



U.S.\$ 600,000,000 6.750% NC5 Notes
U.S.\$ 500,000,000 7.500% NC10 Notes

Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple, Grupo Financiero Banorte,
acting through its Cayman Islands Branch

6.750% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes
7.500% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank” or the “Issuer”), a multiple purpose bank incorporated in accordance with the laws of the United Mexican States (“Mexico”), acting through its Cayman Islands Branch, is offering U.S.\$600,000,000 in aggregate principal amount of its 6.750% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the “NC5 Notes”) and U.S.\$500,000,000 in aggregate principal amount of its 7.500% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the “NC10 Notes”) (the NC5 Notes and the NC10 Notes, collectively, the “Notes” and separately, each a “series of Notes”). Each series of Notes will be issued under a separate indenture. The Notes are perpetual instruments with no fixed maturity or fixed redemption date, unless previously redeemed as described in this offering memorandum. The Bank may redeem the NC5 Notes, in whole or in part, subject to certain regulatory requirements, at its option on September 27, 2024 (the “NC5 First Call Date”) and on any Interest Payment Date (as defined below) thereafter. The Bank may redeem the NC10 Notes, in whole or in part, subject to certain regulatory requirements, at its option on June 27, 2029 (the “NC10 First Call Date”) and on any Interest Payment Date thereafter. **THE BANK MAY ALSO REDEEM EACH SERIES OF NOTES SEPARATELY, IN WHOLE BUT NOT IN PART, SUBJECT TO CERTAIN REGULATORY REQUIREMENTS AND APPROVALS, AT ANY TIME, IF THERE ARE SPECIFIED CHANGES IN (1) MEXICAN OR CAYMAN ISLANDS LAWS AFFECTING THE WITHHOLDING TAX APPLICABLE TO PAYMENTS UNDER SUCH SERIES OF NOTES; (2) MEXICAN LAWS THAT RESULT IN A CAPITAL EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM); OR (3) APPLICABLE TAX LAWS THAT RESULT IN INTEREST ON SUCH SERIES OF NOTES NOT BEING DEDUCTIBLE BY THE BANK, IN WHOLE OR IN PART, FOR MEXICAN INCOME TAX PURPOSES. SEE “DESCRIPTION OF THE NC5 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION,” “DESCRIPTION OF THE NC10 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION,” “DESCRIPTION OF THE NC5 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION” AND “DESCRIPTION OF THE NC10 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION.”**

PRINCIPAL AND INTEREST ON EACH SERIES OF NOTES WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED HEREIN) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES OF EACH SERIES WILL BE WRITTEN DOWN AS DESCRIBED IN THIS OFFERING MEMORANDUM, WITHOUT THE POSSIBILITY OF ANY FUTURE WRITE-UP OR REINSTATEMENT OF SUCH PRINCIPAL, AND HOLDERS OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED THEIR RIGHT TO CLAIM OR RECEIVE REPAYMENT OF ANY WRITTEN DOWN PRINCIPAL AMOUNT, OR ANY ACCRUED AND UNPAID INTEREST WITH RESPECT THERETO, AS FURTHER DESCRIBED IN THIS OFFERING MEMORANDUM. SEE “DESCRIPTION OF THE NC5 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN” AND “DESCRIPTION OF THE NC10 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN.” INTEREST ON THE NOTES OF EACH SERIES WILL BE DUE AND PAYABLE ONLY AT THE BANK’S SOLE DISCRETION AND THE BANK WILL HAVE SOLE AND ABSOLUTE DISCRETION AT ALL TIMES AND FOR ANY REASON TO CANCEL ANY INTEREST PAYMENT IN WHOLE OR IN PART THAT WOULD OTHERWISE BE PAYABLE ON ANY INTEREST PAYMENT DATE. ADDITIONALLY, INTEREST DUE ON THE NOTES FROM THE BANK WILL BE MANDATORILY AND AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW AND REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). PAYMENTS OF INTEREST DUE ON THE NOTES OF EACH SERIES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF EACH SERIES OF NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON ANY WRITE-DOWN OF THE NOTES OF EACH SERIES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES OF SUCH SERIES WILL BE WRITTEN DOWN AND ANY AND ALL INTEREST WILL CONTINUE TO BE CANCELED. SEE “DESCRIPTION OF THE NC5 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS” AND “DESCRIPTION OF THE NC10 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS.”

The NC5 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs (as defined herein), will bear interest on the then Current Principal Amount (as defined herein) from time to time outstanding from and including June 27, 2019 (the “Issue Date”), to (but excluding) the NC5 First Call Date at an initial fixed rate *per annum* equal to 6.750%. Subject to a prior redemption and/or one or more Write Downs, the NC5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the NC5 First Call Date (such date, and each fifth anniversary thereafter, a “NC5 Reset Date”) to (but excluding) the next succeeding NC5 Reset Date, at a fixed rate *per annum* equal to the sum of (a) the then-prevailing Treasury Yield (as defined herein) on the second Business Day (as defined herein) immediately preceding the applicable NC5 Reset Date (the “NC5 Reset Determination Date”) and (b) 496.7 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC5 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC5 Reset Date. The NC10 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs (as defined herein), will bear interest on the then Current Principal Amount (as

defined herein) from time to time outstanding from and including June 27, 2019 (the “Issue Date”), to (but excluding) the NC10 First Call Date at an initial fixed rate *per annum* equal to 7.500%. Subject to a prior redemption and/or one or more Write Downs, the NC10 Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the NC10 First Call Date (such date, and each tenth anniversary thereafter, a “NC10 Reset Date”) to (but excluding) the next succeeding NC10 Reset Date, at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined herein) on the second Business Day (as defined herein) immediately preceding the applicable NC10 Reset Date (the “NC10 Reset Determination Date”) and (b) 547 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC10 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC10 Reset Date. Subject to the conditions described under “Description of the NC5 Notes—Interest Cancellation,” “Description of the NC10 Notes—Interest Cancellation,” “Description of the NC5 Notes—Trigger Event and Write-Down—Write-Down,” and “Description of the NC10 Notes—Trigger Event and Write-Down—Write-Down,” the Bank will pay interest on each series of Notes quarterly in arrears on June 27, September 27, December 27 and March 27 of each year (each an “Interest Payment Date”), commencing on September 27, 2019.

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

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

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

Investing in the Notes of either or both series involves risks. See “Risk Factors” beginning on page 33.

NC5 Notes’ Price: 100.00%, plus accrued interest, if any, from June 27, 2019.

NC10 Notes’ Price: 100.00%, plus accrued interest, if any, from June 27, 2019.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers (“QIB”) in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”). You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area (“EEA”), as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (“PI Instrument”) and the Markets in Financial Instruments Directive 2014/65/EU, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors in the EEA are referred to the section headed “Restrictions on marketing and sales to retail investors in the EEA” on page iii of this offering memorandum for further information.

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES) (“CNBV”). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) (“RNV”) MAINTAINED BY THE CNBV AND THEREFORE THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED AND SOLD, ON A PRIVATE PLACEMENT BASIS, IN MEXICO TO INVESTORS THAT QUALIFY AS INSTITUTIONAL INVESTORS OR ACCREDITED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND THE REGULATIONS THEREUNDER. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO AND THE TERMS OF THE NOTES. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, THE BANK’S SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING MEMORANDUM MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR’S RESPONSIBILITY.

Delivery of the Notes of each series will be made in book-entry form on or about June 27, 2019, through The Depository Trust Company (“DTC”) and its direct and indirect participants, including Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”).

Global Coordinator

Goldman Sachs & Co. LLC

Joint Book-Running Managers

Goldman Sachs & Co. LLC

BofA Merrill Lynch

Morgan Stanley

MUFG

June 20, 2019.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
AVAILABLE INFORMATION	VI
ENFORCEMENT OF JUDGMENTS	VII
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	VIII
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	X
SUMMARY	1
THE OFFERING	18
SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA	29
RISK FACTORS	34
USE OF PROCEEDS	76
EXCHANGE RATES AND CURRENCY	77
CAPITALIZATION	78
SELECTED CONSOLIDATED FINANCIAL INFORMATION	79
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	84
SELECTED STATISTICAL INFORMATION	112
BUSINESS	141
OUR CAYMAN ISLANDS BRANCH	165
RISK MANAGEMENT	167
MANAGEMENT	176
RELATED PARTY TRANSACTIONS	180
PRINCIPAL SHAREHOLDERS	181
THE MEXICAN FINANCIAL SYSTEM	182
SUPERVISION AND REGULATION	193
DESCRIPTION OF THE NC5 NOTES	229
DESCRIPTION OF THE NC10 NOTES	261
TRANSFER RESTRICTIONS	293
FORM OF NOTES, CLEARING AND SETTLEMENT ...	298
TAXATION	301
PLAN OF DISTRIBUTION	309
CERTAIN ERISA CONSIDERATIONS	316
LEGAL MATTERS	318
INDEPENDENT AUDITOR	319
GENERAL INFORMATION	320
ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP	A-1
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

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

Neither we nor the initial purchasers have authorized anyone to provide you with different or additional information from that contained in this offering memorandum, and neither we nor the initial purchasers take responsibility for any other information that others may give you. Neither we nor the initial purchasers are making an offer of the Notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the Notes.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to “the Bank” or “the Issuer” are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte. References to “Banorte,” “we,” “us” and “our” are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, together with our subsidiaries, but are not references to Grupo Financiero Banorte, S.A.B. de C.V., our parent company. References to “GFNorte” are to Grupo Financiero Banorte, S.A.B. de C.V., together with its subsidiaries and joint ventures.

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

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

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

We have submitted this offering memorandum solely to a limited number of QIBs in the United States and to non-U.S. persons, as defined in Regulation S, so that they can consider a purchase of Notes of either or both series. This offering memorandum has been prepared solely for use in connection with the placement of the Notes. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See “Transfer Restrictions.” The SGX-ST takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of SGD\$200,000 (or its equivalent in foreign currencies) for so long as such series of Notes are listed on the SGX-ST.

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

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

obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

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

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

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

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

Restrictions on Marketing and Sales to EEA Retail Investors

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

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

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of the Markets in Financial Instruments Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently, no key information document required by

Regulation (EU) No. 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

In particular, in June 2015, the U.K. Financial Conduct Authority (the “FCA”) published the PI Instrument, which took effect from 1 October 2015. In addition, (i) on 1 January 2018, the provisions of the PRIIPs Regulation on key information documents for packaged and retail and insurance-based investment products became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by January 3, 2018. Together, the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the “Regulations”.

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations.

The Issuer and each of the initial purchasers is required to comply with some or all of the Regulations. In addition, by purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

- (i) it is not a retail client as defined in MiFID II or the PI Instrument (as applicable);
- (ii) whether or not it is subject to the Regulations, it will not:
 - (A) sell or offer the Notes (or any beneficial interests therein) to retail clients (as defined in MiFID II or the PI Instrument (as applicable)); or
 - (B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II or the PI Instrument (as applicable)). In selling or offering Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and,
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

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

CAYMAN ISLANDS SELLING RESTRICTIONS

NO INVITATION, WHETHER DIRECTLY OR INDIRECTLY, MAY BE MADE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR THE NOTES UNLESS THE ISSUER IS LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE. THE NOTES MAY, HOWEVER, BE

**OFFERED AND SOLD TO ORDINARY NON-RESIDENT AND EXEMPTED COMPANIES IN THE
CAYMAN ISLANDS.**

AVAILABLE INFORMATION

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

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

ENFORCEMENT OF JUDGMENTS

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “should,” “consider,” “estimates,” “seeks,” “forecasts,” “will,” “expects,” “may,” “assume,” “intends,” “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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

- competition in the banking industry in Mexico;
- the profitability of our business;
- acquisitions and divestitures, and our ability to successfully integrate the operations of businesses or assets that we acquire;
- credit and other lending risks, including an increase in defaults on our loan portfolio;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital requirements or other requirements;
- limitations on our ability to freely determine interest rates, commissions and fees;
- interruptions or failures in our technology systems;
- changes in reserve and/or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) (the “Mexican Antitrust Commission”) with respect to our business and the Mexican banking industry generally, and by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) (“SHCP”) with respect to our lending to certain sectors;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- cyberattacks, terrorist and organized criminal activities, as well as geopolitical events;
- changes in requirements to make contributions to, or the receipt of support from, programs organized by the Mexican government;

- changes in overall economic, business, international trade, social and political conditions in Mexico and internationally, particularly in the United States;
- United States-Mexico-Canada Trade Agreement (the “USMCA”) ratification and implementation and other changes in international trade barriers and tariffs;
- changes in exchange rates, market interest rates or the rate of inflation;
- changes in our or Mexico’s domestic and international credit ratings;
- changes in the regulatory framework of the Mexican banking industry and in regulations relating to the products and services we offer or otherwise;
- the effect of new legislation, intervention by regulatory authorities, government directives and monetary and/or fiscal policy in Mexico by the government of Andrés Manuel López Obrador, who took office on December 1, 2018;
- changes in accounting principles and rules applicable to us;
- inability to retain certain key personnel and ability to hire additional key personnel; and
- other factors discussed under “Risk Factors” in this offering memorandum.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements

This offering memorandum includes:

- our audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, together with the notes thereto (our “Audited Consolidated Financial Statements”), and
- our unaudited condensed consolidated interim financial statements as of March 31, 2019 and for the three-month periods ended March 31, 2019 and 2018, together with the notes thereto (our “Unaudited Condensed Consolidated Interim Financial Statements,” and together with the Audited Consolidated Financial Statements, our “Financial Statements”).

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

Accounting Principles

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

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

Effects of the Merger of Banco Interacciones into the Bank

On July 13, 2018, the merger of Grupo Financiero Interacciones, S.A.B. de C.V. (“GFInter”) into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, S.A., Institución de Banca Múltiple, Grupo Financiero Interacciones (“Banco Interacciones”), the banking subsidiary of GFInter, merged into the Bank (the “Interacciones Merger”). As a result of the Interacciones Merger, we consolidated our position as the second largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

As a result of the Interacciones Merger, our Financial Statements for any period from and after July 13, 2018 are not fully comparable to prior periods, including our Unaudited Condensed Consolidated Interim Financial Statements and the other financial information as of and for the period ended on March 31, 2019 contained in this offering memorandum. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Our Financial Condition and Results of Operations—Effects of the Merger with Banco Interacciones.”

Currencies

The financial information appearing in this offering memorandum is presented in Mexican Pesos. In this offering memorandum references to “Pesos” or “Ps.” are to Mexican Pesos and references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to United States dollars. This offering memorandum contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps. 19.3779 per U.S. dollar, the rate calculated by the Mexican Central Bank on March 29, 2019, and published on March 29, 2019, in the Mexican Official Gazette of the Federation (*Diario Oficial de la Federación*) (the “Official Gazette”), based on the average of wholesale foreign exchange market quotes for transactions settling within two banking business days (the “Mexican Central Bank Exchange Rate”). As of March 29, 2019, the noon buying rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps. 19.3980 per U.S. dollar.

References herein to “UDIs” are to *Unidades de Inversión*, a Peso equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in Pesos is indexed to inflation on a daily basis, as measured by the change in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*) (the “NCPI”). Under a UDI-based loan or financial instrument, the borrower’s nominal Peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of Pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. As of March 29, 2019, one UDI was equal to Ps. 6.260628 (U.S.\$ 0.3231).

Terms Relating to Our Loan Portfolio

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

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

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

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

“Rediscounted loans” are Peso- and dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government’s development banks and are generally funded by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans. As mandated by the CNBV, total performing loans include the portfolio trusts (the “UDI Trusts”) holding our loans converted into UDIs that are consolidated in our Financial Statements. Under the UDI program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See “Selected Statistical Information—Debtor Support Programs.”

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

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

References in this offering memorandum to “allowance” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item. References in this offering memorandum to “provisions” are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income.

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

Terms Relating to Our Capital Adequacy

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

“Capital Conservation Buffer” refers to a minimum capital conservation buffer required to be maintained and comprised of Fundamental Capital (as defined below), which as of the date hereof is equivalent to 2.5% of total risk weighted assets, pursuant to Section III a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.

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

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

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

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

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

“General Rules Applicable to Mexican Banks” means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV, and as such regulations may be amended or superseded.

“Fundamental Capital” (*capital básico fundamental*) or “Core Equity Tier 1 Capital” or “CET1” means the amount of core capital of Tier 1 Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, common equity and surplus, contributions for future capital increases, retained earnings and capital reserves.

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

“Non-Fundamental Capital” (*capital básico no fundamental*) or “Non-Core Tier 1 Capital” or “Additional Tier 1 Capital” means the amount of non-core capital of Tier 1 Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, perpetual and convertible subordinated non-preferred indebtedness.

“Systemically Important Bank Capital Supplement” means the additional loss absorbency capital to be constituted and comprised of Fundamental Capital by D-SIBs to reflect the greater risk that they pose to the Mexican financial system.

“Tier 1 Capital” refers to the basic capital (*capital básico*) portion of the Total Net Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, also known as Fundamental Capital *plus* Non-Fundamental Capital, as such determination may be further amended from time to time.

“Tier 2 Capital” refers to the additional capital (*capital complementario*) portion of the Total Net Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, subordinated preferred indebtedness.

“Total Net Capital” refers to the net capital (*capital neto*), as such term is used in, and determined pursuant to, the Mexican Banking Law and the Mexican Capitalization Requirements, also known as Tier 1 Capital *plus* Tier 2 Capital.

Market Share and Ranking Information

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

SUMMARY

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

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders’ equity, that is not controlled by or affiliated to a non-Mexican financial institution. As of March 31, 2019, we ranked second among all Mexican banks in terms of loan portfolio and third in core deposits (a combination of demand deposits and time deposits), according to information published by the CNBV. With 120 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 11.5 million customers in Mexico as of March 31, 2019.

We are the banking subsidiary of GFNorte, the second largest financial services holding company in Mexico in terms of total assets as of March 31, 2019, according to information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte’s most significant subsidiary, representing approximately 73.5% of GFNorte’s total assets and 62.82% of its total equity, as of March 31, 2019.

As of March 31, 2019, we had total assets of Ps. 1,172.4 billion, total liabilities of Ps. 1,056.1 billion (including total deposits of Ps. 737.2 billion) and stockholders’ equity of Ps. 116.3 billion. In the three-month period ended March 31, 2019, we generated net income of Ps. 7.4 billion, and had a return on average equity (“ROAE”) of 26.2% (annualized average based on beginning and end-of-period balances) and a return on average total assets (“ROAA”) of 2.5% (annualized average based on beginning and end-of-period balances). In 2018, we generated net income of Ps. 24.8 billion, and had a ROAE of 25.5% (average based on beginning and end-of-period balances) and a ROAA of 2.2% (average based on beginning and end-of-period balances).

Our Capital Ratios were 18.1% for Total Net Capital, 16.3% for Tier 1 Capital and 13.81% for Core Equity Tier 1 Capital as of March 31, 2019, exceeding the minimum Capital Ratios that we are required to comply with at the end of 2018 under Mexican banking regulations, and applicable to us, of 11.18%, 9.18% and 7.68%, respectively. These Capital Ratios are inclusive of the Systemically Important Bank Capital Supplement. Given our status as a bank of systemic importance in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% over a four-year period, to be constituted in four equal parts in December of each year, on a cumulative basis, commencing in December 2016; accordingly, the first three portions of this supplement are now in place, which amount to 0.675%.

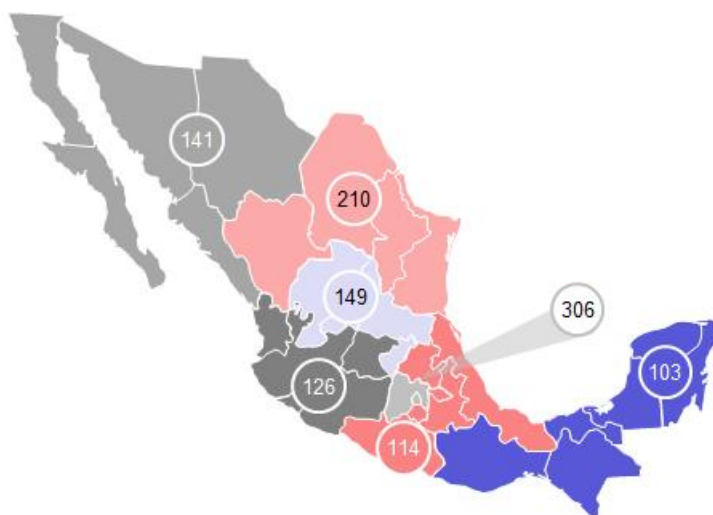
Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,149 branches, 8,453 ATMs (57% of which are located outside of our branches) and 160,701 points of sale (“POSs”), in each case, as of March 31, 2019. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We process approximately 274 million banking transactions per month, as of March 31, 2019. We had 22,782 employees as of March 31, 2019.

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

	As of or for the three-month period ended March 31,			As of or for the year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)		(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)		(Ps. millions, except percentages)
Total loan portfolio	39,160	758,830	623,988	39,693	769,174	615,714	567,032
Total assets	60,501	1,172,383	1,023,894	60,920	1,180,492	1,056,423	1,030,435
Total deposits	38,045	737,226	652,027	30,180	759,235	648,622	575,756
Total liabilities	54,499	1,056,082	933,350	55,325	1,072,090	970,361	937,648
Total stockholders' equity	6,002	116,301	90,544	5,594	108,402	86,062	92,787
Net income for the period	380	7,362	4,618	1,281	24,834	18,339	15,044
Return on average total assets (ROAA) ⁽²⁾		2.5%	1.8%		2.2%	1.8%	1.5%
Return on average equity (ROAE) ⁽³⁾		26.2%	20.9%		25.5%	20.5%	15.4%
Net interest margin ⁽⁴⁾		6.2%	6.0%		5.7%	5.7%	5.1%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2019 and as of and for the year ended December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps. 19.3779 per U.S.\$1.00. See "Exchange Rates and Currency."
- (2) Net income for the period divided by average total assets, based on beginning and end-of-period balances. For the three-month period ended March 31, 2019, determined on an annualized basis.
- (3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2019, determined on an annualized basis.
- (4) Net interest income divided by total interest-earning assets. Average interest-earning assets are determined based on daily monthly averages. For the three-month period ended March 31, 2019, determined on an annualized basis.

The following map shows our network of branches in Mexico as of March 31, 2019.



REGION	BRANCHES
Central	149
Mx North	150
Mx South	156
North	141
West	141
North	210
West	126
Pen	103
South	114
Total	1,149

The following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of March 31, 2019.

Banorte's Market Share								
	North	Central	West	Northwest	Mexico City	Peninsula	South	National
Branches	13.1%	9.8%	7.4%	8.7%	9.6%	7.8%	5.9%	9.0%
ATMs	23.1%	19.5%	13.4%	16.6%	13.2%	13.2%	11.0%	15.6%
Bank employees	24.5%	7.1%	7.2%	7.9%	6.5%	5.1%	3.9%	8.7%

Source: CNBV

Our Lines of Business

Our business is organized in two main segments: retail banking and wholesale banking. As of March 31, 2019, our retail banking loan portfolio was Ps. 276,382 million and wholesale banking was Ps. 482,448 million, representing 36.4% and 63.6% of our total loan portfolio, respectively.

