evaluation of the customers. The credit lines proposals are submitted to the credit line Committee, which can approve, deny or modify the proposal. Risk control is performed by monitoring the use of the lines and the corresponding payment behavior.

e) ***Detection of transactions with illegal resources –***

The Institution has a Communication and Control Committee which monitors compliance with applicable standards, while also notifying the involved areas and respective authorities of any transactions considered as unusual, significant or worrying according to SHCP provisions.

32. New accounting principles

As of December 31, 2016, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the financial statements of the Institution.

- a. Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017

NIF B-13, *Events after the date of the financial statements*, If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF D-3, *Employee Benefits* – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the *government bond market rate* or the *market rate for high-quality corporate bonds in absolute terms in a deep market*, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– *Application guidance*, B1– *Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market*. Early application is allowed.

- b. Improvements to NIF 2017 – The following improvements do not generate accounting changes:

Bulletin C-15, *Impairment in the value of long-lived assets and their disposal*

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements.

- c. The following NIF were issued and are effective January 1, 2018:

NIF C-9, *Provisions, contingencies and commitments*: The term probable replaced the term virtually unavoidable in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

At the date of issuance of these consolidated financial statements, the Institution has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

33. Authorization of the Financial Statements

On February 28, 2017 the issuance of the consolidated financial statements was authorized by Moisés Tikin Nickin, Chief Executive Officer of the Institution, Álvaro Alberto Calderón Jiménez, Chief Financial Officer, José Luis Orozco Rufz, Chief Internal Auditor and José Arturo Álvarez Jiménez, Director of Accounting and Tax and by the Board of Directors, who, in addition to the Commission may modify them.

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