- **Retail Banking.** This segment serves clients through our branches, ATM network, alternate channels (POSs, third party correspondents and online, telephone and mobile banking) and our contact center. The retail banking segment offers services to individuals, small- and medium-size enterprises (“SME”) and state and municipal governments. Products and services offered through this segment include checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, payroll dispersion accounts, as well as car, home and life insurance offered through a cross-selling agreement with our affiliate Seguros Banorte, S.A. de C.V. (“Seguros Banorte”).
 - *Consumer Banking:* We offer financial products and services for individuals through a multi-channel approach. Our investments in systems and technology over the past four years allow us to better target our products and services and to focus on the most profitable clients. The main products that we offer in this segment include mortgages, payroll loans, credit cards and automobile loans. As of March 31, 2019, our mortgage loan portfolio was Ps. 158,605 million, our payroll loan portfolio was Ps. 52,732 million, our credit card portfolio was Ps. 36,543 million and our automobile loan portfolio was Ps. 24,811 million, representing 58%, 19%, 14% and 9% of our total consumer loan portfolio, respectively.
 - *SME Banking:* We offer financial products and services for SMEs or individuals with business activities. We service our more than 423,765 clients in this segment through a specialized team of executives distributed through a network of 12 service centers and 1,149 offices in Mexico as of March 31, 2019. We provide, among others, the following main solutions: savings and investment, financing, and business insurance offered through a cross-selling agreement with Seguros Banorte. Products and services may be contracted individually, adapting to the volume of transactions of each company, or through our “Solución Integral PyME,” which allows contracting and activating several products and services through a single agreement. One of our main products is CrediActivo Comercial, a loan product targeted towards SMEs and issued in amounts of up to 2 million UDIs (equivalent to approximately Ps. 12.5 million, as of March 31, 2019). As of March 31, 2019, our total SME loan portfolio was Ps. 35,243 million, representing 4.6% of our total loan portfolio.
 - *State and Municipal Governments:* We offer products and services for Mexican state and municipal governments, including checking accounts, financing (short and long term loans frequently secured by federal contributions (aportaciones federales), cash management and payroll payment services. As of March 31, 2019, our total state and municipal government loan portfolio was Ps. 133,462 million, representing 17.6% of our total loan portfolio.
- **Wholesale Banking.** Our wholesale banking segment comprises Corporate and Enterprise Banking, Transactional Banking, Federal Government Banking and International Banking.

- *Corporate and Enterprise Banking.* Through this segment we specialize in comprehensive financial solutions for corporate and enterprise clients through several forms of specialized financing, including structured loans, syndicated loans, financing for acquisitions and investment plans. We also offer cash management, collections, trust services, payroll payment, checking accounts, lines of credit, and loans such as *CrediActivo Empresarial* (a product partially guaranteed by a Mexican development bank *Nacional Financiera, S.N.C.* (“NAFIN”)). Our clients in this segment generally consist of multi-national companies, large Mexican corporations and midsize enterprises operating in a wide range of sectors. We offer a client-oriented banking model, which establishes the role of the relationship managers as the central axis to attend all of our customers’ financial needs. As of March 31, 2019, our total corporate and enterprise banking loan portfolio was Ps.303,013 million, representing 40% of our total loan portfolio.
- *Transactional Banking.* Through our transactional banking division, we offer corporate and enterprise clients a comprehensive model of cash management solutions and online banking, encompassing sale, implementation and post-sale service, aiming to increase cross-selling levels. We launched a consolidated business model in 2014, which has resulted in a higher cross-selling ratio, better service and stronger ties with our clients.
- *Federal Government Banking.* Through this segment we provide financial services to the federal government, productive state enterprises, decentralized entities (such as social security institutions and public trusts) and other entities at the federal level. Products and services offered include checking accounts, loans, cash management and payroll payment services. We also offer comprehensive advisory services on public finance to increase tax collections and control and manage expenses, and we prepare financial diagnoses to design adequate profiles for debt payment through a solid financial and legal structure, aiming to strengthen our clients’ financial condition and credit quality. Serving these institutions also allows us to cross-sell checking accounts, credit card services and loan products. As of March 31, 2019, our total federal government loan portfolio was Ps. 52,396 million, representing 6.9% of our total loan portfolio.
- *International Banking.* Through this segment we offer products and services to our corporate and enterprise banking and SME clients to assist them with international trade needs, as well as providing correspondent banking services to foreign financial institutions. We have strategic agreements with financial institutions abroad, which allow us to offer highly competitive solutions and financial services to our clients, both locally and globally. Among the products and services offered to our import and export clients and to those with international or risk mitigation needs are: letters of credit, documentary collections, banking guarantees, stand-by letters of credit, letters of credit financing, cross-border financing for import and export transactions, and international transfer services. We also provide specialized local banking services to foreign-based companies with operations in Mexico.

Our History

We were founded in 1899 as Banco Mercantil de Monterrey, with a strong regional presence in Northeastern Mexico, particularly in the metropolitan area of Monterrey, Nuevo León, one of the country’s most important industrial centers.

Together with other Mexican commercial banks, Banco Mercantil de Monterrey was nationalized by the Mexican government in 1982. In 1986, Banco Mercantil de Monterrey merged with Banco Regional del Norte, another financial institution with headquarters in Monterrey, and became Banco Mercantil del Norte, *Sociedad Nacional de Crédito*. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to allow the total privatization of Mexican commercial banks, and the government enacted the Mexican Banking Law, which provided for private ownership of Mexican commercial banks. The privatization of Mexican commercial banks began in 1991.

GFNorte, our parent company, was incorporated in 1992 under the name “Grupo Financiero AFIN, S.A. de C.V.” (“AFIN”) as part of the privatization process of the Mexican banking system. In 1993 our shareholders acquired AFIN through a stock-for-stock exchange. As a result of this exchange, we became a subsidiary of AFIN and AFIN changed its name to “Grupo Financiero Banorte, S.A. de C.V.”

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

In 2006, we expanded our operations into the United States, through the acquisition of Inter National Bank (“INB”), a regional bank based in Texas with primary presence in the Rio Grande Valley and headquartered in McAllen, Texas. We sold our equity interest in INB in March 2017. Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, a money transfer company based in California.

In 2011, GFNorte merged with IXE Grupo Financiero, S.A.B. de C.V. (“IXE”) in a stock-for-stock transaction. IXE conducted its business through its own subsidiaries, the largest one being Ixe Banco, S.A., Institución de Banca Múltiple, IXE Grupo Financiero (“IXE Banco”), a commercial bank in Mexico focusing on middle- and upper-income customers. In 2012, GFNorte expanded its pension fund manager joint venture, first through a merger with Afore XXI, S.A. de C.V. (“Afore XXI”), and later in 2013, with the acquisition of Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (“Afore Bancomer”), resulting in the largest pension fund manager in Mexico. On April 15, 2013 and May 7, 2013, IXE Banco and Fincasa Hipotecaria, S.A. de C.V., *Sociedad Financiera de Objeto Múltiple, Entidad Regulada* (“Fincasa”), IXE’s specialized mortgage lender, received the authorization from the CNBV to be merged with and into us, with Banorte as the surviving entity. On May 2, 2017, we consolidated our credit card operations by merging our wholly-owned subsidiary Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R., with and into the Bank.

On July 13, 2018, the merger of GFInter into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank. As a result of the Interacciones Merger, we consolidated our position as the second largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

On January 25, 2018, the Board of Directors of Banorte approved the spin-off of Banorte USA Corporation (“Banorte USA”), and the subsequent investment of Banorte USA’s assets, including the total shareholders’ equity of INB Financial Corporation (“INBFC”) and the total shareholders’ equity of Uniteller Financial Services in Banorte Financial Services. The spin-off and the transfer of these assets occurred on December 14, 2018. This spin-off did not have any effect on our Financial Statements due to the fact that the Bank consolidates Banorte USA and Banorte Financial Services as of December 31, 2018.

Subsequent to the transfer of Uniteller Financial Services and INBFC’s assets to Banorte Financial Services, on January 14, 2019, Banorte USA was liquidated.

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

Market Opportunity

We believe that the credit market in Mexico continues to offer potential for growth given the relatively low levels of access to banking services among the Mexican population, coupled with the country's population age and expected economic growth.

The Mexican economy was the second largest in Latin America in terms of GDP in 2017. In recent years, it has remained resilient despite foreign exchange volatility and a complex global environment, posting real GDP growth rates of 2.0% and 2.3% in 2017 and 2016, respectively. The combination of a low unemployment rate (3.6% as of March 31, 2019), a slight increase of 6.6% of salaries in real terms and relatively contained core inflation (4.1% annualized inflation rate, for the three months ended March 31, 2019) has provided support to the economy through domestic demand. Mexico's favorable demographics further support the growth prospects in the financial sector. Mexico has the second largest population in Latin America and its young, economically active population is expected to expand considerably through 2030, supporting further the transition from the informal economy to the formal sector. According to the Mexican Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) ("INEGI"), in March 2019, the informal economy represented 56.8% of the total economically active population. Additionally, according to the World Bank, as of December 31, 2017, the domestic credit to private sector as a percentage of GDP in Mexico reached 35.5%, compared to 112.6% in Chile, 59.7% in Brazil and 192.2% in the United States. Mexico's low credit penetration represents a clear opportunity that has been reinforced by the government's efforts to increase access to bank lending and financial services in general in Mexico through the financial reform enacted in 2013.

Such stable macroeconomic environment and favorable country demographics, coupled with low credit penetration, has resulted in a healthy and consistent growth trend for the banking sector in Mexico in the last several years. According to CNBV data, Mexico's banking system has experienced loan growth of 11.8% compounded annual growth rate for the last five years, from 2014 to 2019, with stable non-performing loan ratios oscillating between 2.1% and 3.4%. The growth rate of total loans in the country has been supported by consistent growth in the deposit base, growing at 11.8% compounded annual growth rate from March 31, 2014 to March 31, 2019, allowing for a sound liquidity of the banking sector with loans-to-deposits ratios at 95% on average since 2014. Such combination of loans and deposits growth has led to sustained attractive returns for the Mexican banking system, with ROAE of 13.8% on average and persistently above 12.1% since 2014, as well as a strongly capitalized banking system with an average Total Net Capital at or above 14.2% since 2012. The G-7 Mexican Banks represent over 83.4% of the total loan portfolio and also over 81.7% of total deposits since 2014. The ROAE for the G-7 Mexican Banks has been above 12.1% since 2014 and the average Total Net Capital for the same group has been at or above 14.2% since 2014.

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

Competitive Strengths

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

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, which is the second largest financial group in Mexico as of December 31, 2018 in terms of assets, deposits and loan portfolio, and the largest controlled by Mexican investors, according to CNBV data, after it merged with GFInter. GFNorte has operated in the Mexican financial industry for 24 years under the “Banorte” brand name. We believe GFNorte’s long standing history in the Mexican market is recognized by our customers and the general public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

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

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of March 31, 2019, GFNorte had the largest retirement fund manager (*administradora de fondos para el retiro*) (“Afore”) in Mexico in terms of assets under management, with a market share of 22.5% of the pension system managed by Afores.

Leading Market Presence across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 265,174 corporate clients and over 11.5 million individual customers as of March 31, 2019. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 3.0% market share in terms of performing loans in 1992 to becoming the fourth largest bank in Mexico in terms of total assets (Ps. 1,172 billion), performing loans (Ps. 746 billion) and total deposits (Ps. 737 billion), with nationwide presence and a 14.5% market share of total loans as of March 31, 2019, according to the CNBV.

We are the third largest operator of POSs in Mexico, the fourth in ATMs and the sixth in branches, according to the CNBV, as of March 31, 2019. As of the same date, we had a 34.5% market share of the government banking sector, the largest in the Mexican banking system. As of the same date, we had a market share of 19.5% and 10.6% of mortgage loans and commercial loans, the second and fourth largest in the Mexican banking system, respectively.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We have maintained a solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 19 of the last 20 operating quarters (considering the period from April 2014 through March 2019). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and contact center with products and differentiated services. With a clear segmentation of customers, in retail banking we can offer services according to their specific profiles, through appropriate channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

The positive trend of our financial performance continued in the first three months of 2019 as we increased our net income by 59% as compared to the same period in 2018, while our ROAE and ROAA reached 26.2% and 2.5%, respectively, in the first three months of 2019 compared to 20.9% and 1.8%, respectively, in the same period in

2018. Our efficiency ratio improved year over year from 45.1% in the first three months of 2018 to 40.5% in the first three months of 2019. As of March 31, 2019, we had non-performing loans to total loans ratio of 1.7% and a coverage ratio, defined as allowance for loan losses divided by total non-performing loans, of 136.1%. We believe these ratios reflect our prudent risk management practices. We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and operating efficiency.

Strong Capital Base and Capitalization Ratios

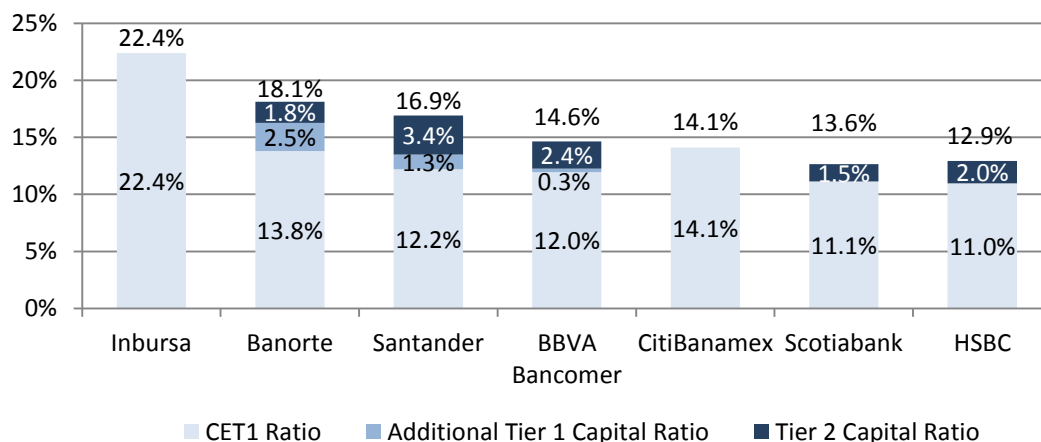
We believe we have a strong capital base, as evidenced by each of our Capital Ratios, which have been above the average for the G-7 Mexican banks during the past thirteen quarters (considering the period from January 2016 through March 2019). Mexican banks already comply with Basel III capitalization requirements and are well capitalized compared to other banks in more developed economies, and within this group of Mexican banks, we compare very favorably in terms of capitalization levels and composition of capital. As of March 31, 2019, our Fundamental Capital ratio was 13.8%, the third highest among the G-7 Mexican banks; our Additional Tier 1 Capital was 2.5%, the highest among the G-7 Mexican banks; and our Total Net Capital ratio was 18.1%, the second highest among the G-7 Mexican banks; in each case, according to data published by the CNBV.

With the offering of the Notes, we expect to offset the decrease in Tier 1 Capital resulting from a dividend payment made in June 2019 and strengthen further our Total Net Capital ratio, by increasing the Tier 1 Capital component. Tier 1 Capital is an important component of our capitalization and with a Tier 1 Capital ratio of 16.3% as of March 31, 2019, we are 4.6% above the current minimum of 9.18% required to us by the Mexican banking regulations to be classified as a grade II D-SIB. Our strong capital base permits us to continue our prudent growth, while maintaining an acceptable risk profile for our clients and shareholders.

In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. In July 2018, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and required to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.001%. We are required to implement and comply with these Capital Supplements over a four-year period to be constituted in four equal parts in December of each year, on a cumulative basis, commencing on December 31, 2016. Given our strong capital base, our Capital Ratios as of March 31, 2019 already complied with such Capital Supplement requirements as if they were to be fully implemented as of the date hereof.

The chart below presents the Capital Ratios for the G-7 Mexican Banks by total assets as of March 31, 2019, ranked by Total Capital Ratio.

Capitalization Ratios of Largest Mexican Banks By Total Assets
As of March 31, 2019 - Ranked by Total Capital Ratio



Source: CNBV

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

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013 and March 31, 2019 we increased the number of ATMs and POSs by 15% and 65%, respectively, reaching a total of 8,453 ATMs and 160,701 POSs, ranking fourth in ATMs and third in POSs in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking fourth in terms of market share. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of March 31, 2019, we had approximately 4.3 million active internet banking customers and around 1.8 million of our customers utilized *Banorte Móvil*. We also consider ourselves pioneers in banking services through third parties in Mexico, reaching a total of 28,470 correspondent contact points as of March 31, 2019.

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

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 15 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. This demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

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

Track Record of Product Innovation

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

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 11 years of experience with us and has more than 22 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the second largest bank in Mexico, generating significant profitability while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, key employees of acquired companies have remained with our team and have broadened the experience of our team. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed by a majority of independent directors (currently 71.4%), which ensures collegial decision-making for the benefit of our stakeholders, as well as having several supporting committees, including an audit committee and a risk policies committee, each chaired by independent directors with recognized experience. Our corporate governance model not only complies with applicable standards, but also seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Strategy

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

Selectively Increase our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in total loans and deposits has increased from 8.0% and 6.6%, respectively, as of December 31, 2000, to 14.5% and 13.6% respectively, as of March 31, 2019. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and the internet banking to increase the origination of payroll loans in Mexico. As of March 31, 2019, we had a 20.4% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan and vice-versa. We intend to leverage our central customer repository (“CCR”) database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand our Credit Card Business

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

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

Our market share in the Mexican credit card segment was 9.6% as of March 31, 2019, according to the CNBV. As of that date, we had approximately 1.8 million credit cards outstanding, with past due balances of 5.9%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio through more active marketing and promotions to our current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as performing loans and deposits.

Expand our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of March 31, 2019, our market share on pre-approved car loans was 17.7% according to the CNBV, excluding financings by automobile manufacturers against whom we compete in this business. We also believe that, given the expected growth in GDP in Mexico, the automobile sector, and consequently the automobile loan business will experience growth in the coming years.

Increase our Mortgage and Infrastructure Financing Originations

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from one to 20 years for financing of up to 90% of loan-to-value. We offer financings exclusively for residential mortgages. Other products we offer include home improvement, construction and land acquisition. For the three-month period ended March 31, 2019, we provided 4,182 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps.160,162 million, compared to Ps.141,094 million for the three-month period ended March 31, 2018.

The current average of the initial amounts of our mortgage loans (Ps.1.8 million) is 28% higher than the current average for other financial institutions (Ps.1.4 million) reflecting our higher income target segment. We also have the lowest delinquency rate in the mortgage loan portfolio in the industry with 0.97%. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times; offering financings for purchases, refinancings and real estate improvements.

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

Strengthen our Relationships with Government Entities and their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which, as of March 31, 2019, together comprised 23.8% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. This opportunity to cross-sell has been enhanced by the merger with Banco Interacciones, whose government lending business has complemented our successful operation. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling opportunities and attractive return on equity.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today.

For instance, Banorte Go is an add-on to Banorte Móvil, our mobile banking platform. Banorte Go allows our customers to check their account balances, transfer funds and make payments among users of Banorte Móvil through social media mobile applications or any mobile application where an alphanumeric keyboard is used without the need to login to the Banorte Móvil mobile application. This allows users to enjoy the benefits of our mobile banking capabilities without having to exit their favorite mobile application.

Our emphasis on multi-channel distribution is aligned with our paperless initiative, which we expect to be fully implemented by the end of 2019. Currently, the use of mobile devices for these purposes is limited; however, we believe consumers in Mexico are becoming increasingly comfortable with conducting mobile banking transactions.

We intend to continue to develop new specialized sales forces, telemarketing efforts and use “*Banorte Visita*” in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of ATMs, providing us with a 16% of market share as of March 31, 2019, according to the CNBV.

Enhance our Customer-Oriented Business Model

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

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

Increase Wallet-Share Penetration with Corporate and SME Customers

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

Continue to Increase our Profitability

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

Improve the Profitability of our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;
- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;
- increasing non-interest income through the offering of services and using cross-selling efforts;
- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and
- channeling less value-added transactions to online and mobile services.

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

A central strategy to improve our cost efficiencies is to lower our operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts that are continuously implemented. For the three-month period ended March 31, 2019, our efficiency ratio was 40.5%, as compared to 45.1% for the corresponding period in 2018.

Promote Synergies within the GFNorte Group

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

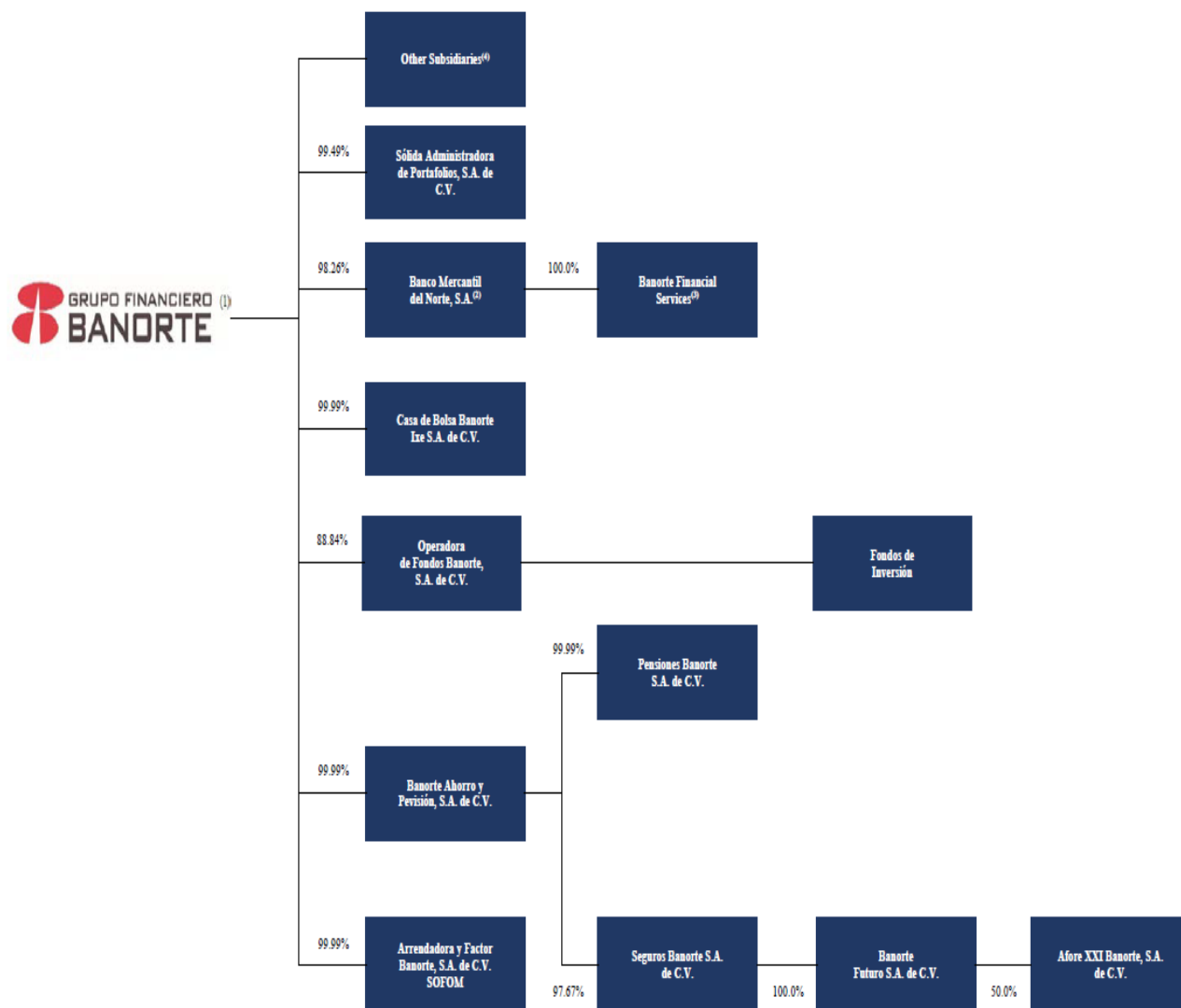
Increase Our Non-Interest Income

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

- continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices;
- increasing our cross-selling efforts within the GFNorte group;
- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;
- establishing new relationships with businesses generating high volume point-of-sale transactions; and
- optimizing customer profitability by increasing fees and reducing transactional costs to low-value customers and increasing cross-selling within affluent customer base.

Our Ownership Structure

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



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

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

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

(4) "Other Subsidiaries" includes Almacenadora Banorte, S.A. de C.V., Ixe Servicios, S.A. de C.V. and Fundación Banorte, A.B.P.

Principal Offices

Our registered office is located at Avenida Revolución 3000, Colonia Primavera, Monterrey, Nuevo León, México 64830, and the telephone number at this office is +52 (81) 83-19-65-00. Our corporate headquarters are located at Prolongación Paseo de la Reforma 1230, Colonia Cruz Manca, Santa Fe, Delegación Cuajimalpa, Mexico City, Mexico, 05349.

Recent Developments

Banorte is recognized as the “Best Trade Finance Products Provider” in Mexico in 2019

In January 2019, Global Finance magazine recognized Banorte as the “Best Trade Finance Products Provider” in Mexico. According to Global Finance magazine, this award is granted “based on input from industry analysts, corporate executives and technology experts. Among the criteria used for choosing the winners were: transaction volume, scope of global coverage, customer service, competitive pricing, innovative technologies as well as entry submissions from banks and other providers.”

Credit Rating Downgrades

On June 5, 2019, Fitch Ratings Inc. (“Fitch”) downgraded Mexico’s sovereign debt, which reflects an assessment of the overall financial capacity of the government of Mexico to pay its obligations and its ability to meet its financial commitments as they become due, from BBB+ to BBB citing increased risk due to PEMEX’s deteriorating credit profile and weakness in the macroeconomic outlook due to, among other things, trade tensions. In addition, Moody’s Investors Service (“Moody’s”) changed its outlook on Mexico’s A3 rating from stable to negative. The same day, Fitch downgraded Mexico’s state oil company, PEMEX, from BBB- to BB+, citing insufficient investment to restore declining production. On June 7, 2019, in response to the downgrade in Mexico’s credit rating, Fitch downgraded our ratings from BBB+ to BBB. On the same day, Moody’s and Standard and Poor’s affirmed our ratings (A3 and BBB+, respectively) and changed their outlook from stable to negative. On June 10, 2019, Fitch downgraded the ratings of our Tier 2 Subordinated Preferred Capital Notes due 2031 to BB from BB+ and our Junior Subordinated Securities to BB- from BB.

Dividend Payment

On April 29, 2019, the Board of Directors of the Bank approved the submission for the consideration of its shareholders the distribution of one or more cash dividend payments. On May 23, 2019, the Banorte’s shareholders approved a dividend payment of Ps. 9,898,035,922.30 (approximately U.S.\$511 million), which was made effective on June 3, 2019. This dividend payment decreased fundamental capital, and in turn total capitalization ratios, by approximately 130 basis points.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes of each series, see “Description of the NC5 Notes” and “Description of the NC10 Notes” in this offering memorandum.

Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch.
Notes	<p><i>NC5 Notes:</i> 6.750% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes; and</p> <p><i>NC10 Notes:</i> 7.500% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes.</p>
Principal Amount	<p><i>NC5 Notes:</i> U.S.\$600,000,000; and</p> <p><i>NC10 Notes:</i> U.S.\$500,000,000.</p>
Interest	<p><i>NC5 Notes:</i> Interest on the NC5 Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. See “—Interest Payments Discretionary and Non-Cumulative” below. Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC5 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date, to (but excluding) the NC5 First Call Date, at an initial fixed rate <i>per annum</i> equal to 6.750%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (<i>utilidades netas acumuladas</i>) account.</p> <p>Subject to a prior redemption and/or one or more Write-Downs, the NC5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC5 Reset Date, including the NC5 First Call Date, to (but excluding) the next succeeding NC5 Reset Date, at a fixed rate <i>per annum</i> equal to the sum of (a) the Treasury Yield (as defined in “Description of the NC5 Notes—Interest”) and (b) 496.7 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).</p> <p><i>NC10 Notes:</i> Interest on the NC10 Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. See “—Interest Payments Discretionary and Non-</p>

Cumulative” below. Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC10 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date, to (but excluding) the NC10 First Call Date, at an initial fixed rate *per annum* equal to 7.500%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (*utilidades netas acumuladas*) account.

Subject to a prior redemption and/or one or more Write-Downs, the NC10 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC10 Reset Date, including the NC10 First Call Date, to (but excluding) the next succeeding NC10 Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined in “Description of the NC10 Notes—Interest”) and (b) 547 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

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

Issue Price	<p><i>NC5 Notes:</i> 100% of the principal amount, plus accrued and unpaid and not canceled interest, if any, from and including June 27, 2019; and</p> <p><i>NC10 Notes:</i> 100% of the principal amount, plus accrued and unpaid and not canceled interest, if any, from and including June 27, 2019.</p>
Issue Date	June 27, 2019.
First Call Date	<p><i>NC5 Notes:</i> September 27, 2024; and</p> <p><i>NC10 Notes:</i> June 27, 2029.</p>
Reset Date	<p><i>NC5 Notes:</i> The NC5 First Call Date and every fifth anniversary thereafter; and</p> <p><i>NC10 Notes:</i> The NC10 First Call Date and every tenth anniversary thereafter.</p>

Reset Determination Date

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

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

Interest Payments Discretionary and Non-Cumulative

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

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

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

Mandatory Cancellation of Interest Payments

Interest due on the Notes of each series from the Bank will be automatically canceled if (A) the Bank is classified as Class II or below pursuant to Articles 121 and 122 of the Mexican Banking Law and the regulations thereunder, which specify capitalization requirements, or (B) as a result of the applicable payment of interest, the Bank would be classified as Class II or below (an “Interest Cancellation Event”). Currently, the minimum Capital Ratios to be classified as Class I (and as a result, not Class II or below), including the Capital Conservation Buffer, are (i) 10.5% in respect of Total Net Capital, (ii) 8.5% in the case of Tier 1 Capital and (iii) 7.0% in the case of Fundamental Capital, plus in each case, any other applicable Capital Supplement (currently, a Systemically Important Bank Capital Supplement for grade II D-SIBs of 0.90% and any other Countercyclical Capital Supplement applicable to the Bank).

Restrictions on Certain Payments

With respect to each series of Notes, unless the most recent payable interest and any Additional Amounts payable in connection therewith on such series of Notes have been paid, the Bank shall not:

- (1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or
- (2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Current Principal Amount.....

In respect of each Note of any series, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the relevant series of Notes as permitted under the respective indenture, as the case may be.

Original Principal Amount

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

Indenture

NC5 Notes: The NC5 Notes will be issued under an indenture, dated as of June 27, 2019 among us and the Trustee, and executed by an officer of the CNBV; and

NC10 Notes: The NC10 Notes will be issued under an indenture, dated as of June 27, 2019 among us and the Trustee, and executed by an officer of the CNBV.

Unsecured; Not Guaranteed

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

Trigger Event

A Trigger Event will be deemed to have occurred if:

- the CNBV publishes a determination, in its official publication of capitalization levels for Mexican banks, that the Bank's Fundamental Capital Ratio, as calculated pursuant to the applicable Mexican Capitalization Requirements, is equal to or below 5.125%; or
- both (A) the CNBV notifies the Bank that it has made a determination, pursuant to Article 29 Bis of the Mexican Banking Law, that a cause for revocation of the Bank's license has occurred resulting from (x) the Bank's assets being insufficient to satisfy its liabilities, (y) the Bank's non-compliance with corrective measures imposed by the CNBV pursuant to the Mexican Banking Law, or (z) the Bank's non-compliance with the capitalization requirements set forth in the Mexican Capitalization Requirements and (B) the Bank has not cured such cause for revocation, by (a) complying with such corrective measures, or (b)(1) submitting a capital restoration plan to, and receiving approval of such plan by, the CNBV, (2) not being classified in Class III, IV or V and (3) transferring at least 75% of its shares to an irrevocable trust, or (c) remedying any capital deficiency, in each case, on or before the third (in the case of (A)(x)) or the seventh (in the case of (A)(y) and (A)(z)) business day in Mexico, as applicable, following the date on which the CNBV notifies the Bank of such determination.

Write-Down.....

If a Trigger Event occurs, the following write-downs (each, a “Write-Down”) shall be deemed to have occurred on the Write-Down Date (as defined below), automatically and without any additional action by the Bank, the Trustee or the holders of any series of Notes: (i) the then Current Principal Amount of each series of Notes will automatically be reduced by one or more Write-Downs by each applicable Write-Down Amount and any such Write-Down shall not constitute a default or an Enforcement Event; and (ii) any holder of Notes will automatically be deemed to have irrevocably waived its right to claim or receive, and will not have any rights against the Bank or the Trustee with respect to, repayment of, the Written Down Principal of the Notes or any interest with respect thereto (or Additional Amounts payable in connection therewith), including any and all unpaid interest with respect to such Written Down Principal as of the Write-Down Date, irrespective of whether such amounts have become due and payable prior to the date on which the Trigger Event shall have occurred.

“Write-Down Amount” means an (i) amount of the then Current Principal Amount of the Notes of each series that would be sufficient, together with any concurrent *pro rata* write down or conversion of any other Subordinated Non-Preferred Indebtedness issued by the Bank and then outstanding, to return the Fundamental Capital ratio of the Bank to the level of the then-applicable Fundamental Capital ratio required by the CNBV in accordance with Section IV, c), 1 iii) of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum is 7% (which includes the Capital Conservation Buffer) plus the amount required to restore any Countercyclical Capital Supplement and any Systemically Important Bank Capital Supplement to the minimum amounts required under the Mexican Capitalization Requirements on such Write-Down Date, or (ii) if any Write-Down of the Current Principal Amount, together with any concurrent *pro rata* write down or conversion of any Subordinated Non-Preferred Indebtedness, would be insufficient to return the Fundamental Capital ratio of the Bank to the aforementioned amount, then the amount necessary to reduce the Current Principal Amount of each outstanding Note to zero.

“Write-Down Date” means the date on which a Write-Down will be deemed to take effect, which shall be the next Business Day succeeding the date of the Trigger Event.

As required under the Mexican Capitalization Requirements and in accordance to the CNBV request, a full Write-Down (whereby the principal amount of the Notes has been written down to zero) shall be completed before any public funds are contributed or any public assistance is provided to the Bank in the terms of Article 148, Section II, Subsections (A) and (B) of the Mexican Banking Law, including, among others, in the form of (i) 23 subscription of shares, (ii) receiving of loans (iii) payment of liabilities of the Bank, (iv) granting of collateral and (v) the transfer of assets and liabilities.

Subordination	The Notes of each series constitute Subordinated Non-Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank's present and future Senior Indebtedness and Subordinated Preferred Indebtedness (ii) <i>pari passu</i> without preference among themselves and with all other present or future unsecured Subordinated Non-Preferred Indebtedness of the Bank and (iii) senior only to all classes of the Bank's present and future equity or capital stock.
Redemption	The Bank may not redeem the Notes of any series, in whole or in part, other than as described below under "Optional Redemption," "Withholding Tax Redemption" and "Special Event Redemption."
Optional Redemption	<p><i>NC5 Notes:</i> The Bank has the option, but no obligation, under the respective indenture to redeem the NC5 Notes on the NC5 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, the NC5 Notes, plus Additional Amounts, if any, up to (but excluding) the date of redemption.</p> <p><i>NC10 Notes:</i> The Bank has the option, but no obligation, under the respective indenture to redeem the NC10 Notes on the NC10 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, the NC10 Notes, plus Additional Amounts, if any, up to (but excluding) the date of redemption.</p>
Special Event Redemption	The Bank has the option, but no obligation, under each indenture to redeem each series of Notes at any time, in whole (up to the then Current Principal Amount) but not in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, such series of Notes, plus Additional Amounts, if any, up to but excluding the date of redemption, upon the occurrence of a Special Event affecting such series of Notes. A "Special Event" is the occurrence of certain changes in the treatment of each series of Notes under the Mexican Capitalization Requirements or tax deductibility of interest payments under the Notes of each series.

Withholding Tax Redemption

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

Enforcement Events and Remedies

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

Each of the following events is an “Enforcement Event”:

- (1) certain events involving the insolvency (*resolución*) or liquidation of the Bank;
- (2) a Principal Non-Payment Event (as defined below);
or
- (3) breach of a Performance Obligation (as defined below).

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

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

(3) In the event of a breach of any term, obligation or condition binding on the Bank under the Notes of any series or the respective indenture (other than any of the Bank’s payment obligations under or arising from the Notes of each series or the respective indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes of such series or the respective indenture, if any.

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

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

Use of Proceeds

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

Payment of Additional Amounts

All payments made by or on our behalf in respect of the Notes of each series will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a “Relevant Jurisdiction”) or any authority or agency therein or thereof having power to tax (collectively, “Relevant Tax”), unless the withholding or deduction of such Relevant Tax is required by law. In that event, subject to certain exceptions and limitations as described in “Description of the NC5 Notes—Payment of Additional Amounts” and “Description of the NC10 Notes—Payment of Additional Amounts,” we will pay as further distributions of interest and principal such additional amounts (“Additional Amounts”) as may be necessary so that the net amounts received by the holders or beneficial owners of each series of Notes or their nominees (the term “holders” only refers to registered holders) after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, to the extent described in this offering memorandum in “Description of the NC5 Notes—Payment of Additional Amounts” and “Description of the NC10 Notes—Payment of Additional Amounts.”

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

Book-Entry Issuance, Settlement and Clearance...

The Notes of each series will be represented by one or more fully global notes registered in the name of a nominee of DTC. Investors will hold beneficial interests in the Notes through DTC and its direct and indirect participants, including Euroclear and Clearstream, and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes except as described in this offering memorandum. Settlement of the Notes will occur through DTC. For information on DTC’s book-entry system, see “Form of Notes, Clearing and Settlement.”

Listing

Application will be made to list the Notes of each series on the Singapore Exchange Securities Trading Limited — SGX-ST. No assurance can be given that the Notes will be approved for listing on the Singapore Exchange Securities Trading Limited — SGX-ST.

Governing Law	Each of the indentures and the Notes will be governed by, and construed in accordance with, the law of the State of New York. Whether a Trigger Event (leading to a Write-Down) or an Interest Cancellation Event (leading to a Cancellation of Interest) has occurred is based upon a determination by the applicable Mexican regulator, as set forth in this offering memorandum, in accordance with Mexican law (as amended from time to time). Whether a Withholding Tax Event or a Tax Event has occurred is based upon a determination in accordance with Mexican law (or other applicable law in the case of a Withholding Tax Event involving a jurisdiction other than Mexico), as amended from time to time, evidenced by an opinion of a nationally recognized law firm and, if required, a certification by the Bank. Whether a Capital Event (as defined below) has occurred is determined by the Bank, as set forth in this offering memorandum, in accordance with Mexican law (as amended from time to time). The ranking and subordination of the Notes, will be governed by, and construed in accordance with, Mexican law (as amended from time to time). Any proceedings in respect of the Bank's insolvency (<i>resolución</i>) or liquidation will be conducted in accordance with the Mexican Banking Law, and any merger or consolidation shall be subject to applicable approvals under the Mexican Banking Law and any other applicable Mexican laws, as amended from time to time.
Form and Denomination	The Notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and the Notes will initially be represented by global notes.
Transfer Restrictions.....	<p>The Notes have not been registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale.</p> <p>The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 and the Markets in Financial Instruments Directive 2014/65/EU, as applicable, as amended or replaced from time to time. See "Transfer Restrictions."</p>
Trustee and Paying Agent.....	The Bank of New York Mellon.
Risk Factors	You should carefully consider all of the information in this offering memorandum. See "Risk Factors" for a description of the principal risks involved in making an investment in the Notes of either or both series.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The summary consolidated financial and operating data presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with “Presentation of Financial and Other Information,” “Selected Consolidated Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

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

Summary Statement of Income Data:	For the three-month period ended March 31,			For the Year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)		(U.S.\$ millions) ⁽¹⁾		(Ps. millions)	
Interest income	1,685	32,643	26,335	6,088	117,979	95,710	69,407
Interest expense	(811)	(15,712)	(11,590)	(2,759)	(53,466)	(40,062)	(23,244)
Net interest income.....	874	16,931	14,745	3,329	64,513	55,648	46,163
Allowance for loan losses	(191)	(3,700)	(4,149)	(807)	(15,635)	(14,983)	(13,070)
Net interest income after allowance for loan losses	683	13,231	10,596	2,522	48,878	40,665	35,004
Commission and fee income	274	5,303	4,842	1,103	21,379	18,436	15,764
Commission and fee expense	(101)	(1,951)	(1,744)	(405)	(7,849)	(6,142)	(4,498)
Intermediation revenues	48	934	807	196	3,799	2,101	1,839
Other operating income	94	1,820	391	148	2,869	2,365	2,078
Non-interest expense	(482)	(9,341)	(8,585)	(1,810)	(35,079)	(31,750)	(29,155)
	(167)	(3,235)	(4,289)	(768)	(14,881)	(14,990)	(13,972)
Operating income	516	9,996	6,307	1,754	33,997	25,675	19,121
Equity in earnings of unconsolidated subsidiaries and associated companies	1	14	25	8	161	62	1,043
Income before income tax	517	10,010	6,332	1,762	34,158	25,737	20,164
Current income tax	(112)	(2,176)	(1,591)	(442)	(8,565)	(6,781)	(5,479)
Deferred income tax (expense) benefit	(24)	(472)	(123)	(39)	(759)	(706)	116
Discontinued operations	0	0	0	0	0	89	243
Net income	381	7,362	4,618	1,281	24,834	18,339	15,044

(1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2019 and as of and for the year ended December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps. 19.3779 per U.S.\$1.00. See “Exchange Rates and Currency.”

	Three-Month Period Ended March 31,		Year Ended December 31,			
	2019	2019	2018	2018	2017	2016
	(U.S.\$ millions, except for percentages) (1)	(Ps. millions, except percentages)	(U.S.\$ millions) ⁽¹⁾		(Ps. millions)	
Balance Sheet Data:						
Assets:						
Cash and cash equivalents	3,693	71,563	3,882	75,233	76,063	65,844
Margin securities	181	3,508	75	1,458	1,986	2,185
Investment in securities						
Trading securities	5,175	100,271	4,769	92,418	122,065	129,477
Securities available for sale	7,149	138,523	7,637	147,986	152,910	153,128
Securities held to maturity	436	8,456	438	8,492	6,834	6,258
	12,759	247,250	12,844	248,896	281,809	288,863
Debtor balances under repurchase and resale agreements						
	0	3	21	405	5	0
Derivatives financial instruments						
For trading purposes	1,228	23,793	1,449	28,083	25,511	40,881
For hedging purposes	1	15	8	156	205	742
	1,229	23,808	1,457	28,239	25,716	41,623
Valuation adjustments for assets hedging						
	4	80	4	84	99	113
Performing loan portfolio						
Commercial loans						
Business loans	14,082	272,884	14,242	275,979	210,431	201,753
Financial institutions' loans	1,172	22,708	1,088	21,088	22,875	20,240
Government loans	9,260	179,434	9,920	192,234	132,816	133,540
Consumer loans	5,785	112,105	5,740	111,237	101,995	86,632
Mortgage loans	8,185	158,604	8,040	155,797	135,405	114,807
Total performing loan portfolio	38,484	745,735	39,031	756,335	603,522	556,972
Past-due loan portfolio						
Commercial loans						
Business loans	383	7,418	364	7,044	6,540	5,467
Financial Institutions loans	0	4	0	0	-	344
Consumer loans	212	4,116	224	4,331	4,329	3,200
Mortgage loans	80	1,557	76	1,464	1,323	1,049
Total past-due loan portfolio	675	13,095	663	12,839	12,192	10,060
Loan portfolio	39,160	758,830	39,693	769,174	615,714	567,032
(Less) allowance for loan losses	(920)	(17,822)	(943)	(18,264)	(15,551)	(13,941)
Loan portfolio, net	38,240	741,008	38,751	750,910	600,163	553,091
Acquired collection rights	96	1,864	103	2,001	1,925	1,400
Total loan portfolio, net	38,336	742,872	38,854	752,911	602,088	554,491
Receivables generated by						
securitizations	4	85	3	61	141	155
Other accounts receivable, net	2,238	43,371	1,862	36,082	37,492	39,989
Foreclosed assets, net	40	770	38	738	752	1,222
Property, furniture and equipment, net	705	13,667	699	13,547	13,474	11,927
Permanent stock investments	19	362	18	342	150	185
Long Term Assets Available for						
Sale	0	0	0	0	0	5,299
Deferred taxes, net	172	3,328	250	4,839	3,517	4,228
Other assets	1,121	21,716	911	17,657	13,131	14,311
Total Assets	60,501	1,172,383	60,920	1,180,492	1,056,423	1,030,435
Liabilities:						
Deposits						
Demand deposits	20,222	391,855	21,267	412,118	394,995	382,409
Time deposits						
General public	14,464	280,277	14,324	277,576	245,288	190,536
Money market	2,633	51,019	2,867	55,552	3,679	1,459
Global account without movement	93	1,803	98	1,891	1,657	1,352
Senior debt issued	633	12,272	624	12,098	3,003	-
	38,045	737,226	39,180	759,235	648,622	575,756
Balance Sheet Data:						
Interbank and other loans						
Demand loans	0	0	0	0	0	4,019

	Three-Month Period Ended March 31,		Year Ended December 31,			
	2019 (U.S.\$ millions, except for percentages) (1)	2019 (Ps. millions, except percentages)	2018 (U.S.\$ millions) ⁽¹⁾	2018	2017	2016
Short-term loans	612	11,864	698	13,523	8,441	8,063
Long-term loans	1,123	21,767	1,146	22,199	6,797	9,178
	1,735	33,631	1,843	35,722	15,238	21,260
Creditor balances under repurchase and resale agreements	8,882	172,118	8,438	163,507	190,363	234,490
Collateral sold or pledged						
Repurchase or resale agreements (creditor balance)	0	9	0	2	3	-
Derivatives financial instruments						
For trading purposes	974	18,872	1,218	23,605	24,608	40,403
For hedging purposes	481	9,313	566	10,963	12,401	9,372
	1,455	28,185	1,784	34,568	37,009	49,775
Other account payables						
Income tax	69.00	1,341.00	88.00	1,696.00	1,940	1,965
Employee profit sharing	31.00	605.00	25.00	485.00	405	396
Creditors from settlements of transactions	597.00	11,561.00	227.00	4,402.00	15,871	6,988
Creditors from cash collateral	468.00	9,076.00	739.00	14,319.00	11,083	10,326
Sundry creditors and other payables	1,471.00	28,499.00	1,242.00	24,059.00	16,897	14,444
	2,636	51,082	2,320	44,961	46,196	34,119
Subordinated debentures	1,720	33,327	1,732	33,560	32,445	21,917
Deferred credits and advanced collections	26	504	28	535	485	331
Total liabilities	54,499	1,056,082	55,325	1,072,090	970,361	937,648
Stockholders' equity						
Paid-in capital						
Common stock	970.00	18,794.00	970.00	18,794.00	18,105	18,105
Additional paid-in capital	75.00	1,455.00	61.00	1,184.00	648	72
	1,045	20,249	1,031	19,978	18,753	18,177
Other capital						
Capital reserves	766.00	14,847.00	766.00	14,847.00	13,013	11,509
Retained earnings from prior years	4,006.00	77,622.00	2,742.00	53,133.00	38,959	50,215
Result from valuation of securities available for sale	3.00	65.00	(103.00)	(1,994.00)	4	(1,645)
Result from valuation of instruments for cash flow hedging	(159.00)	(3,082.00)	(177.00)	(3,430.00)	(3,653)	(2,131)
Cumulative foreign currency translation adjustment	(1.00)	(13.00)	86.00	1,659.00	1,590	1,985
Remeasurements defined benefits for employees	(39.00)	(752.00)	(32.00)	(628.00)	(943)	(377)
Net income	380	7,362	1,282	24,834	18,339	15,044
	4,956	96,049	4,564	88,421	67,309	74,600
Noncontrolling interest	0	3	0	3	-	10
Total stockholders' equity	6,002	116,301	5,595	108,402	86,062	92,787
Total liabilities and stockholders' equity	60,500	1,172,383	60,920	1,180,492	1,056,423	1,030,435

(1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2019 and for the year ended December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps. 19.3779 per U.S.\$1.00. See "Exchange Rates and Currency."

	As of or for the three-month period ended March 31,		As of or for the year ended December 31,			
	2019	2019	2018	2018	2017	2016
	(U.S. millions, except for percentages) ⁽¹⁾	(Ps. millions, except percentages)	(U.S.\$ millions) ⁽¹⁾		(Ps. millions)	
Profitability and Efficiency:						
Return on average total assets ⁽²⁾	2.5%	2.5%	2.2%	2.2%	1.8%	1.5%
Return on average equity ⁽³⁾	26.2%	26.2%	25.5%	25.5%	20.5%	15.4%
Net interest margin ⁽⁴⁾	6.2%	6.2%	5.7%	5.7%	5.7%	5.1%
Efficiency ratio ⁽⁵⁾	40.5%	40.5%	41.4%	41.4%	43.8%	47.5%
Credit Quality Data:						
Total performing loans	38,484.00	745,735.00	39,030.00	756,335.00	603,522	556,972
Total non-performing loans	675.00	13,095.00	663.00	12,839.00	12,192	10,060
Total loans	39,160.00	758,830.00	39,694.00	769,174.00	615,714	567,032
Loans graded "C," "D" and "E" ⁽⁶⁾	2,328.00	45,104.00	2,481.00	48,067.00	31,080	27,400
Allowance for loan losses	920.00	17,822.00	943.00	18,264.00	15,551	13,941
Credit Quality Ratios:						
Allowance for loan losses as a percentage of total loans	2.3%	2.3%	2.4%	2.4%	2.5%	2.5%
Allowance for loan losses as a percentage of total non- performing loans ⁽⁷⁾	136.1%	136.1%	142.3%	142.3%	127.6%	138.6%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E" ⁽⁶⁾	39.5%	39.5%	38.0%	38.0%	50.0%	50.9%
Total non-performing loans as a percentage of total loans	1.7%	1.7%	1.7%	1.7%	2.0%	1.8%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(0.6%)	(0.6%)	(0.7%)	(0.7%)	(0.6%)	(0.7%)
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity....	(4.1%)	(4.1%)	(5.0%)	(5.0%)	(3.9%)	(4.2%)
Loans graded "C," "D" and "E" as a percentage of total loans ⁽⁶⁾	5.9%	5.9%	6.2%	6.2%	5.0%	4.8%

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- (2) Net income for the period divided by average total assets, based on beginning and end-of-period balances for the three-month period ended March 31, 2019, determined on an annualized basis.
- (3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2019, determined on an annualized basis.
- (4) Net interest income divided by total interest-earning assets. Average interest-earning assets are determined based on daily monthly averages.
- (5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.
- (6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."
- (7) Corresponds to end-of-period balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

Capital Ratios

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

	As of March 31,		As of December 31,		
	2019	2019	2018	2018	2017
	(U.S. millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	(U.S. millions, except for percentages) (1)	(Ps. millions, except for percentages)	
Capital:					
Fundamental Capital (CET1).....	5,401	104,654	4,901	94,970	75,220
Additional Tier 1 Capital	960	18,603	974	18,865	20,103
Tier 2 Capital.....	721	13,967	747	14,472	13,286
Total Net Capital.....	7,081	137,225	6,621	128,307	108,609
Risk-Weighted Assets:					
Credit risk.....	32,248	624,895	32,381	627,479	507,721
Market risk	3,931	76,166	3,412	66,119	72,848
Operational risk	2,926	56,697	2,780	53,865	46,406
Total Risk-Weighted Assets	39,104	757,758	38,573	747,464	626,976
Capital Ratios (credit, market and operational risk):					
			12.71		
Fundamental Capital (CET1) to risk-weighted assets	13.81%	13.81%	%	12.71%	12.00%
Tier 1 Capital to risk-weighted assets	16.27%	16.27%	15.23%	15.23%	15.20%
Tier 2 Capital to risk-weighted assets	1.84%	1.84%	1.94%	1.94%	2.12%
Total Net Capital to Total Risk-Weighted Assets.....	18.11%	18.11%	17.17%	17.17%	17.32%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2019 and for the year ended December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps. 19.3779 per U.S.\$1.00. See "Exchange Rates and Currency."

RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

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

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

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

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

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors. A significant portion of our assets, including our loans, are long-term assets. At the same time, a significant percentage of our financial borrowings are short-term. Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue. When interest rates rise, we may be required to pay higher interest on our borrowings while interest earned on our assets may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Accordingly, increases in short-term interest rates may reduce our net interest income, which could affect our ability to meet our short-term obligations. We monitor our interest rate risk using the Net Interest Margin (“NIM”) sensitivity, which is the difference between the return on assets and the financial cost of our financial liabilities based on a one-year time frame and a parallel movement of 100 basis points (1%) in market interest rates. As of March 31, 2019, the 1% NIM sensitivity was Ps.813 million.

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

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

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

Increases in interest rates may reduce gains or require us to record losses on sales of loans or securities. In recent years, the Mexican government has engaged in “monetary restricting,” a monetary policy designed to reduce money supply by increasing interest rates. As a result, the Mexican interbank interest rate has increased since 2015, averaging 7.99%, 7.06%, 4.47% and 3.32% during 2018, 2017, 2016 and 2015, respectively. Recent international financial volatility and low oil prices as a result of geopolitical and economic factors, such as the USMCA negotiation, U.S. monetary policy normalization, among others, have had a negative impact on the Mexican economy, affecting macroeconomic variables, such as the exchange rate between U.S. dollars and Pesos. As a consequence, on December 17, 2015, the Mexican Central Bank increased the overnight interbank interest rate (*tasa de fondeo interbancario*) by 25 basis points to 3.25% and has been increasing the reference rate regularly since then, to the current rate of 8.25% since December 20, 2018, in order to ease pressure on the exchange rate and the Mexican economy.

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

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

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

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

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

No assurance can be given that transactions between us and our parent GFNorte or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For example, we have also entered into certain service agreements with our affiliates Casa de Bolsa Banorte-Ixe, S.A. de C.V. ("Casa de Bolsa Banorte"), Operadora de Fondos Banorte, S.A. de C.V., Seguros Banorte and Pensiones Banorte, S.A. de C.V., to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery.

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

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

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

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

We are part of a financial group controlled by GFNorte. Other entities within the group include, among others, Sólida Administradora de Portafolios, S.A. de C.V. ("Sólida"), which maintains some non-performing loan portfolios, and Casa de Bolsa Banorte, which maintains trading positions. GFNorte could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints or other criteria. Sólida generated Ps.109.1 million in losses for the three-month period ended March 31, 2019 and Ps.796.8 million for the year ended December 31, 2018. Casa de Bolsa Banorte contributed 1.1% of GFNorte's net income for the three-month period ended March 31, 2019 and approximately 2.5% of GFNorte's net income in 2018. Sólida currently has no employees of its own and primarily relies upon Banorte to conduct its business. Should more of our resources be diverted, or our business or business opportunities be diverted, to other subsidiaries of GFNorte, or if unprofitable operations of other subsidiaries of GFNorte are transferred to us, our financial position and results of operations could be adversely affected.

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

As a commercial bank, one of the principal types of risks we face is credit risk. Our credit risk management system may not effectively identify and quantify our credit risk exposure. For example, an important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it involves judgments by our management team and employees and, therefore, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk or to effectively identify the risks relating to the business, industry or region where a customer operates, which may result in a higher credit risk exposure for us than indicated by our risk rating system. In addition, we have been trying to refine our credit policies and guidelines to address potential risks

associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to timely detect these risks before related losses occur, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, our failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect our results of operations and financial position.

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

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

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

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

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

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively collect impaired loans or control and reduce the level of the impaired loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of a global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting certain industries to which we lend.

As of March 31, 2019 and December 31, 2018, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single commercial group or to the Mexican government) represented 18.5% and 19.7%, respectively, of our total loan portfolio (on an unconsolidated basis). If the financial well-being of any of these clients were to be negatively impacted by political, economic or industry-related developments or any other factor, it could lead to an increase in our non-performing or low credit quality loans.

In addition, our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our loan loss reserves, which are calculated in accordance with CNBV regulations and under internal models in the case of credit card and enterprises portfolios, are based on our current assessment of, and expectations concerning, various factors affecting us, including the quality of our loan portfolio. These factors include, among others, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for guarantor support, government macroeconomic policies, interest rates and the legal and regulatory environment. As a result, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses.

If our assessment of, and expectations concerning, the above-mentioned factors differ from actual developments; if the quality of our total loan portfolio deteriorates, for any reason, including an increase in lending to individuals and SMEs, an increase in our credit card portfolio and our introduction of new products; or if future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or low credit quality loans, or to adequately reserve such loans, our financial position and results of operations could be materially and adversely affected.

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

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

Moreover, in Mexico, foreclosure procedures are generally subject to delays and procedural uncertainties and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers, attachments by other creditors obtaining priority over collateral or a reduction in the value or liquidity of the collateral may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral.

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

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

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

- in 2009, for credit card loans;
- in 2011, for consumer, mortgage and government loans;
- in 2013, for commercial loans;
- in 2014, for loans to financial institutions;
- In 2015, for revolving consumer loan portfolio;
- In 2017, for term loans and mortgages, as well as to accounting for loan losses and write-offs; and
- In 2018, for reserves and capital related to our credit card loan portfolio.

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

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

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

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

Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

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

The Mexican Capitalization Requirements and the rules governing the creation of reserves for loan losses applicable to credit institutions generally require significantly lower capitalization levels or reserves (if any) in connection with loans made to Mexican federal, state or municipal governments (together, the “Government Loans”). As of March 31, 2019, our Government Loans amounted to Ps. 179,434 million, or 23.6% of our total gross loan portfolio. Although as of March 31, 2019, we have no Government Loans categorized as non-performing loans, deterioration in the credit quality of our Government Loans could result in an adverse impact on our financial position and results of operations. The magnitude of this impact would be a function of the size of our exposures to the relevant government entities, the extent of the deterioration in their internal credit ratings assigned by our risk management area according to the methodology approved by the CNBV and the guarantees of these loans, among other factors.

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

The Mexican government and commercial banks, including us, have from time to time agreed to modify the terms of Government Loans. Such modifications have included maturity extensions, amendments to collateral received, reductions in interest rates and the inclusion of prepayment features and/or options. As of March 31, 2019, Ps.23,183 million of these loans, or 17.4% of our total state and municipal government loan portfolio, have been renegotiated. There can be no assurance that these or other Government Loans will not be similarly renegotiated in the future in a way that could reduce our margins in this line of business, which could adversely affect our results of operations.

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

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

Most of our loans to Mexican states and municipalities are secured by such entities’ right to receive their corresponding allocation of *participaciones federales*. Any changes to Mexican laws and regulations regarding the use of *participaciones federales* as source of payment for these type of loans or defects in the perfection of such collateral, may require amendments to our credit facilities and may impact the credit risk of such facilities or the manner in which we conduct business with Mexican states and municipal governments, which in turn could affect our results of operations and financial position.

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

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

The future of government sector lending in Mexico is uncertain.

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

Additionally, although state and municipal public debt is regulated by state law in Mexico, there are certain provisions and limitations set forth in the Mexican Federal Constitution and other federal laws (including in the Law of Financial Discipline for States and Municipalities), especially in connection with the use of *participaciones federales* as a source of payment or as a public funding investment. In the past, there have been inconsistencies between state and federal law with respect to these uses of *participaciones federales* which have been addressed by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which Government Loans have been granted. We cannot ensure that future judicial interpretations or resolutions, or new policies implemented by the incoming Mexican government (which stepped into office on December 1, 2018), will not have an adverse effect on our Government Loan portfolio and our results of operations.

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

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

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

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

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

As of March 31, 2019, we had outstanding loans to Urbi Desarrollos Urbanos, S.A.B. de C.V. (“Urbi”), Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. in an aggregate principal amount of Ps. 1,930 million, representing 0.3% of our total loan portfolio, and 100% of these loans were non-performing as of March 31, 2019. Of our total loans to these clients at such date, 100% were secured by land reserves. As of March 31, 2019, we had allocated Ps.821 million in loan loss reserves for loans to these clients, representing 43% of our total loan loss reserves for this sector.

Recent judicial decisions affecting the in-court restructuring of Corporación Geo, S.A.B. de C.V. may have an impact on our ability to continue to collect on our related assets that had been recognized as a result of this restructuring. As of March 31, 2019, we had outstanding loans to Corporación Geo, S.A.B. de C.V. in an aggregate principal amount of Ps.408 million, 100% of which were secured by real estate. As of March 31, 2019, we had allocated Ps.167 million in loan loss reserves for loans to this client.

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

Liquidity and funding risks are inherent to our business.

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

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

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

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans and that we will maintain our reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. As of March 31, 2019, 59.1% of our local and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

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

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

As of March 31, 2019, the expected shortfall associated with our financial instruments sensitive to interest rates was U.S.\$3.7 million (Ps.72.3 million). Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. See “Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities” and “Risk Management.” In addition, our foreign currency liabilities are subject to regulation by the Mexican Central Bank, which imposes liquidity requirements in matching currencies, depending upon the maturities of such liabilities.

Depreciation of the Peso may have an adverse effect on us by, for example, increasing in Peso terms the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers or affecting our results of operations when measured in U.S. dollar terms. It may also result, as in the past, in the implementation of exchange controls that may impact our ability to convert Pesos into U.S. dollars or to transfer currencies outside of Mexico, which may have a negative impact on our ability to pay our U.S. dollar-denominated liabilities and on our financial condition.

In 2008 and 2009, as a result of negative economic conditions in the United States and elsewhere, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. During 2008, the Peso depreciated by 26.7% compared to the U.S. dollar. During 2010, 2011 and 2012, the Peso appreciated by 5.5%, depreciated by 12.9% and appreciated by 7.0%, respectively. During 2013, 2014, 2015, 2016 and 2017, the Peso depreciated by 0.9%, 12.7%, 17.0%, 19.5% and appreciated by 4.9%, respectively. As of December 31, 2018, the Peso had appreciated to Ps.19.6512 per U.S. dollar as compared to the exchange rate of Ps.19.6629 per U.S. dollar as of December 31, 2017. As of March 31, 2019 the Peso had appreciated to Ps. 19.3779 per U.S. dollar as compared to the exchange rate of Ps. 19.6512 per U.S. dollar as of December 31, 2018. The Peso continues to be affected by uncertainty and volatility in the global markets. The Mexican government has implemented a series of measures to limit the volatility of the Peso. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

In recent years, the overnight interbank rate in Mexico remained relatively low by historical standards closing at 8.25%, 7.25% and 5.75% in the years 2018, 2017 and 2016, respectively. International financial volatility and the external environment have had a negative impact over the Mexican economy. Furthermore, geopolitical and economic uncertainty have affected macroeconomic variables, such as the exchange rate between U.S. dollars and Pesos. As a consequence, on December 17, 2015, the Mexican Central Bank increased the one day interbank interest rate by 25 basis points to 3.25%, and has been increasing the reference rate regularly since then, to 8.25% as of December 20, 2018.

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

In addition, the Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican government, for more than sixteen years, has not restricted the ability of Mexican and foreign individuals or entities to convert Pesos to U.S. dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future. To the extent that any such restrictive exchange control policies were to be instituted in the future in the event of shortages of foreign currency, our ability to transfer or convert Pesos into U.S. dollars and other currencies to service our foreign currency obligations, including the Notes, would be adversely affected and foreign currency may not be available without substantial additional cost.

Severe devaluation or depreciation of the Peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government has taken such measures in the past and could institute restrictive exchange control policies in the future. Accordingly, fluctuations in the value of the Peso against the U.S. dollar could have a material adverse effect on us and impair our ability to make payments under the Notes.

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

We enter into financial derivative transactions primarily for hedging purposes and, to a lesser extent, on behalf of our customers. Accordingly, we are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder).

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

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

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

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

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

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

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

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

- our future financial position, results of operations and cash flows;
- any necessary government regulatory or corporate approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- the trading value of our equity or debt securities in the secondary market;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- social, economic, political and other conditions in Mexico and elsewhere.

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

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

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

On June 7, 2019, in response to the recent downgrade in Mexico's credit rating, Fitch downgraded our corporate credit ratings from BBB+ to BBB. On the same day, Moody's and Standard and Poor's affirmed our ratings (A3 and BBB+, respectively) and changed their outlook from stable to negative. On June 10, 2019, Fitch downgraded the ratings of our Tier 2 Subordinated Preferred Capital Notes due 2031 to BB from BB+ and our Junior Subordinated Securities to BB- from BB.

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

We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. Concerns relating to the financial health of a number of European governments and the European sovereign debt crisis have recently intensified, contributing to volatility of the capital and credit markets, and the risk of contagion throughout the European financial system (in which the parent companies of some of our most important competitors operate) and beyond the Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial position and results of operation.

We are subject to significant competition from other banks, financial institutions and fintech companies in providing financial services.

We face strong competition in all aspects of our business, including loan origination and growing our deposits base. The competition in loan origination comes principally from other Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies, other institutional lenders and purchasers of loans and recently fintech companies. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. Certain of our competitors, such as multiple purpose financial companies (*sociedades financieras de objeto múltiple*) ("Sofomes"), are not financial institutions and, therefore, are not subject to the supervision of regulatory authorities or to the extensive Mexican banking regulations to which we are subject, including the requirement to maintain certain levels of capital and reserves for loan losses. In addition, Mexico is the country with the second most fintech companies in the region. The largest segment addressed by fintech companies in Mexico is payments and remittances, accounting for 22% of total Mexican fintech companies, while companies dedicated to lending activities make up the second largest segment. With the

recent growth of fintech companies in the Mexican financial services sector, we are facing a different and more challenging competitive environment. Due to their legacy-free infrastructure and flexibility, fintech companies are gaining a “first mover” advantage over traditional banks to enter the market with new and innovative solutions for Mexican businesses and consumers. Low capital requirements, developing regulatory framework, and low administrative expenses applicable to fintech companies help foster the development of the Mexican fintech ecosystem. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services. Moreover, competition is likely to increase as a result of the entrance of new participants into the financial services sector. The SHCP has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants.

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

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

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

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

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

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

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

Approximately 36.4% of the value of our total gross loan portfolio as of March 31, 2019 consisted of exposure to individuals, while SMEs comprised approximately 4.6% of the value of the total gross loan portfolio as of March 31, 2019. As part of our business strategy, we are seeking to further increase lending and other services to individuals and SMEs, which are more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, we may experience higher levels of non-performing loans, which could result in higher provisions for loan loss reserves, which in turn would negatively affect us.

For the three-month period ended March 31, 2019, non-performing loans were Ps.13,095 million and total charge-offs against our allowance for loan losses were Ps.3,700 million. Non-performing loans related to individuals and SMEs represented 43.3% and 15.8%, respectively, of our total non-performing loans for the three-month period ended March 31, 2019, and 43.6% and 17.0%, respectively, for the three-month period ended March 31, 2018. Charge-offs related to individual and SME loans represented 90.4% and 8.4%, respectively, of our total charge-offs for the three-month period ended March 31, 2019, and 92.8% and 5.3%, respectively, for the three-month period ended March 31, 2018.

For the year ended December 31, 2018, non-performing loans were Ps.12,839 million and total charge-offs against our allowance for loan losses were Ps.15,635 million. Non-performing loans related to individuals and SMEs represented 45.1% and 15.3%, respectively, of our total non-performing loans for the year ended December 31, 2018, and 46.4% and 15.5%, respectively, for the year ended December 31, 2017. Charge-offs related to individual and SME loans represented 91.0% and 5.9%, respectively, of our total charge-offs for the year ended December 31, 2018, and 89.3% and 8.7%, respectively, for the year ended December 31, 2017.

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

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

As a financial institution, we are subject to extensive laws and regulations regarding our organization, operations, lending and funding activities, capitalization, transactions with related parties, and taxation and other matters, including regulation by the Mexican Central Bank, the CNBV and the SHCP. These laws and regulations impose numerous requirements on us, including the maintenance of minimum credit, market and operating-risk capital levels and allowance for impairment losses, and otherwise regulate prohibited activities. The regulations also place limitations on the fees, commissions and interest rates we charge, our business practices and practices relating to risk-profile and sales of securities, money laundering, derivatives, rates charged, application of required accounting regulations and tax obligations. Statutes, regulations and policies to which we are subject, in particular those relating to the banking sector and financial institutions, may be changed at any time, and the interpretation and the application of those laws and regulations by regulators is also subject to change. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on our financial condition.

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

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

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

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

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

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

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

In December 2010, the Basel Committee reached an agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. The Basel III framework includes heightened capital standards reflecting increases in both the quality and quantity of the regulatory capital base and enhancements to the risk coverage of the capital framework. Basel III also requires institutions to maintain a capital conservation buffer above the minimum Capital Ratios in order to avoid certain capital distribution constraints. The capital conservation buffer, to be comprised of common equity Tier 1 Capital, would result in an effective Tier 1 Capital requirement of 6% of risk-weighted assets and other risks. In addition, Basel III directs national regulators to require certain institutions to maintain a Countercyclical Capital Supplement during periods of excessive credit growth. The Basel III capital standards are intended to be implemented at the national level subject to transitional arrangements, with the principal requirements being phased in from January 2013 to January 2019 and the remaining requirements fully effective in 2022. The CNBV issued amendments to the Mexican Capitalization Requirements, which became effective on January 1, 2013 and implemented Basel III in all material respects.

As a result of these amendments, in May 2016, as a bank of systemic importance, we were required by CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% with Tier 1 Capital. Also, an initial Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements are required to be implemented by us over a four-year period, to be constituted in four equal parts in December of each year, starting December 31, 2016.

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

At the beginning of 2018, the Mexican Central Bank proposed amendments to the Circular 3/2012, which regulates capital instruments issued by Mexican banks and opened a public consultation period from May 4, 2018 to May 31, 2018. On November 14, 2018 the final amendments were published in the Official Gazette, including, among others, changes such as the requirement to submit a transfer pricing study justifying interest rates applicable to capital instruments and *de minimis* non-related party placement requirements, when the offering did not qualify as a public offering.

The Basel Committee could adopt a new accord regarding minimum capitalization requirements that sets conditions that are more restrictive for Tier 1 Capital or that raises the minimum capital ratios even higher. Changes in laws and regulations issued by the CNBV in connection with the minimum capitalization requirements in compliance with international banking standards may affect our financial condition and results of operations and the treatment of the Notes of each series as part of our Tier 1 Capital.

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

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

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

We are subject to regulatory inspections, examinations, inquiries and audits that could result in intervention, sanctions and other penalties by our regulators and supervisors.

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

Furthermore, in the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. See “Supervision and Regulation.”

As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to our business operations, affect our financial returns, include reserve and reporting requirements, and set forth conduct of business regulations.

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

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

Furthermore, customers of financial services institutions, including our customers, may seek redress if they have suffered loss as a result of an offered product, or through incorrect application of the terms and conditions of a particular product.

Given the inherent unpredictability of litigation and judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

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

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

Informal discussions led by the Senate's majority party leader to limit fees and commissions charged by banks have started, with high uncertainty over the final outcome of these statements. However, as of the date of this offering memorandum, the Mexican Congress and Mexican regulators (including the Mexican Central Bank) have not yet formally proposed any specific legislation to limit the interest rates we may charge. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations, although it is likely to require amendments to the way in which we operate and may adversely impact our financial results.

Our banking license may be revoked by the CNBV.

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

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

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

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

Except for Government Loans and loans to certain Mexican development banks guaranteed by the federal government and the Mexican Central Bank, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations, and to establish corresponding reserves. Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different than those applicable to banks in other countries, including the United States. The criteria to establish reserves include both qualitative and quantitative factors and involve certain discretionary determinations.

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

Unexpected contingencies from integration in connection with the Interacciones Merger.

The combination of two independent businesses is typically a complex and costly time-consuming process. The failure to meet the challenges involved in integrating the two businesses and to realize the anticipated benefits of the Interacciones Merger could cause an interruption of, or a loss of momentum in, the activities of the combined businesses and could adversely affect the results of operations of the combined businesses.

In addition, the overall integration of our and Banco Interacciones’ businesses may result in material unanticipated problems, expenses, liabilities, competitive responses, and diversion of management’s attention. The difficulties of combining the operations of the companies include, among others:

- the diversion of management’s attention to integration matters;
- difficulties in achieving cost savings, synergies, business opportunities and growth prospects from the combination;
- difficulties in the integration of operations and systems;
- different standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the two companies;

- difficulties in managing the expanded operations of a significantly larger and more complex business;
- challenges in keeping existing customers and obtaining new customers;
- challenges in obtaining change of control waivers;
- challenges in attracting and retaining key personnel; and
- coordination in a geographically dispersed organization.

Many of these factors are outside of our control, and anyone could result in increased costs, decreases in the amount of expected revenues or the diversion of management's attention, which could materially impact our business, financial condition and results of operations. In addition, even if operations are integrated successfully, the full benefits of the transaction may not be realized, including the synergies or cost savings or sales or growth opportunities that are expected.

Any due diligence in connection with the Interacciones Merger may have not revealed all relevant considerations or liabilities of Banco Interacciones, which could have a material adverse effect on our business, financial condition or results of operations.

There can be no assurance that the due diligence undertaken for the purposes of the acquisition and subsequent merger have revealed all relevant facts that may be necessary to evaluate the Interacciones Merger. Furthermore, the information provided during the due diligence process may be incomplete, inadequate or inaccurate. As part of the due diligence process, we also made subjective judgments regarding the results of operations, financial condition and prospects of Banco Interacciones. If the due diligence investigations did not correctly identify material issues and liabilities that may be present in Banco Interacciones, we may subsequently incur substantial impairment charges or other losses that may not be covered by the contractual protections in the merger agreement. In addition, following the Interacciones Merger, we may be subject to significant, previously undisclosed liabilities of Banco Interacciones' business that were not identified during the due diligence and which could contribute to poor operational performance, undermine any attempt to align Banco Interacciones with our business plan and have a material adverse effect on our business, financial condition and results of operations.

We may fail to realize the anticipated growth opportunities, cost savings, increased profits, synergies and other benefits anticipated from the Interacciones Merger.

Achieving the projected benefits of the Interacciones Merger will depend partly on the rapid and efficient combination of our activities and Banco Interacciones' activities, which sell different financial products with geographically dispersed operations, have different business cultures, and different customer bases.

We believe the acquisition and subsequent merger represented a unique opportunity to combine two successful banking platforms with significant potential synergies. Although we believe that the estimated growth in market share, expense savings and synergies contemplated by the Interacciones Merger are significant, there can be no assurance that we will realize these benefits in the near future. Any failures, material delays or unexpected costs of the integration process could therefore have a material adverse effect on our business, results of operations and financial condition. As a result of the merger with Banco Interacciones, the CNBV could increase the Systemically Important Bank Capital Supplement above 0.90%, if reclassified to grade III D-SIB (which would be 1.20%).

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

GFNorte acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB in 2006, UniTeller in 2006, Motran in 2007, IXE in 2011 and GFInter in 2018. We faced difficulties and delays in the integration of the banking operations of certain of these entities that affected our performance by diverting our management's attention and human resources. We could face similar problems if we engage in similar transactions in the future. In addition, future acquisitions may require us to operate in markets that are new to us and may subject us to regulatory arrangements in other countries with which we have not had prior experience.

Such transactions and the possibility of a new merger, acquisition or other business combination involving us is likely to entail risks, including diversion of management attention and of human resources, unknown or unforeseen liabilities relating to the counterparty, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

We depend on our retention of certain key personnel and on our ability to hire additional key personnel and maintain good labor relations.

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

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

In addition, as of March 31, 2019, approximately 27.3% of our employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

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

We are regularly party to litigation and other legal proceedings relating to claims resulting from our operations in the normal course of business. See “Business—Litigation and Regulatory Proceedings.” Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. Furthermore, the current regulatory environment, which has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties. See Note 35 to our Audited Consolidated Financial Statements and Note 23 to our Unaudited Condensed Consolidated Interim Financial Statements.

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

Our business relies heavily on data collection, processing and storage systems in order for our internal control systems and other operating systems to function properly.

Our business is dependent on our ability to timely collect and process a large volume of financial and other information across numerous and diverse markets and products at our various locations or branches, at a time when transaction processes have become increasingly complex. The proper functioning of our internal control, accounting and data collection and processing systems is critical to our business. A partial or complete failure of any of these systems could materially and adversely affect our decision making processes and the functioning of our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

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

If we fail to adequately protect personal information, our business, financial condition and operating results could be adversely affected.

A wide variety of state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in increasing requirements and public scrutiny and escalating levels of enforcement and potential sanctions for violations. In July 2010, the Mexican government enacted the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*), which requires us to ensure the confidentiality of information received from clients. Although we have modified our processes, procedures and systems as required to implement this law, including procedures to supervise our activities thereunder, we can provide no assurances as to how this legislation will be interpreted and how strictly it will be enforced by Mexican authorities. An unfavorable interpretation and enforcement of this legislation could have a material adverse effect on us, including increasing our operating costs and subjecting us to fines and penalties in the event of violations of the provisions of such law.

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

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

Additionally, any failure or interruption in the improvement, development and expansion of our information systems could result in a delay in our ability to respond to the demands of our customers, our ability to manage risk, or defects in our service. This could adversely affect our customers or our reputation for reliability.

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

We are subject to the risk of cybersecurity incidents and attacks that could result in a loss of customer data and other sensitive information, financial theft and regulatory penalties.

Cybersecurity incidents against us, our business partners, customers, vendors, or other third parties could result in a loss of customer data and other sensitive information, as well as financial theft. In addition, cyber-attacks could give rise to the disablement of our IT systems, or those of our third party vendors, used to service our business operations and customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cybersecurity incidents to our customers. If we fail to effectively manage our cybersecurity risk, e.g., by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, loss of customers, regulatory penalties and fines and/or through the loss of assets.

We have been and continue to be subject to a range of cyber incidents, such as denial of service attacks, intrusion attempts through email malware attachments, ATM hacks, credit card and debit card fraud, attacks via third-party platforms we utilize and phishing. For example, in March 2015, we detected that a third party had gained unauthorized access to certain customer records, although no sensitive information was compromised. Also, on April 26, 2018, we became aware that an unauthorized third party had interfered with the platform we use to connect to the SPEI interbank banking system (*Sistema de Pagos Electrónicos Interbancarios*, the "SPEI"), an electronic funds transfer system owned and operated by the Mexican Central Bank. The unauthorized third party used our connection as well as other banks' connections to the SPEI to originate phantom payment orders to accounts at other banks. On the same date, we reported the suspicious transactions to the Mexican Central Bank and we were disconnected from the SPEI to prevent further fraud. The contingency procedures we were required to use

thereafter resulted in slower processing times and difficulties in the settlement of payment transfers for some of our clients for a period of approximately fifteen days. We identified that over 500 fraudulent operations were carried out. Other Mexican banks and brokerage firms were also subject to similar attacks. While we have implemented several mitigation and preventive measures to reinforce our cybersecurity and to comply with the Mexican Central Bank's regulatory security requirements and we were authorized to reconnect to the SPEI in October 2018, the forensic analysis consultant we retained to investigate the incident was unable to determine the root cause of the intrusion. While we expect that many of the operating expenses and losses incurred by us in connection with this incident will be covered by our insurance policies, it is possible that our insurance policies will not cover all of these expenses and losses.

We cannot assure that cybersecurity incidents and attacks will not cause a material adverse effect in the future.

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

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

We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to liability and harm our business.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the jurisdictions in which we operate. These laws and regulations have become more strict and require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. See "Supervision and Regulation—Money Laundering Regulations."

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted recently and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of our license. In addition, our business and reputation could suffer if our infrastructure is used for money laundering or illegal or improper purposes and some of our operations could be suspended by regulatory authorities. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') operations as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), any one of

which could have a material adverse effect on our reputation, business, financial condition or results of operations.

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

On January 16, 2014, the Mexican Antitrust Commission formally began an investigation regarding the Mexican financial sector. As part of the financial reform that became effective as of January 2014, the Mexican Antitrust Commission was instructed by the Mexican Congress to investigate competition in the Mexican financial sector. On July 9, 2014, the Mexican Antitrust Commission published the full investigation work paper and its official report pursuant to which the plenary of the Mexican Antitrust Commission reported the background, considerations and general concepts of the Mexican financial sector used for the investigation, and issued 36 recommendations for the improvement of competition such industry. Although such recommendations are not legally binding, the Mexican Antitrust Commission has authority to begin, at any time, a specific investigation for alleged antitrust practices by any financial institution, including us, which could have a material adverse effect on our reputation, business, financial condition or results of operations. As of the date of this offering memorandum, no such investigations have commenced.

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

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

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the Federal Anticorruption Law on Public Contracts (*Ley Federal Anticorrupción en Contrataciones Públicas*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal*), to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

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

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

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

We contributed Ps.3,149 million, Ps.2,634 million and Ps.2,325 million to the IPAB during 2018, 2017 and 2016, respectively. In the event that the IPAB’s reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, the IPAB maintains the discretionary right to require extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude of circumstances, cannot be predicted and could adversely affect our business, financial

condition or results of operations.

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

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

While not entirely clear, payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act.

Pursuant to certain provisions of the Code, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting, or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including Mexico and the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. A foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding on “foreign passthru payments” would ever be required pursuant to FATCA or an IGA on instruments such as the Notes, are uncertain. Even if withholding were required or relevant for the Bank pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply before the date that is two years after the date of the publication of final Treasury Regulations defining the term “foreign passthru payments.” Holders should consult their own tax advisors regarding how these rules might apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, neither the Bank nor any other paying agent will be required to pay additional amounts as a result of the withholding.

Risks Relating to Mexico

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

We are a Mexican bank and most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, changes in Mexico’s gross domestic product (“GDP”), per capita disposable income, unemployment rates, the devaluation of the Peso as compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control. Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income may result in lower demand for our services and products. The Mexican government recently cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

Our revenues are subject to risk of loss from unfavorable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies. As a result, the actions of the Mexican government concerning the

economy and regulating certain industries, including the banking sector, could have a significant effect on Mexican private sector entities, including us, and on market conditions, prices and returns on Mexican securities, including our securities.

The Mexican Congress has approved reforms in recent years, including constitutional amendments that have liberalized certain areas of the economy, including the financial sector. It is expected that these reforms will boost Mexico's economic growth in the medium and long term. However, that could not be the case. We cannot predict exactly if there will be changes in Mexico's economic and governmental policy that positively or negatively affect our business, financial position and results of operations.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our operations and financial condition. Presidential and federal congressional elections in Mexico were held on July 1, 2018, which resulted in a change in administration and the ruling party. Andrés Manuel López Obrador, the leader of the political party known as *Movimiento Regeneración Nacional (Morena)*, was elected President of Mexico and the coalition known as *Juntos Haremos Historia*, conformed by *Morena*, *Partido del Trabajo* and *Partido Encuentro Social*, obtained the majority in both chambers of the Mexican Congress (*Congreso de la Unión de los Estados Unidos Mexicanos*) and in 17 of the 32 local Congresses that exist. The newly-elected members of the Mexican Congress took office on September 1, 2018 and Andrés Manuel López Obrador took over the Mexican presidency on December 1, 2018. The new President's term will expire on September 30, 2024. We cannot provide any assurances that political developments in Mexico will not have an adverse effect on the Mexican economy or the banking industry and, in turn, in our business, results of operations and financial condition.

Informal discussions led by the Senate's majority party leader to limit certain fees and commissions charged by banks took place during the first 100 days of the new administration, causing high uncertainty over the final outcome of these discussions. In addition, during his campaign, Andrés Manuel López Obrador proposed, among other things, his desire to modify and/or terminate certain structural reforms. As of the date of this offering memorandum, a new education reform was approved by Congress and ratified by the legislative authorities of 22 states. In addition, the new administration canceled the New Mexico City Airport (*Nuevo Aeropuerto Internacional de la Ciudad de México*) project, and has announced the kickoff of the main infrastructure projects that were promised during campaign (including a new refinery at Dos Bocas, the "Mayan train", and the construction of a new airport in Santa Lucía). Several investors and credit rating agencies are still cautious about the new administration's policies, which could contribute to a decrease in the Mexican economy's resilience in the event of a global economic downturn. As a result of the last election Andrés Manuel López Obrador and the *Juntos Haremos Historia* coalition have majority in the Congress of the Union and in the local Congresses, enough to implement significant reforms without the approval of the rest of the other Mexican political parties, including amendments to the Mexican Constitution. Such concentration of power and any instability in Mexican politics or economy as a result of the above can have a negative impact on our business, financial position or operating results. The extent of such impact cannot be accurately predicted.

On June 5, 2019, Fitch downgraded Mexico's sovereign debt, which reflects an assessment of the overall financial capacity of the government of Mexico to pay its obligations and its ability to meet its financial commitments as they become due, from BBB+ to BBB citing increased risk due to PEMEX's deteriorating credit profile and weakness in the macroeconomic outlook due to, among other things, trade tensions. In addition, Moody's changed its outlook on Mexico's A3 rating from stable to negative. The same day, Fitch downgraded Mexico's state oil company, PEMEX, from BBB- to BB+, citing insufficient investment to restore declining production. These downgrades could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

We may be subject to adverse economic conditions in Mexico.

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

condition or results of operation.

During 2012, GDP in Mexico grew 3.6% and inflation reached 4.1% on average. In 2013, GDP grew 1.4% and inflation was 3.8% on average. In 2014, GDP grew 2.8% and inflation reached 4.0% on average. In 2015, GDP grew 3.3% and inflation was 2.7% on average. In 2016, GDP grew 2.9% and inflation was 2.8% on average. In 2017, GDP grew 2.0% and inflation was 6.0% on average. In 2018, GDP grew 2.0% and inflation was 4.9% on average. During the first three months of 2019, GDP grew 1.2% and inflation was 4.1% on average.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S. The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*) (“*Cetes*”), averaged 3.75%, 3.00%, 2.98%, 4.17%, 6.69%, 7.62% and 7.97% for the years ended December 31, 2013, 2014, 2015, 2016, 2017, 2018 and for the three-month period ended March 31, 2019, respectively. Accordingly, if we incur Peso denominated debt in the future, it could be at high interest rates.

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

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

The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States’ economy, the termination of the North American Free Trade Agreement (“NAFTA”) or other related events may impact the economy of Mexico. On an annual basis, as of 2017, close to 80% of Mexico’s total exports are purchased by the United States, the single country with the highest share of trade with Mexico.

Economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the NAFTA, which has induced higher economic activity between the two countries and was highlighted during the 2008 to 2009 economic crisis affecting the United States. In August 2017, the U.S. administration formally started trade negotiations with Mexico and Canada to update the NAFTA. An agreement between the U.S. and Mexico was reached in late August 2018 and the U.S. and Canada also reached an agreement in late September 2018. The renewed trade agreement, re-named as the United States-Mexico-Canada Trade Agreement (the “USMCA”), still requires approval by the Congress in the three countries. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of the NAFTA or the USMCA and/or other U.S. government policies that may be adopted by the U.S. administration may adversely affect the economic conditions in Mexico. These developments could in turn have an adverse effect on our financial condition and results of operations.

In 2009, the GDP of the United States contracted by 3.5% while Mexican GDP fell by 4.7%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 10.3% in 2009 in the United States and from 4.3% in September 2008 to 6.4% in September 2009 in Mexico. This sudden change in economic conditions reduced credit demand, caused a 28.9% depreciation of the Peso from September 2008 to March 2009 and triggered a monetary policy response by the Mexican Central Bank that resulted in low interest rates, which decreased to 4.5% in December 2009 from its December 2008 level of 8.3%. These changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. In addition, the possibility of normalization of monetary policy in the U.S. has caused an increase in the volatility of the Peso/U.S. dollar exchange rate. The relative strength of the U.S. dollar against other currencies, including the Peso, could impact manufacturing’s contribution to growth, thus affecting economic activity in Mexico.

More recently, certain measures on trade taken by the U.S., the *Brexit*, U.S. monetary policy normalization along with other geopolitical and economic factors have contributed to increase the volatility and uncertainty in several financial markets. Any interruption to the expansion of the developed economies, the impact of said factors in emerging economies or a new economic and/or financial crisis, or a combination of the above, could affect the Mexican economy, and, consequently, materially adversely affect our business.

The 2016 U.S. presidential election and the change in the U.S. administration have had an impact on the worldwide economy and in Mexico. The current U.S. governmental policies towards Mexico have created instability, uncertainty and may adversely affect the Mexican economy. For example, President Donald Trump has

instituted import tariffs and enforced measures intended to control illegal immigration from Mexico, which have created friction between the U.S. and Mexican governments and may reduce economic activity between these countries. In June of 2019, the Trump administration announced plans to impose an escalating series of tariffs on Mexico unless the Mexican government enacted certain policy changes. While the Mexican and U.S. governments were able to reach an agreement, we cannot assure you that we will not be materially adversely affected by such tariffs in the future.

Moreover, there is uncertainty around the implications of a tax reform for the fiscal deficit and national debt. However, there can be no assurance as to what the U.S. administration will do, and the impact of these measures or any others adopted by the U.S. administration cannot be predicted. We cannot assure you that any developments in the U.S. or elsewhere will not materially and adversely affect us in the future.

During 2011 and 2012, the developments in the global economy, and particularly in Europe, increased the risk premiums in global credit markets, which in turn generated volatility in the Mexican financial markets. Given the transitory nature of such volatility, due to several measures taken by the European authorities, the Mexican economy was not materially affected by it. In 2013, the uncertainties regarding the recovery of the U.S. economy and the changes made to its monetary policy in the short- and medium-term resulted in increased volatility in the debt and foreign exchange markets, affecting all emerging markets, including Mexico. In 2014 and 2015, the U.S. economy showed signs of improvement with an annual GDP growth rate of 2.4% and 2.4%, respectively, which caused the Federal Reserve System to begin normalizing its monetary policy by ending its quantitative monetary stimulus, and increasing the U.S. Federal Reserve's reference rate by 25 basis points in December 2015. Such monetary policy normalization, together with a sharp decline in oil prices, resulted in increased volatility in the financial markets and increased uncertainty regarding the recovery of certain economic zones in Europe, China and most emerging markets. We cannot assure you that the events in Europe, the U.S. or elsewhere will not materially and adversely affect us in the future.

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

The Mexican government frequently intervenes in the Mexican economy and occasionally makes significant changes in policies and regulations. The Mexican government's actions to control inflation and other policies and regulations historically have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency fluctuations, taxation on investment flows, capital controls and limits on imports. We and the market price of our securities may be adversely affected by changes in policies or regulations involving, among others:

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

Mexico has experienced high rates of inflation in the past and has therefore implemented monetary policies that

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

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

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

The Mexican government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect on us. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing credit portfolio.

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

Like many other Mexican banks, we invest in debt securities of the Mexican government. As of March 31, 2019, approximately 15.9% of our total assets, and 21.1% of our investment portfolio (excluding investment in equity securities), was comprised of debt securities issued by the Mexican government (including those issued by the Mexican Central Bank). Any failure by the Mexican government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

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

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

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

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

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

We maintain insurance in amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability for services we provide, general directors and officers liability for our directors and executives and general liability against fraudulent activity. However, it is possible that the terms and conditions of the insurance policies we have will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur. If any uninsured events occur with respect to a significant portion of our operations, such lack of coverage could have a material adverse effect on our financial conditions and results from operations. Additionally, if we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could adversely affect our business.

Risks Relating to the Notes

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

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

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

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

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

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

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

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

In addition to its right to cancel, in whole or in part, interest payments at any time as described above and, subject to the extent permitted in the following paragraphs in respect of partial interest payments, we shall not make an interest payment on the Notes of each series on any Interest Payment Date if an Interest Cancellation Event takes place, and such interest payment shall therefore be automatically canceled and thus shall not be due and payable on such Interest Payment Date. Any Interest Cancellation Event is at the Bank's absolute discretion. Currently, the minimum Capital Ratios to be classified as Class I (and, as a result, not Class II or below), including the Capital Conservation Buffer, are (i) 10.5% in respect of Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus in each case, any other applicable Capital Supplement (currently, a Systemically Important Bank Capital Supplement for grade II D-SIBs of 0.90% and any Countercyclical Capital Supplement applicable to the Bank, both to be created by the Bank over a four-year period, to be constituted in four equal parts in December of each year, on a cumulative basis, commencing in December 2016).

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

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

Any interest canceled on any relevant Interest Payment Date shall not be due and shall not accumulate or be payable at any time thereafter, and you shall have no rights thereto or to receive any additional interest, penalty or compensation as a result of such cancellation. Furthermore, no cancellation of interest in accordance with the

terms of the respective indenture or the Notes of each series as described above shall constitute a default in payment or otherwise under the terms of such series of Notes. If practicable, we will provide notice of any cancellation of interest (in whole or in part) to you through DTC (or, if you hold the Notes in definitive form, directly to the address shown in the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

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

If our Fundamental Capital equals or falls below 5.125%, or other events described in “Description of the NC5 Notes—Trigger Event and Write-Down—Write-Down” and “Description of the NC10 Notes—Trigger Event and Write-Down—Write-Down,” as applicable, as Trigger Events occur, interest on the Notes of each series will cease to accrue, any accrued interest will be canceled and the outstanding principal amount of the Notes of each series will be written down in an aggregate amount as described in this offering memorandum without the possibility of any future write-up or reinstatement of principal. The holders of the Notes of each series will automatically be deemed to have irrevocably waived their right to claim or receive repayment of the written down principal amount of the Notes of each series then outstanding, and any unpaid interest and any additional amounts with respect thereto. Holders would not receive any of our shares or the shares of our affiliates or be entitled to any other form of compensation in the event of a Write-Down. As a result, holders would lose all or a portion, as the case may be, of their investment in the Notes and will have no right to repayment by us of the written down amount. See “Description of the NC5 Notes—Trigger Event and Write-Down—Write-Down” and “Description of the NC10 Notes—Trigger Event and Write-Down—Write-Down.” If a Trigger Event occurs, it is expected that a Write-Down would take place before the determination of the treatment of our remaining indebtedness or other securities without similar write-down features. Our other indebtedness without similar write-down features, including indebtedness that is initially subordinated to the Notes of each series, may remain outstanding after a Write-Down of the Notes.

The circumstances surrounding or triggering a Write-Down are unpredictable and may be caused by factors not fully within our control.

The occurrence of a Trigger Event resulting in a Write-Down, is inherently unpredictable and may depend on a number of factors, any of which may be outside of our control. The determination as to whether a Trigger Event has occurred will partially depend on the calculation of our Fundamental Capital and whether such ratio equals or has fallen below 5.125%. Fluctuations in our Fundamental Capital may be caused by changes to Mexican Capitalization Requirements and applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules, among other external factors.

In addition, any disclosure that our Capital Ratios are moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Notes.

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes of each or both series and the information contained in this offering memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes of each or both series and the impact such investment will

have on its overall investment portfolio and expected income;

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

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes of either or both series unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how each series of Notes will perform under changing conditions, the resulting effects on the likelihood of a Write-Down and the value of such series of Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this offering memorandum.

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

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

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

From and including the Issue Date to (but excluding) (i) the NC5 First Call Date, interest will accrue on the then Current Principal Amount of the NC5 Notes at an initial fixed rate equal to 6.750% per annum and (ii) the NC10 First Call Date, interest will accrue on the then Current Principal Amount of the NC10 Notes at an initial fixed rate equal to 7.500% per annum. From and including the NC5 Reset Date, including the NC5 First Call Date, to (but excluding) the next succeeding NC5 Reset Date, interest will accrue on the then Current Principal Amount of the NC5 Notes at a fixed rate per annum equal to the sum of the then-prevailing Treasury Yield on the NC5 Reset Determination Date and 496.7 basis points. From and including the NC10 Reset Date, including the NC10 First Call Date, to (but excluding) the next succeeding NC10 Reset Date, interest will accrue on the then Current Principal Amount of the NC10 Notes at a fixed rate per annum equal to the sum of the then prevailing Treasury Yield on the NC10 Reset Determination Date and 547 basis points. These reset rates following each NC5 Reset Date and/or NC10 Reset Date, as applicable, could be less than the initial interest rate and/or the interest rate that applies immediately prior to such reset date, which could affect the amount of any interest payments under the Notes of each series and, by extension, could affect the market value of such series of Notes.

Also, after the NC5 First Call Date and the NC10 First Call Date, the NC5 Notes and the NC10 Notes, respectively, will be subject to redemption on each Interest Payment Date following such respective first call date, which may have an effect on the market value of such series of Notes.

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

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

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

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

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

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

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

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

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

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

By reason of the subordination of the Notes of each series, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes of each series would become immediately due and payable at their

principal amount together with any unpaid and not canceled interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness and subordinated preferred indebtedness have been paid in full. As of March 31, 2019, we had, on a consolidated basis, an aggregate of Ps.12,487 million (U.S.\$644 million) of subordinated preferred indebtedness outstanding, and an aggregate of Ps.20,453 million (U.S.\$1,056 million) of subordinated non-preferred indebtedness outstanding. The indentures will not limit our ability to incur additional senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness from time to time. See “Description of the NC5 Notes—Subordination” and “Description of the NC10 Notes—Subordination.”

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

DTC may decide to suspend all clearance and settlement of transfers of the Notes of any series by holders after its receipt of a Write-Down Notice that causes the principal amount of such Notes to be reduced to zero. We have agreed to provide a Write-Down Notice (as defined in the “Description of the NC5 Notes” and the “Description of the NC10 Notes”) to holders and to the Trustee via the applicable clearing system on the business day after the occurrence of the Trigger Event. However, the records of DTC will not be immediately updated to reflect the Trigger Event, and a period of time, which may exceed several days, may be required before the clearance and settlement of transfers of such Notes through DTC are suspended. Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of such Notes to be reduced to zero. In such circumstances, transferors of such Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused the principal amount of such Notes to be reduced to zero. In such circumstances, transferees of such Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under such Notes will thereafter become due, and such transferees will have no rights whatsoever under the respective indenture or such Notes to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Notes of any series following a Trigger Event will be subject to procedures of DTC that are in place at such time.

The Notes are subject to redemption in the event of specified changes affecting the treatment of the Notes under the Mexican Capitalization Requirements or changes affecting the tax treatment of the Notes.

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Notes or treatment of the Notes as capital securities under the Mexican Capitalization Requirements, as described under “Description of the NC5 Notes—Redemption—Withholding Tax Redemption,” “Description of the NC10 Notes—Redemption—Withholding Tax Redemption,” “Description of the NC5 Notes—Redemption—Special Event Redemption” and “Description of the NC10 Notes—Redemption—Special Event Redemption,” we will have the option, but not the obligation, under the indenture of each series of Notes to redeem the Notes at any time in whole (but not in part) subject to any regulatory requirements.

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

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

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

The Notes being offered hereby have terms that are affected by the extent to which we are in compliance with Mexican Capitalization Requirements. See “Description of the NC5 Notes” and “Description of the NC10 Notes.” Our Capital Ratios could be affected by a number of factors, including business decisions taken by us in coordination with our controlling shareholder, GFNorte. In this regard, our business strategy and operations may depend on the decisions of GFNorte relating to its overall business, including its operations carried on by us, as well as the overall management of our consolidated capital position. We have no obligation to consider the interests of the holders of the Notes offered hereby (or any other series of our indebtedness that may be outstanding) in connection with overall strategic decisions of GFNorte, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event. In addition, holders will not have any claim against us relating to decisions that affect the business and operations of GFNorte, including its capital position, regardless of whether they result in the occurrence of any event that causes a suspension or cancellation of amounts due in respect of the Notes offered hereby. In addition, notwithstanding the applicability of any one or more of the conditions set out above that would result in amounts due in respect of the Notes not being paid or being paid only in part, there will be no restriction on our paying dividends on our ordinary shares or making pecuniary or other distributions to the holders of our ordinary shares, including our controlling shareholder, GFNorte, assuming that we are in compliance with Mexican Capitalization Requirements. Such decisions could cause holders of the Notes offered hereby to lose all or part of the value of their investment in the Notes of either or both series.

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

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

No assurance can be given as to:

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

We have not and will not register the Notes with the RNV maintained by the CNBV and therefore we may not publicly offer the Notes or sell the Notes, nor can they be the subject of brokerage activities in Mexico, except that we may offer the Notes in Mexico to investors that qualify as institutional or accredited investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*) and regulations thereunder. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See “Transfer Restrictions.” Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. The initial purchasers may make a market in the Notes, but they are not obligated to do so, and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See “Plan of Distribution.” In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

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

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

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

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

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

Under the Mexican Banking Law, if the CNBV declares us insolvent, our authorization to organize and operate as a bank will be revoked and a resolution (*resolución*) and liquidation procedure before a Federal Mexican court will commence, in which by statute the IPAB will be appointed as the receiver (*liquidador judicial*). We would be in liquidation as of the date following the notification by CNBV of the revocation of the authorization to operate as a bank and our payment obligations denominated in foreign currency, including the Notes:

- would be converted to Pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt,
- would cease accruing interest to the extent such debt is not secured,
- would be paid at the time claims of creditors are satisfied, and
- would not be adjusted to consider any depreciation of the Peso against the U.S. dollar occurring after the liquidation procedure begins.

In addition, in the event of our liquidation, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes and secured creditors.

USE OF PROCEEDS

Our net proceeds from the issuance of the NC5 Notes are estimated to be approximately U.S.\$596 million, and our net proceeds from the issuance of the NC10 Notes are estimated to be approximately U.S.\$496 million, in each case after deducting the initial purchasers' discounts and commissions and estimated offering expenses. Subject to market conditions, we intend to use the net proceeds of the issuance of the Notes of each series to strengthen our regulatory capital and for general corporate purposes.

EXCHANGE RATES AND CURRENCY

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

There can be no assurance that the Mexican government will maintain its current policies with respect to the Peso or that the Peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the period-end, average, high and low, the Mexican Central Bank Exchange Rate expressed in Pesos per U.S. dollar. The Mexican Central Bank Exchange Rate is currently determined by the Mexican Central Bank every business day in Mexico based on an average of wholesale foreign exchange market quotes and published the following business banking day in the Official Gazette and on the Mexican Central Bank's website (www.banxico.org.mx). The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps.19.3779 to U.S.\$1.00, the Mexican Central Bank Exchange Rate determined by the Mexican Central Bank on March 29, 2019, and published on the Official Gazette on March 29, 2019.

Year Ended December 31,	Mexican Central Bank Exchange Rate ⁽¹⁾			
	Period-End	Average ⁽²⁾	High	Low
2013	13.0843	12.7696	13.4394	11.9807
2014	14.7414	13.3032	14.7853	12.8462
2015	17.2487	15.8810	17.3776	14.5559
2016	20.6194	18.6886	21.0511	17.1767
2017	19.6629	18.8098	21.9076	17.4937
2018	19.6512	19.2331	20.7160	17.9787
Month				
January 2019	19.0388	19.1786	19.6512	18.9280
February 2019	19.2607	19.1930	19.4084	18.9280
March 2019	19.3779	19.2649	19.5225	18.8694
April 2019	19.0099	18.9569	19.2279	18.7719
May 2019	19.6426	19.1078	19.6426	18.9755
June 2019 (through June 10)	19.2040	19.6069	19.7609	19.2040

(1) Source: Mexican Central Bank.

(2) Average of end-of-month rates for 2013, 2014, 2015, 2016, 2017 and 2018. Average of daily rates for each complete or partial month of 2019.

CAPITALIZATION

The following table sets forth our total capitalization as of March 31, 2019, as follows:

- on an actual basis;
- as adjusted for the Ps. 9,898,035,922.30 (approximately U.S.\$511 million) dividend payment made by the Bank on June 3, 2019; and
- as further adjusted to reflect the issuance of the Notes offered hereby and the application of the net proceeds of this offering as described herein under “Use of Proceeds.”

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

	Actual		As Adjusted ⁽²⁾		As Further Adjusted for this Offering ⁽³⁾	
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)
Long-Term Debt:						
Bank and other loans	1,735	33,631	1,735	33,631	1,735	33,631
Senior debt issued	633	12,272	633	12,272	633	12,272
Subordinated debentures:						
Preferred subordinated debentures	644	12,487	644	12,487	644	12,487
Non-preferred subordinated debentures	1,056	20,453	1,056	20,453	1,056	20,453
Accrued interest	20	387	20	387	20	387
Total subordinated debentures	1,720	33,327	1,720	33,327	1,720	33,327
NC5 Notes offered hereby	—	—	—	—	596	11,545
NC10 Notes offered hereby	—	—	—	—	496	9,616
Total long-term debt	4,088	79,230	4,088	79,230	5,180	100,391
Stockholders’ Equity:						
Paid-in capital ⁽⁴⁾	1,045	20,249	1,045	20,249	1,045	20,249
Other capital	4,956	96,049	4,446	86,151	4,446	86,151
Minority interest	—	3	—	3	—	3
Total stockholders’ equity	6,002	116,301	5,491	106,403	5,491	106,403
Total Capitalization ⁽⁵⁾	10,090	195,531	9,579	185,633	10,671	206,794

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2019 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps.19.3779 per U.S.\$1.00. See “Exchange Rates and Currency.”

(2) The “As Adjusted” columns reflect the Ps. 9,898,035,922.30 (approximately U.S.\$511 million) dividend payment made by the Bank on June 3, 2019.

(3) The “As Further Adjusted for this Offering” column reflects the issuance of the NC5 Notes in an aggregate principal amount of U.S.\$ 600,000,000 and the NC10 Notes in an aggregate principal amount of U.S.\$ 500,000,000, in each case less the initial purchasers’ discounts and commissions and estimated offering expenses.

(4) As of March 31, 2019, our capital stock consisted of 144,197,415,428 Series O Shares, par value Ps.0.10 per share, which were issued, outstanding and fully paid. Of these shares, 141,691,146,957 (98.26% of our capital stock) are held by GFNorte.

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

Except as disclosed in this offering memorandum, there has been no material change in our total capitalization since March 31, 2019.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum. Results of the three-month period ended March 31, 2019 are not necessarily indicative of results to be expected for the full year.

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

Summary Statement of Income Data:	For the three-month period ended March 31,			For the Year ended December 31,			
	2019	2019	2018	2018	2018	2017	2016
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)		(U.S.\$ millions) ⁽¹⁾		(Ps. millions)	
Interest income	1,685	32,643	26,335	6,088	117,979	95,710	69,407
Interest expense	(811)	(15,712)	(11,590)	(2,759)	(53,466)	(40,062)	(23,244)
Net interest income	874	16,931	14,745	3,329	64,513	55,648	46,163
Allowance for loan losses	(191)	(3,700)	(4,149)	(807)	(15,635)	(14,983)	(13,070)
Net interest income after allowance for loan losses	683	13,231	10,596	2,522	48,878	40,665	33,093
Commission and fee income	274	5,303	4,842	1,103	21,379	18,436	15,764
Commission and fee expense	(101)	(1,951)	(1,744)	(405)	(7,849)	(6,142)	(4,498)
Intermediation revenues	48	934	807	196	3,799	2,101	1,839
Other operating income	94	1,820	391	148	2,869	2,365	2,078
Non-interest expense	(482)	(9,341)	(8,585)	(1,810)	(35,079)	(31,750)	(29,155)
Operating income	(167)	(3,235)	(4,289)	(768)	(14,881)	(14,990)	(13,972)
Equity in earnings of unconsolidated subsidiaries and associated companies	1	14	25	8	161	62	1,043
Income before income tax	517	10,010	6,332	1,763	34,158	25,737	20,164
Current income tax	(112)	(2,176)	(1,591)	(442)	(8,565)	(6,781)	(5,479)
Deferred income tax (expense) benefit	(24)	(472)	(123)	(39)	(759)	(706)	116
Discontinued operations	0	0	0	0	0	89	243
Net income	381	7,362	4,618	1,282	24,834	18,339	15,044

- (1) Solely for the convenience of the reader, Peso amounts as of and for the three-month period ended March 31, 2019 and for the year ended December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps.19.3779 per U.S.\$1.00. See “Exchange Rates and Currency.”

	Three-Month Period Ended March 31,		Year Ended December 31,			
	2019	2019	2018	2018	2017	2016
	(U.S.\$ millions, except for percentages) (1)	(Ps. millions, except percentages)	(U.S.\$ millions)(1)		(Ps. millions)	
Balance Sheet Data:						
Assets:						
Cash and cash equivalents	3,693	71,563	3,882	75,233	76,063	65,844
Margin securities	181	3,508	75	1,458	1,986	2,185
Investment in securities						
Trading securities	5,175	100,271	4,769	92,418	122,065	129,477
Securities available for sale	7,149	138,523	7,637	147,986	152,910	153,128
Securities held to maturity	436	8,456	438	8,492	6,834	6,258
	12,759	247,250	12,844	248,896	281,809	288,863
Debtor balances under repurchase and resale agreements						
	0	3	21	405	5	0
Derivatives financial instruments						
For trading purposes	1,228	23,793	1,449	28,083	25,511	40,881
For hedging purposes	1	15	8	156	205	742
	1,229	23,808	1,457	28,239	25,716	41,623
Valuation adjustments for assets hedging						
	4	80	4	84	99	113
Performing loan portfolio						
Commercial loans						
Business loans	14,082	272,884	14,242	275,979	210,431	201,753
Financial institutions' loans	1,172	22,708	1,088	21,088	22,875	20,240
Government loans	9,260	179,434	9,920	192,234	132,816	133,540
Consumer loans	5,785	112,105	5,740	111,237	101,995	86,632
Mortgage loans	8,185	158,604	8,040	155,797	135,405	114,807
Total performing loan portfolio	38,484	745,735	39,031	756,335	603,552	556,972
Past-due loan portfolio						
Commercial loans						
Business loans	383	7,418	364	7,044	6,540	5,467
Financial Institutions loans	0	4	0	0	-	344
Consumer loans	212	4,116	224	4,331	4,329	3,200
Mortgage loans	80	1,557	76	1,464	1,323	1,049
Total past-due loan portfolio	675	13,095	663	12,839	12,192	10,060
Loan portfolio	39,160	758,830	39,693	769,174	615,714	567,032
(Less) allowance for loan losses	(920)	(17,822)	(943)	(18,264)	(15,551)	(13,941)
Loan portfolio, net	38,240	741,008	38,751	750,910	600,163	553,091
Acquired collection rights	96	1,864	103	2,001	1,925	1,400
Total loan portfolio, net	38,336	742,872	38,854	752,911	602,088	554,491
Receivables generated by						
securitizations	4	85	3	61	141	155
Other accounts receivable, net	2,238	43,371	1,862	36,082	37,492	39,989
Foreclosed assets, net	40	770	38	738	752	1,222
Property, furniture and equipment, net	705	13,667	699	13,547	13,474	11,927
Permanent stock investments	19	362	18	342	150	185
Long Term Assets Available for						
Sale	0	0	0	0	0	5,299
Deferred taxes, net	172	3,328	250	4,839	3,517	4,228
Other assets	1,121	21,716	911	17,657	13,131	14,311
Total Assets	60,501	1,172,383	60,918	1,180,492	1,056,423	1,030,435
Liabilities:						
Deposits						
Demand deposits	20,222	391,855	21,267	412,118	394,995	382,409
Time deposits						
General public	14,464	280,277	14,324	277,576	245,288	190,536
Money market	2,633	51,019	2,867	55,552	3,679	1,459
Time deposits	93	1,803	98	1,891	1,657	1,352
Senior debt issued	633	12,272	624	12,098	3,003	-
	38,045	737,226	39,180	759,235	648,622	575,756
Balance Sheet Data:						
Interbank and other loans						
Demand loans	0	0	0	0	0	4,019

	Three-Month Period Ended March 31,		Year Ended December 31,			
	2019	2019	2018	2018	2017	2016
	<i>(U.S.\$ millions, except for percentages) (1)</i>	<i>(Ps. millions, except percentages)</i>	<i>(U.S.\$ millions)⁽¹⁾</i>		<i>(Ps. millions)</i>	
Short-term loans	612	11,864	698	13,523	8,441	8,063
Long-term loans	1,123	21,767	1,146	22,199	6,797	9,178
	1,735	33,631	1,843	35,722	15,238	21,260
Creditor balances under repurchase and resale agreements	8,882	172,118	8,438	163,507	190,363	234,490
Collateral sold or pledged						
Repurchase or resale agreements (creditor balance)	0	9	0	2	3	-
Derivatives financial instruments						
For trading purposes	974	18,872	1,218	23,605	24,608	40,403
For hedging purposes	481	9,313	566	10,963	12,401	9,372
	1,455	28,185	1,784	34,568	37,009	49,775
Other account payables						
Income tax	69	1,341	88	1,696	1,940	1,965
Employee profit sharing	31	605	25	485	405	396
Creditors from settlements of transactions	597	11,561	227	4,402	15,871	6,988
Creditors from cash collateral	468	9,076	739	14,319	11,083	10,326
Sundry creditors and other payables	1,471	28,499	1,242	24,059	16,897	14,444
	2,636	51,082	2,320	44,961	46,196	34,119
Subordinated debentures	1,720	33,327	1,732	33,560	32,445	21,917
Deferred credits and advanced collections	26	504	28	535	485	331
Total liabilities	54,499	1,056,082	55,325	1,072,090	970,361	937,648
Stockholders' equity						
Paid-in capital						
Common stock	970	18,794	970	18,794	18,105	18,105
Additional paid-in capital	75	1,455	61	1,184	648	72
	1,045	20,249	1,031	19,978	18,753	18,177
Other capital						
Capital reserves	766	14,847	766	14,847	13,013	11,509
Retained earnings from prior years	4,006	77,622	2,742	53,133	38,959	50,215
Result from valuation of securities available for sale	3	65	(103)	(1,994)	4	(1,645)
Result from valuation of instruments for cash flow hedging	(159)	(3,082)	(177)	(3,430)	(3,653)	(2,131)
Cumulative foreign currency translation adjustment	(1)	(13)	86	1,659	1,590	1,985
Remeasurements defined benefits for employees	(39)	(752)	(32)	(628)	(943)	(377)
Net income	380	7,362	1,282	24,834	18,339	15,044
	4,956	96,049	4,563	88,421	67,309	74,600
Noncontrolling interest	0	3	0	3	-	10
Total stockholders' equity	6,001	116,301	5,594	108,402	86,062	92,787
Total liabilities and stockholders' equity	60,500	1,172,383	60,920	1,180,492	1,056,423	1,030,435

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	As of or for the three-month period ended March 31,		As of or for the year ended December 31,			
	2019	2019	2018	2018	2017	2016
	(U.S.\$ millions, except for percentages) (1)	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. Millions, except percentages)		
Profitability and Efficiency:						
Return on average total assets ⁽²⁾	2.5%	2.5%	2.2%	2.2%	1.8%	1.5%
Return on average equity ⁽³⁾	26.2%	26.2%	25.5%	25.5%	20.5%	15.4%
Net interest margin ⁽⁴⁾	6.2%	6.2%	5.7%	5.7%	5.7%	5.1%
Efficiency ratio ⁽⁵⁾	40.5%	40.5%	41.4%	41.4%	43.8%	47.5%
Credit Quality Data:						
Total performing loans.....	38,484	745,735	39,031	756,335	603,522	556,972
Total non-performing loans	675	13,095	663	12,839	12,192	10,060
Total loans.....	39,159	758,830	39,694	769,174	615,714	567,032
Loans graded “C,” “D” and “E” ⁽⁶⁾	2,328	45,104	2,481	48,067	31,080	27,400
Allowance for loan losses	920	17,822	943	18,264	15,551	13,941
Credit Quality Ratios:						
Allowance for loan losses as a percentage of total loans	2.3%	2.3%	2.4%	2.4%	2.5%	2.5%
Allowance for loan losses as a percentage of total non- performing loans ⁽⁷⁾	136.1%	136.1%	142.3%	142.3%	127.6%	138.6%
Allowance for loan losses as a percentage of loans graded “C,” “D” and “E” ⁽⁶⁾	39.5%	39.5%	38.0%	38.0%	50.0%	50.9%
Total non-performing loans as a percentage of total loans	1.7%	1.7%	1.7%	1.7%	2.0%	1.8%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(0.6%)	(0.6%)	(0.7%)	(0.7%)	(0.6)%	(0.7)%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders’ equity....	(4.1%)	(4.1%)	(5.0%)	(5.0%)	(3.9)%	(4.2)%
Loans graded “C,” “D” and “E” as a percentage of total loans ⁽⁶⁾	5.9%	5.9%	6.2%	6.2%	5.0%	4.8%

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(2) Net income for the period divided by average total assets, based on beginning and end-of-period balances for the three-month period ended March 31, 2019, determined on an annualized basis.

(3) Net income for the period divided by average stockholders' equity, based on beginning and end-of-period balances. For the three-month period ended March 31, 2019, determined on an annualized basis.

(4) Net interest income divided by total interest-earning assets. Average interest-earning assets are determined based on daily monthly averages.

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

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

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

Capital Ratios

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

	As of March 31,		As of December 31,		
	2019	2019	2018	2018	2017
	(U.S.\$ millions, except for percentages) (1)	(Ps. millions, except for percentages)	(U.S.\$ millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	
Capital:					
Fundamental Capital (CET1).....	5,401	104,654	4,901	94,970	75,220
Additional Tier 1 Capital	960	18,603	974	18,865	20,103
Tier 2 Capital.....	721	13,967	747	14,472	13,286
Total Net Capital.....	7,081	137,225	6,621	128,307	108,609
Risk-Weighted Assets:					
Credit risk.....	32,248	624,895	32,381	627,479	507,721
Market risk	3,931	76,166	3,412	66,119	72,848
Operational risk.....	2,926	56,697	2,780	53,865	46,406
Total Risk-Weighted Assets.....	39,104	757,758	38,573	747,464	626,976
Capital Ratios (credit, market and operational risk):					
Fundamental Capital (CET1) to risk-weighted assets	13.81%	13.81%	12.71%	12.71%	12.00%
Tier 1 Capital to risk-weighted assets.....	16.27%	16.27%	15.23%	15.23%	15.20%
Tier 2 Capital to risk-weighted assets.....	1.84%	1.84%	1.94%	1.94%	2.12%
Total Net Capital to Total Risk-Weighted Assets.....	18.11%	18.11%	17.17%	17.17%	17.32%

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

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

Principal Factors Affecting Our Financial Condition and Results of Operations

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

Mexican Economic Environment

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

In 2017, the Mexican economy grew 2.0%, on an annualized basis, driven by a strong performance of the services sector, along with a pickup in manufacturing activity. Inflation remained under control despite the depreciation of the Peso against the U.S. dollar at the beginning of the year and the impact of the liberalization of energy prices.

In 2018, the Mexican economy grew at an average of 2.0% with the economy expanding at 0.2%, on a quarter-to-quarter basis for the fourth quarter according to data released by INEGI (*Instituto Nacional de Geografía e Informática*), slightly below 0.8% expansion, on a quarter-to-quarter basis, registered in the previous quarter. Economic activity was primarily driven by a strong services sector, along with the recovery of the manufacturing activity that supported the industrial production, particularly as uncertainty about the trade with the U.S. was following the agreement on trade reached in late August 2018.

For the three-month period ended March 31, 2019, the Mexican economy grew at an average of 1.3% with the economy sinking at 0.3%, on a quarter-to-quarter basis for the first quarter according to preliminary data released by INEGI (*Instituto Nacional de Geografía e Informática*), significantly weaker than the 0.2% expansion, on a quarter-to-quarter basis, registered in the previous quarter. Economic activity was primarily affected by temporary shocks that took place at the beginning of the year, namely, problems with fuel distribution, strikes in the northern part of the country and teachers' strikes in Michoacán. We expect these shocks to have a transitory impact on economic activity in 2019.

Effect of Tax Legislation

On November 1, 2013, the Mexican Congress approved several tax reforms that became effective as of January 1, 2014. These reforms included changes to the Income Tax Law, Value Added Tax Law and the Mexican Federal Tax Code, and the repeal of the Single Rate Corporate Tax Law and the Tax Law on Cash Deposits.

As part of the tax reform, the Mexican government repealed the provision that allowed banks to deduct the increase to the loan loss reserve from their taxable income. Instead, banks are allowed to deduct the write-offs related to their loan portfolio in accordance with the rules issued by the CNBV. According with the transitory

provisions, banking institutions may begin deducting credit losses at the time in which the amount of such losses equals the value of the Mexican Banking GAAP loan loss reserve as of December 31, 2013.

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

- *Global Preventive Reserves*: Pursuant to the previous Income Tax Law, we were able to deduct our loan loss reserves in an amount equivalent to up to 2.5% of its loan portfolio. With the tax reform, this credit reserve deduction was replaced by a penalty deduction.
- *Deduction of Labor Benefits Exempted from Income Taxes*: The new Income Tax Law provisions limit the deductions of certain labor benefits paid to employees, including pension plans and saving funds, union fees and social security fees, among others. These benefits may be deducted in an amount up to 53% and in the event we reduce such benefits compared to the previous year, only 47% could be deducted.
- *Income Tax of 10% on Dividend distributions*: An additional income tax on dividend distributions to individuals and foreign persons of 10% was implemented. This income tax must be withheld by the entity making the distribution.

During 2016, 2017 and 2018, the income tax rate applicable to us was 30%, and this rate was not changed pursuant to the Income Tax Law. The income tax rate applicable to us for the three-month period ended March 31, 2019 continues to be 30%.

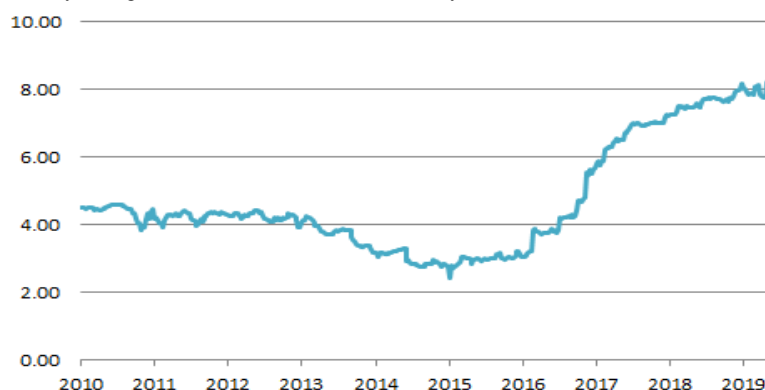
Effects of Changes in Interest Rates

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

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

Average Monthly CETES Rate

(Monthly average based on rates established at weekly auctions)



Source: Mexican Central Bank

During 2016, the Mexican Central Bank increased its overnight interbank interest rate (*tasa de fondeo interbancario*) by 250 basis points from 3.25% as of December 31, 2015 to 5.75% as of December 31, 2016, in response to exchange rate volatility. Interest rates on 28-day and 91-day *Cetes* averaged 4.15% and 4.34%, respectively, in 2016.

During 2017, the Mexican Central Bank increased interest rates by 150 basis points to 7.25%. Interest rates on 28-day and 91-day *Cetes* averaged 6.69% and 6.88%, respectively, in 2017.

During the year ended December 31, 2018, the Mexican Central Bank increased interest rates by 100 basis points to 8.25%. Interest rates on 28-day and 91-day *Cetes* averaged 7.62% and 7.83%, respectively, in the year ended December 31, 2018, as compared with average rates on 28-day and 91-day *Cetes* of 6.69% and 6.88%, respectively, in the year ended December 31, 2017.

During the three-month period ended March 31, 2019, the Mexican Central Bank maintained interest rates at 8.25%. Interest rates on 28-day and 91-day *Cetes* averaged 7.97% and 8.15%, respectively, in the three months of 2019, as compared with average rates on 28-day and 91-day *Cetes* of 7.38% and 7.53%, respectively, in the year ended December 31, 2018. For further detail, see “Risk Management—Market Risk.”

Trends Affecting our Financial Condition and Results of Operations

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

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

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

Recognition of the effects of inflation in financial information

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

The cumulative Mexican inflation over the three years prior to 2017 and 2016 was 11.46% and 10.52%, respectively. Therefore, pursuant to the provisions of MFRS B-10 described above, the Mexican economy was considered as non-inflationary during these periods. However, assets, liabilities and stockholders’ equity as of December 31, 2017 and 2016 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended on December 31, 2018 and 2017 were 4.83% and 6.77%, respectively, and the inflation rate for the three-month period ended March 31, 2019 was 4.00%.

Changes in accounting policies

Improvements to NIFs (Normas de Informacion Financiera) 2018

The following improvements were issued with effect starting on January 1, 2018, which were considered in our accounting policies but did not have any impacts in our financial position and performance. The improvements consist in specifying the scope and definitions of these NIF to indicate more clearly their application and accounting treatment.

- NIF B-10 (*Effects of inflation*) requires that in a non-inflationary environment, an entity shall disclose the percentages of accumulated inflation for the last three years, which served as the basis for qualifying the economic environment in which such entity operates as non-inflationary in the reporting period. The accumulated inflation to be disclosed includes the two previous annual exercises and the period to which the financial statements relate.
- NIF C-6 (*Property, plant and equipment*) specifies that the depreciation method of an entity should be defined to reflect the pattern in which the entity expects to consume the future economic benefits of the property, plant and equipment component, rather than on a revenue generation basis, as such income amount may be affected by factors other than the profit consumption pattern. Additionally, NIF C-8 (*Intangible assets*) specifies the same approach for amortization of intangible assets.
- NIF C-14 (*Transfer and derecognition of financial assets*) establishes that an entity must continue to recognize an asset transferred to the extent that it has continuous involvement in such asset; additionally, the subsequent measurement of such asset should be carried out on the basis of applicable rules, the recognition must be made depending on the type of asset in question and the classification of the same by the entity.

Changes in the accounting criteria B-6 Loan portfolio

In the resolution published on December 27, 2017, amendments to Criterion B-6 were included, which require the following concepts to be recorded by decreasing the line item “Provisions for loan losses” instead of recording them within “other operating income (expenses)”:

- excess of loan losses, and
- recoveries of loans write-off.

These amendments became effective beginning on January 1, 2019, with the option for credit institutions to early adopt them as of the day following their publication. Therefore, we decided to early adopt them in February

13, 2018.

As of December 31, 2018, we recognized Ps.502 million and Ps.1,853 million related to surplus credit reserves and recoveries of write-off loans, respectively, in the “allowance for loan losses” category, which, up to December 2017, were recorded under the caption “Other income (expenses) of the operation.”

As of March 31, 2019, we recognized Ps.254 million and Ps.442 million related to surplus credit reserves and recoveries of write-off loans, respectively, in the “Allowance for loan losses” category, which, up to December 2017, were recorded in the caption of “Other income (expenses) of the operation.”

Effects of the Merger of Banco Interacciones into the Bank

On July 13, 2018, the merger of GFInter into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank. As a result of the Interacciones Merger, we consolidated our position as the second largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

As a result of the Interacciones Merger, our Financial Statements for any period from and after July 13, 2018 are not fully comparable to prior periods, including our Unaudited Condensed Consolidated Interim Financial Statements and the other financial information as of and for the period ended on March 31, 2019 contained in this offering memorandum.

Critical Accounting Policies

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

Fair Value of Financial Instruments

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

Allowance for Loan Losses

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

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

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

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

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

General description of rules established by the CNBV

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

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

- *Probability of Default:*
 - For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
 - For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
 - For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.
 - For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, socioeconomic risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.
- *Loss Given Default*

- For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
 - For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
 - For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.
- Exposure at Default
 - For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
 - For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
 - For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
 - For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

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

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

Employee Retirement Obligations

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

Audited Consolidated Financial Statements and include the expected return on plan assets, discount rate and rate of increase in compensation costs. Our assumptions depend on Mexico's economic circumstances.

In accordance with the provisions of MFRS D-3, "Employee Benefits," actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may substantially affect our employee retirement obligations and our future expenses.

Property, Plant and Equipment

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

Deferred Income Tax Assets

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

Results of Operations for the Three-month Period Ended March 31, 2019 Compared to the Three-month Period Ended March 31, 2018

Net Interest Income

Our net interest income was Ps.16,931 million for the three-month period ended March 31, 2019 compared to Ps.14,745 million for the three-month period ended March 31, 2018, an increase of Ps. 2,186 million, or 14.8%. During the three-month period ended March 31, 2019, the rate on 28-day Mexican benchmark interbank money market rate (*Tasa de Interés Interbancaria de Equilibrio*) ("TIE") averaged 8.56%, 81 basis points higher than 7.75% average rate for the three-month period ended March 31, 2018, which had a positive impact on our NIM. This increase resulted in a 23.9% increase in our total interest income and a 25.1% growth in our interest income from loans and a growth of 21.5% in our net interest income from cash, cash equivalents and securities, from hedging operations, and from repurchase operations.

In terms of margins, our average interest rate earned on interest-earning assets was 10.4% in the three-month period ended March 31, 2019 and our average interest rate paid on interest-bearing liabilities was 6.8%, resulting in a yield spread of 3.6%. Our average interest rate earned on interest-earning assets was 10.0% for the three-month period ended March 31, 2018 and our average interest rate paid on interest-bearing liabilities was 5.9%, resulting in a yield spread of 4.1%.

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

	For the three-month period ended March 31,	
	2019	2018
	(Ps.millions)	
Interest Income:		
Interest on loans.....	22,469	17,957
Fees on loans ⁽¹⁾	324	289
Interest on cash and cash equivalents and securities.....	5,602	6,121
Income on hedging operations	1,502	1,627
Interest on repurchase operations ⁽²⁾	2,717	335
UDI valuation ⁽⁵⁾	17	4
Foreign exchange valuation ⁽⁴⁾	13	0
Total interest income	32,643	26,335
Interest Expense:		
Interest on deposits and funding	7,906	5,144
Interest on repurchase operations ⁽³⁾	6,329	6,140
Expense on hedging operations.....	1,198	1,371
UDI valuation ⁽⁵⁾	0	0
Foreign exchange valuation ⁽⁴⁾	0	99
Fees paid ⁽⁶⁾	279	237
Total interest expense	15,712	11,590
Monetary (loss) gain, net	0	0
Net interest income.....	16,931	14,745

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

Interest Income

Our interest income was Ps.32,643 million for the three-month period ended March 31, 2019, compared to Ps.26,335 million for the three-month period ended March 31, 2018, an increase of Ps.6,308 million, or 23.9%. This increase was mainly due to an increase in the average balance of our loans which resulted in a 25.1% increase in our total interest income from loans, and a 21.5% increase in our interest income from cash, cash equivalents and securities, from hedging operations, and from repurchase operations.

Our average interest rate earned on interest-earning assets increased by 40 basis points from 10.0% during the three-month period ended March 31, 2018 to 10.4% during the three-month period ended March 31, 2019. Our average balance of interest-earning assets increased by 19.1% from Ps.1,055,030 million during the three-month period ended March 31, 2018 to Ps.1,256,033 million during the three-month period ended March 31, 2019. The average balance of our interest-earning assets increased primarily as a result of an increase of our loan portfolio of 23% from Ps.618,777 million during the three-month period ended March 31, 2018 to Ps.760,962 million during the three-month period ended March 31, 2019, added to a 23% increase in cash, cash equivalents and securities, from hedging operations, and from repurchase operations from Ps. 18,093 million during the three-month period ended March 31, 2018 to Ps.150,292 million during the three-month period ended March 31, 2019.

Our interest on loans was Ps.22,469 million (or 69% of our interest income) for the three-month period ended March 31, 2019 compared to Ps.17,957 million (or 68% of interest income) for the three-month period ended March 31, 2018, an increase of Ps.4,512 million, or 25%. This increase was primarily the result of 21.8% increase in the loans portfolio, mostly consumer and government, and the increase in overnight interest rates that the Mexican Central Bank carried out during the twelve-month period ended March 31, 2019. Our fees on loans were Ps.324 million (or 1% of our interest income) for the three-month period ended March 31, 2019 compared to Ps.289 million (or 1% of interest income) for the three-month period ended March 31, 2018, an increase of Ps.33 million, or 11%. This change was mainly the result of 21.8% increase in the loans portfolio.

Our interest income from cash and cash equivalents and securities was Ps.5,602 million (or 17% of our interest income) for the three-month period ended March 31, 2019 compared to Ps.6,121 million (or 23% of our interest income) for the three-month period ended March 31, 2018, a decrease of Ps.519 million, or 8%. This decrease was primarily due to a 19.1% reduction in the average balance of our cash and cash equivalents and securities in the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018, despite higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher Cetes rates during the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018.

Our interest income from hedging operations was Ps.1,502 million (or 5% of our interest income) for the three-month period ended March 31, 2019 compared to Ps.1,627 million (or 6% of our interest income) for the three-month period ended March 31, 2018, a decrease of Ps.125 million, or 8%. This change was due to a decrease of interest income on interest rate swaps hedging floating rate deposits due to an increase in the THIE and a 11% increase in the average balance of our hedging operations in the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018.

Our interest income from repurchase operations was Ps.2,717 million (or 8% of our interest income) for the three-month period ended March 31, 2019 compared to Ps.335 million (or 1% of our interest income) for the three-month period ended March 31, 2018, an increase of Ps.2,382 million, or 711%. This change was mainly due to a 730.7% increase in the average balance of repurchase operations as well as a higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher Cetes rates during the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018.

Interest Expense

Our interest expense was Ps.15,712 million for the three-month period ended March 31, 2019 compared to Ps.11,590 million in the three-month period ended March 31, 2018, an increase of Ps.4,122 million, or 36%. This increase was mainly due to a Ps.2,762 million increase in interest on deposits and funding and an increase of Ps.1,590 million of interests on repurchase operations, which was due to the impact of higher market interest rates.

Our average interest rate paid on interest-bearing liabilities increased by 90 basis points from 5.92% for the three-month period ended March 31, 2018 to 6.80% for the three-month period ended March 31, 2019 and our average balance of these liabilities increased by 18% from Ps.782,623 million for the three-month period ended March 31, 2018 to Ps.923,781 million for the three-month period ended March 31, 2019. The increase in our average rate paid on interest-bearing liabilities was primarily due to higher market interest rates. The 28-day *Cetes* rate averaged 7.38% for the three-month period ended March 31, 2018 as compared to 7.97% for the three-month period ended March 31, 2019.

Our interest payments on deposits and funding were Ps.7,906 million (or 50% of our interest expense) for the three-month period ended March 31, 2019 compared to Ps.5,144 million (or 44% of our interest expense) for the three-month period ended March 31, 2018, an increase of Ps.2,762 million, or 54%. This increase is explained by higher market interest rates, however, our average total deposits and funding increased 16.6%, mainly due to a 31.5% increase in our time deposits.

Our interest expense from repurchase operations was Ps.6,329 million (or 40% of interest expense) for the three-month period ended March 31, 2019 compared to Ps.4,739 million (or 41% of interest expense) for the three-month period ended March 31, 2018, an increase of Ps.1,590 million, or 34%. This increase was the result of higher market interest rates and an average balance of repurchase operations increase of 27.3% year to year.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.3,700 million for the three-month period ended March 31, 2019 compared to Ps.4,149 million for the three-month period ended March 31, 2018, a decrease of Ps.449 million, or 10.8%. This decrease evidences an exceptional loan loss allowance of Ps.600 million in March 2018.

Our allowance for loan losses as a percentage of non-performing loans increased to 136.1% as of the three-month period ended March 31, 2019 from 135.2% as of the three-month period ended March 31, 2018. The increase in the ratio of our allowance for loan losses to non-performing loans reflects an exceptional loan loss allowance of Ps.600 million in March 2018.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.13,231 million for the three-month period ended March 31, 2019 compared to Ps.10,596 million for the three-month period ended March 31, 2018, an increase of Ps.2,635 million, or 25%.

Commission and Fee Income

Our total commission and fee income was Ps.5,303 million for the three-month period ended March 31, 2019 compared to Ps.4,842 million for the three-month period ended March 31, 2018, an increase of Ps.461 million, or 9.5%, primarily due to an increase in core banking services, such as electronic banking services as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for the three-month periods ended March 31, 2019 and 2018:

	For the three-month period ended March 31,	
	2019	2018
	(Ps.millions)	
Commissions and Fees:		
Fund transfers	370	367
Account management.....	623	639
Fiduciary.....	118	107
Credit card	1,185	1,093
Income from real estate loan portfolios acquired and other investment projects	1	20
Electronic banking services.....	2,128	1,880
Other commissions and fees.....	878	736
Total commissions and fees income	5,303	4,842

Commission and Fee Expense

Our total commission and fee expense was Ps.1,951 million for the three-month period ended March 31, 2019 compared to Ps.1,744 million for the three-month period ended March 31, 2018 an increase of Ps.207 million, or 12%, due to an increase in POS activity (in terms of number of transactions and volumes transacted), which caused an increase on fees paid for interbank transactions resulting in higher commissions paid for origination dynamics of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps.934 million in the three-month period ended March 31, 2019 compared to Ps.807 million in the three-month period ended March 31, 2018 an increase of Ps.127 million, or 16%, due to higher securities trading volumes and revenues, partially offset by foreign exchange gains.

Our foreign exchange gains were Ps.96 million in the three-month period ended March 31, 2019 compared to Ps.497 million in the three-month period ended March 31, 2018, a decrease of Ps.401 million, or 81%, due to primarily to lower volumes on foreign exchange trades with our clients.

Our realized gains on securities intermediation increased to Ps.248 million for the three-month period ended March 31, 2019 compared to Ps.141 million for the three-month period ended March 31, 2018, an increase of Ps.107 million, or 76%, which was attributable principally to higher securities trading volumes. We recorded unrealized gains on securities of Ps.590 million for the three-month period ended March 31, 2019 compared to Ps.169 million for the three-month period ended March 31, 2018, which was attributable principally to an increase in trading revenues on securities and valuation gains, reflecting the market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.1,820 million for the three-month period ended March 31, 2019 compared to Ps.391 million for the three-month period ended March 31, 2018, an increase of Ps.1,429 million, mainly due to an extraordinary income from recognition of the foreign exchange conversion effect of Banorte USA as part of the profit derived from its liquidation.

Non-interest expense

Our non-interest expense was Ps.9,341 million for the three-month period ended March 31, 2019 compared to Ps.8,585 million for the three-month period ended March 31, 2018, an increase of Ps.756 million, or 9%. This increase was the result of the following increases in expenses:

- a Ps.395 million increase in our salaries and employee benefits;
- a Ps.323 million increase in our leases, depreciation and amortization;
- a Ps.144 million increase in our administrative and promotional expenses;
- a Ps.114 million increase, or 15.7%, in our contributions to the IPAB on deposits growth; and
- a Ps.218 million decrease in our other factors, mainly due to taxes and other than income taxes.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in the three-month period ended March 31, 2019 was 40.5%, compared to 45.1% for the three-month period ended March 31, 2018.

Operating Income

As a result of the factors discussed above, our operating income was Ps.9,996 million for the three-month period ended March 31, 2019 compared to Ps.6,307 million for the three-month period ended March 31, 2018, an increase of Ps.3,689 million, or 58.5%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.14 million in the three-month period ended March 31, 2019 compared to Ps.25 million for the three-month period ended March 31, 2018, a decrease of Ps.11 million, or 44%. This decrease was primarily due to lower profits registered by the associated companies.

Income Taxes

Our current income tax expense was Ps.2,176 million for the three-month period ended March 31, 2019 compared to Ps.1,591 million for the three-month period ended March 31, 2018, an increase of Ps.585 million, or 36.8%. This increase was mainly due to a higher operating profit.

We recorded a deferred income tax expense of Ps.472 million in the three-month period ended March 31, 2019, compared to a Ps.123 million deferred income tax benefit in the three-month period ended March 31, 2018, derived primarily from the valuation effect on securities, tax losses pending amortization and projects to be capitalized.

The net increase in our income tax expense was Ps.934 million in the three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018.

Net Income

Our net income was Ps.7,362 million for the three-month period ended March 31, 2019 compared to Ps.4,618 million for the three-month period ended March 31, 2018, an increase of Ps.2,744 million, or 59.4%, due to the results of our operations discussed above.

Results of Operations for Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Net Interest Income

Our net interest income was Ps.64,513 million for 2018 compared to Ps.55,648 million for 2017, an increase of Ps.8,865 million, or 16%. During 2018, the rate on the TIIE averaged 8.00%, 94 basis points higher than 7.06% average rate for 2017, which had a positive impact on our NIM. This increase resulted in a 23.3% increase in our total interest income and a 21.8% growth in our interest income from loans and a growth of 26.7% in our net interest income from cash, cash equivalents and securities, from hedging operations, and from repurchase operations.

In terms of margins, our average interest rate earned on interest-earning assets was 10.4% in 2018 and our average interest rate paid on interest-bearing liabilities was 6.5%, resulting in a yield spread of 3.9%. Our average interest rate earned on interest-earning assets was 9.8% for 2017 and our average interest rate paid on interest-bearing liabilities was 5.5%, resulting in a yield spread of 4.3%.

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

	For the years ended December 31,	
	2018	2017
	(Ps.millions)	
Interest Income:		
Interest on loans.....	80,758	66,296
Fees on loans ⁽¹⁾	1,282	1,169
Interest on cash and cash equivalents and securities.....	22,974	20,889
Income on hedging operations	6,668	5,073
Interest on repurchase operations ⁽²⁾	6,141	2,283
UDI valuation ⁽⁵⁾	80	-
Foreign exchange valuation ⁽⁴⁾	77	-
Total interest income	117,980	95,710
Interest Expense:		
Interest on deposits and funding	25,616	17,407
Interest on repurchase operations ⁽³⁾	21,214	17,039
Expense on hedging operations.....	5,591	4,668
UDI valuation ⁽⁵⁾	-	149
Foreign exchange valuation ⁽⁴⁾	-	112
Fees paid ⁽⁶⁾	1,044	687
Total interest expense	53,466	40,062
Monetary (loss) gain, net	-	-
Net interest income.....	64,513	55,648

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

Interest Income

Our interest income was Ps.117,980 million for 2018, compared to Ps.95,710 million for 2017, an increase of Ps.22,270 million, or 23.3%. There was a 60 basis point increase in the average interest rate earned on interest-earning assets from 9.8% during 2017 to 10.4% during 2018. There was a 15.9% increase in the average balance of interest-earning assets from Ps. 974,864 million during 2017 to Ps.1,129,801 million during 2018. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our loans of Ps.97,300, or 16.5%, and an increase in the average balance of repurchase agreements of Ps. 43,018, or 124.5%.

Our interest on loans was Ps.80,758 million (or 68.5% of our interest income) for 2018 compared to Ps.66,296 million (or 69.3% of interest income) for 2017, an increase of Ps.14,462 million, or 21.8%. This increase was primarily the result of 24.9% increase in the loans portfolio, mostly consumer and government, and the increase in the THIE carried out during 2018. Our fees on loans were Ps.1,282 million (or 1.1% of our interest income) for 2018 compared to Ps.1,169 million (or 1.2% of interest income) for 2017, an increase of Ps.113 million, or 9.7%. This change was mainly the result of 24.9% increase in the loans portfolio.

Our interest income from cash and cash equivalents and securities was Ps.22,974 million (or 19.5% of our interest income) for 2018 compared to Ps.20,889 million (or 21.8% of our interest income) for 2017, an increase of Ps.2,085 million, or 10%. This increase was primarily due to higher market interest rates primarily the THIE.

Our interest income from hedging operations was Ps.6,668 million (or 5.7% of our interest income) for 2018 compared to Ps.5,073 million (or 5.3% of our interest income) for 2017, an increase of Ps.1,595 million, or 31.4%. This change was due to an increase of interest income on interest rate swaps hedging floating rate liabilities due to an increase on the TIIE and a 57.3% increase in the average balance of our hedging operations in 2018 as compared to 2017.

Our interest income from repurchase operations was Ps.6,141 million (or 5.2% of our interest income) for 2018 compared to Ps.2,283 million (or 2.4% of our interest income) for 2017, an increase of Ps.3,858 million, or 169%. This change was mainly due to an increase of 124.5% on our average balance of repurchase operations and higher market interest rates.

Interest Expense

Our interest expense was Ps.53,466 million for 2018 compared to Ps.40,062 million in 2017, an increase of Ps.13,404 million, or 33.5%. This increase was mainly due to an increase of Ps.8,209 million in interest on deposits and funding and an increase of Ps.4,175 million of interests on repurchase operations, which was due to the impact of higher market interest rates.

Our average interest rate paid on interest-bearing liabilities increased by 100 basis points from 5.5% for 2017 to 6.5% for 2018 and our average balance of these liabilities increased by 13% from Ps.724,948 million for 2017 to Ps.822,424 million for 2018. The increase in our average rate paid on interest-bearing liabilities was primarily due to an increase of 28-day *Cetes* rate averaged 7.6% for 2018 as compared to 6.7% for 2017.

Our interest payments on deposits and funding were Ps.25,616 million (or 47.9% of our interest expense) for 2018 compared to Ps.17,407 million (or 43.5% of our interest expense) for 2017, an increase of Ps.8,209 million, or 47.2%. This increase is explained by the result of higher market interest rates, however, our average total deposits and funding increased 14.8%, mainly due to a 28.8% increase in our time deposits.

Our interest expense from repurchase operations was Ps.21,214 million (or 39.7% of interest expense) for 2018 compared to Ps.17,039 million (or 42.5% of interest expense) for 2017, an increase of Ps.4,175 million, or 24.5%. This increase was the result of higher market interest rates, however, our average repurchase operations increased 7.7% year to year.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.15,635 million for 2018 compared to Ps.14,983 million for 2017, an increase of Ps.652 million, or 4.4%. This increase was primarily due to higher reserve requirements on consumer loans.

Our allowance for loan losses as a percentage of non-performing loans increased to 142.3% as of December 31, 2018 from 127.6% as of December 31, 2017. The increase in the ratio of our allowance for loan losses to non-performing loans reflects an increase in the reserve requirement mainly for government loans.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.48,878 million for 2018 compared to Ps.40,665 million for 2017, an increase of Ps.6,114 million, or 14%.

Commission and Fee Income

Our total commission and fee income was Ps.21,379 million for 2018 compared to Ps.18,436 million 2017, an increase of Ps.2,943 million, or 16%, primarily due to an increase in core banking services, such as electronic banking services and fund transfers, as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for years ended December 31, 2018 and 2017:

	For the year ended December 31,	
	2018	2017
	(Ps.millions)	
Commissions and Fees:		
Fund transfers	1,648	1,503
Account management.....	2,601	2,596
Fiduciary	496	420
Credit card	4,586	4,177
Income from real estate loan portfolios acquired and other investment projects	45	36
Electronic banking services.....	8,268	6,903
Other commissions and fees.....	3,735	2,801
Total commissions and fees income	21,379	18,436

Commission and Fee Expense

Our total commission and fee expense was Ps.7,849 million for 2018 compared to Ps.6,142 million for 2017, an increase of Ps.1,707 million, or 28%, due to an increase in POS activity (in terms of number of transactions and volumes transacted), which caused an increase on fees paid for interbank transactions resulting in higher commissions paid for origination dynamics of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps.3,799 million in 2018 compared to Ps.2,101 million in 2017, an increase of Ps.1,698 million, or 81%, due to higher securities trading volumes and revenues, and an increase of foreign exchange gains.

Our foreign exchange gains were Ps.1,994 million in 2018 compared to Ps.1,600 million in 2017, an increase of Ps.394 million, or 24.6%, due primarily to higher volumes on foreign exchange trades with our clients.

Our realized gains on securities intermediation decreased to a Ps.101 million loss for 2018 compared to Ps.487 million for 2017, a decrease of Ps.386 million, or 20.7%, which was attributable principally to lower securities trading volumes. We recorded unrealized gains on securities of Ps.1,906 in 2018 compared to unrealized gains on securities of Ps.14 in 2017, which was attributable principally to an increase in trading revenues on securities and valuation gains, reflecting the market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.2,869 million for 2018 compared to Ps.2,365 million for 2017, an increase of Ps.504 million, mainly due to an extraordinary income from the sale of real estate and leaseback of the Bank's property.

Non-interest expense

Our non-interest expense was Ps.35,079 million for 2018 compared to Ps.31,750 million for 2017, an increase of Ps.3,329 million, or 11%. This increase was the result of the following increases in expenses:

- a Ps.1,504 million increase in our salaries and employee benefits;
- a Ps.380 million increase in our administrative and marketing expenses;
- a Ps.603 million increase in our leases, depreciation and amortization; and
- a Ps.515 million increase, or 19.6%, in our contributions to the IPAB on deposits growth; and
- a Ps. 572 million decrease in our other factors, mainly due to taxes and other than income taxes and increase in professional fees.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in 2018 was 41.4%, compared to 43.8% for 2017.

Operating Income

As a result of the factors discussed above, our operating income was Ps.33,997 million for 2018 compared to Ps.25,675 million for 2017, an increase of Ps.8,322 million, or 32%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.161 million in 2018 compared to Ps.62 million for 2017, an increase of Ps.99 million, or 160%. This increase was primarily due to higher profits registered by the associated companies.

Income Taxes

Our current income tax expense was Ps.8,565 million for 2018 compared to Ps.6,781 million for 2017, an increase of Ps.1,784 million, or 26%. This increase was mainly due to a higher operating profit.

We recorded a deferred income tax expense of Ps.759 million in 2018, compared to a Ps.706 million deferred income tax benefit in 2017, derived primarily from the valuation effect on securities, tax losses pending amortization and projects to be capitalized.

The net increase in our income tax expense was Ps.1,837 million in 2018 compared to 2017.

Net Income

Our net income was Ps.24,834 million for 2018 compared to Ps.18,339 million for 2017, an increase of Ps.6,495 million, or 35%, due to the results of our operations discussed above.

Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Net Interest Income

Our net interest income was Ps.55,648 million for 2017 compared to Ps.46,163 million for 2016, an increase of Ps.9,485 million, or 20.6%. This increase was mainly due to the growth of the loan portfolio and the interest rate increases that the Mexican Central Bank implemented during 2017, which resulted in a 37.9% increase in our total

interest income and a 29.8% growth in our net interest income from loans. During 2017, the TIIE rate averaged 7.06%, 259 basis points higher than 4.47% average rate for 2016, which had a positive impact on our NIM.

In terms of margins, our average interest rate earned on interest-earning assets was 9.8% in 2017 and our average interest rate paid on interest-bearing liabilities was 5.5%, resulting in a yield spread of 4.3%. Our average interest rate earned on interest-earning assets was 7.7% in 2016 and our average interest rate paid on interest-bearing liabilities was 3.4%, resulting in a yield spread of 4.3%.

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

	For the years ended December 31,	
	2017	2016
	(Ps.millions)	
Interest Income:		
Interest on loans.....	66,296	51,091
Fees on loans ⁽¹⁾	1,169	1,199
Interest on cash and cash equivalents and securities.....	20,889	13,221
Income on hedging operations	5,073	2,324
Interest on repurchase operations ⁽²⁾	2,283	1,417
UDI valuation ⁽⁵⁾	-	-
Foreign exchange valuation ⁽⁴⁾	-	155
Total interest income	95,710	69,407
Interest Expense:		
Interest on deposits and funding	17,407	9,662
Interest on repurchase operations ⁽³⁾	17,039	10,435
Expense on hedging operations.....	4,668	2,588
UDI valuation ⁽⁵⁾	149	74
Foreign exchange valuation ⁽⁴⁾	112	-
Fees paid ⁽⁶⁾	687	485
Total interest expense	40,062	23,244
Monetary (loss) gain, net	-	-
Net interest income.....	55,648	46,163

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

Interest Income

Our interest income was Ps.95,710 million for 2017 compared to Ps.69,407 million for 2016, an increase of Ps.26,303 million, or 37.9%. There was a 210 basis point increase in the average interest rate earned on interest-earning assets from 7.7% during 2016 to 9.8% during 2017. There was a 8.1% increase in the average balance of interest-earning assets from Ps.901,687 million during 2016 to Ps.974,864 million during 2017. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our loans of Ps.60,868, or 11.5%.

Our interest on loans was Ps.66,296 million or 69.3% of our interest income for 2017 compared to Ps.51,091 million or 73.6% of interest income for 2016, an increase of Ps.15,205 million, or 29.8%. This increase was primarily the result of an 11.5% increase in the average balance of our loans, mostly consumer portfolio, and the increase in overnight interest rates that the Mexican Central Bank carried out during 2017.

Our fees on loans were Ps.1,169 million (or 1.2% of our interest income) for 2017 compared to Ps.1,199 million

(or 1.7% of interest income) for 2016, a decrease of Ps.30 million.

Our interest income from cash and cash equivalents and securities was Ps.20,889 million (or 21.8% of our interest income) for 2017 compared to Ps.13,221 million (or 19.0% of our interest income) for 2016, an increase of Ps.7,668 million, or 57.9%. This increase was primarily due to higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during 2017 as compared to 2016, despite the 2.2% growth in the average balance of our cash and cash equivalents and securities in 2017 as compared to 2016.

Our interest income from repurchase operations was Ps.2,283 million (or 2.4% of our interest income) for 2017 compared to Ps.1,417 million (or 2.0% of our interest income) for 2016, an increase of Ps.866 million, or 61.1%. This increase was primarily due to higher market interest rates primarily the overnight interbank interest rate (*tasa de fondeo interbancario*), which resulted in higher *Cetes* rates during 2017 as compared to 2016.

Interest Expense

Our interest expense was Ps.40,062 million for 2017 compared to Ps.23,244 million for 2016, an increase of Ps.16,818 million, or 72.4%. This increase was the result of Ps.7,745 million increase in interest on deposits and funding and an increase of Ps.6,604 million of interests on repurchase operations, which was due to the impact of higher market interest rates. Our average interest rate paid on interest-bearing liabilities increased by 210 basis points from 3.4% for 2016 to 5.5% for 2017 and our average balance of these liabilities increased by 7.1% from Ps.676,957 million for 2016 to Ps.724,948 million for 2017. The increase in our average rate paid on interest-bearing liabilities was due to an increase of 28-day *Cetes* rates that averaged 6.7% for 2017, compared to 4.2% for 2016.

Our interest on deposits and funding was Ps.17,407 million (or 43.5% of our interest expense) for 2017 compared to Ps.9,662 million (or 41.6% of our interest expense) for 2016, an increase of Ps.7,745 million, or 80.2%. This increase was primarily the result of higher market interest rates, however, our average total deposits and funding increased 9.4%, mainly due to a 16.9% increase in our time deposits.

Our interest expense from repurchase operations was Ps.17,039 million (or 42.5% of interest expense) for 2017 compared to Ps.10,435 million (or 44.9% of interest expense) for 2016, an increase of Ps.6,604 million, or 63.3%. This increase was the result of higher market interest rates, however, our average repurchase operations increased only 2.6% year to year.

Allowance for Loan Losses

Our allowance for loan losses charged against earnings was Ps.14,983 million for 2017 compared to Ps.13,070 million for 2016, an increase of Ps.1,913 million, or 14.6%. This increase was primarily due to higher reserve requirements on credit cards.

Our allowance for loan losses as a percentage of non-performing loans decreased to 127.6% as of December 31, 2017 from 138.6% as of December 31, 2016. The decrease in the ratio of our allowance for loan losses to non-performing loans reflects a 21.2% increase in non-performing loans mainly of consumer loans.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps.40,665 million for 2017 compared to Ps.33,093 million for 2016, an increase of Ps.7,572 million, or 18.6%.

Commission and Fee Income

Our total commission and fee income was Ps.18,436 million for 2017 compared to Ps.15,764 million for 2016, an increase of Ps.2,672 million, or 16.9%, primarily due to an increase in core banking services, such as account management, fund transfers and electronic banking services, as well as growth in services related to credit card

loans.

The following table shows the breakdown of our commissions and fees for years ended December 31, 2017 and 2016:

	For the year ended December 31,	
	2017	2016
	(Ps.millions)	
Commissions and Fees:		
Fund transfers.....	1,503	1,303
Account management.....	2,596	2,138
Fiduciary.....	420	346
Credit card.....	4,177	3,544
Income from real estate loan portfolios acquired and other investment projects	36	52
Electronic banking services.....	6,903	5,808
Other commissions and fees.....	2,801	2,573
Total commissions and fees income	18,436	15,764

Commission and Fee Expense

Our total commission and fee expense was Ps.6,142 million for 2017 compared to Ps.4,498 million for 2016, an increase of Ps.1,644 million, or 36%, primarily due to increase in POS activity (in terms of number of transactions and volumes transacted), which caused an increase on fees paid for interbank transactions resulting in higher commissions paid for origination dynamics of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps.2,101 million in 2017 compared to Ps.1,839 million in 2016, an increase of Ps.262 million, or 14.3%, due to higher securities trading volumes and revenues, partially offset by foreign exchange gains.

Our foreign exchange gains were Ps.1,600 million in 2017 compared to Ps.1,566 million in 2016, an increase of Ps.34 million, or 2.2%, due primarily to higher volumes on foreign exchange trades with our clients.

Our realized gains on securities intermediation increased to Ps.487 million for 2017 compared to Ps.13 million for 2016, an increase of Ps.474 million, or 3,646.2%, which was attributable to higher securities trading volumes. We recorded unrealized gains on securities of Ps.15 million in 2017 compared to unrealized gains on securities of Ps.260 million in 2016, which was attributable principally to a decrease in trading revenues on securities and valuation gains, reflecting the market volatility linked to economic and political events.

Other Operating Income

Our other operating income was Ps.2,365 million for 2017 compared to Ps.2,078 million for 2016, an increase of Ps.287 million, mainly due to income from recovery and passives depuration, which was partially offset for a higher losses and estimates from fraud and vandalism related to credit and debit cards and ATMs.

Non-interest expense

Our non-interest expense was Ps.31,750 million for 2017 compared to Ps.29,155 million for 2016, an increase of Ps.2,595 million, or 8.9%. This increase was the result of the following increases in expenses:

- a Ps.518 million increase in our salaries and employee benefits;
- a Ps.424 million increase in our administrative and marketing expenses, mainly related to our credit cards segment;

- a Ps.316 million increase in our leases, depreciation and amortization, mainly due to amortizations of IT expenses; and
- a Ps.309 million increase, or 13.3%, in our contributions to the IPAB on deposits growth.
- a Ps.611 million increase in professional fees and an increase of Ps.388 million in taxes and other than income taxes.

The efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income in 2017 was 43.8%, compared to 47.5% during 2016.

Operating Income

As a result of the factors discussed above, our operating income was Ps.25,675 million for 2017 compared to Ps.19,121 million for 2016, an increase of Ps.6,554 million, or 34.3%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps.62 million in 2017 compared to Ps.1,043 million in 2016, a decrease of Ps.981 million, or 94.1%. This decrease was primarily due to the sale of Inter National Bank in March 2017 and the spin-off of the Afore XXI Banorte which took place on October 2016.

Income Taxes

Our current income tax expense was Ps.6,781 million for 2017 compared to Ps.5,479 million for 2016, an increase of Ps.1,302 million, or 23.8%. This increase was mainly due to a higher operating profit.

We recorded a deferred income tax benefit of Ps.706 million in 2017, compared to a Ps.116 million deferred income tax expense in 2016, derived primarily from the valuation effect on securities, tax losses pending amortization and projects to be capitalized.

The net increase in our income tax expense was Ps.2,124 million in 2017 compared to 2016.

Net Income

Our net income was Ps.18,339 million for 2017 compared to Ps.15,044 million for 2016, an increase of Ps.3,295 million, or 21.90%, due to the results of our operations discussed above.

Financial Position

The following discussion compares our consolidated financial position at March 31, 2019 and December 31, 2018, 2017 and 2016.

Assets

We had total assets of Ps.1,172,383 million as of March 31, 2019, compared to Ps.1,180,492 million as of December 31, 2018.

We had total assets of Ps.1,180,492 million as of December 31, 2018, compared to Ps.1,056,423 million as of December 31, 2017, an increase of Ps.124,069 million, or 11.7%. This increase was primarily due to the effects of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”).

We had total assets of Ps.1,056,423 million as of December 31, 2017, compared to Ps.1,030,435 million as of December 31, 2016, an increase of Ps.25,988 million, or 2.5%. This increase was mainly the result of an increase of Ps.46,550 million in our total performing loans.

Performing Loan Portfolio

As of March 31, 2019, total performing loans were Ps.745,735 million compared to Ps.756,335 million as of December 31, 2018, a decrease of Ps.10,600 million, or 1.40%. This variation was mainly due to a decrease in our government loan portfolios as a result of scheduled repayments of loans from governmental entities. Total performing loans represented 63.6% of total assets as of March 31, 2019, compared to 64.1% of total assets as of December 31, 2018. As of March 31, 2019, performing business loans represented 37% of total performing loans, loans to financial institutions represented 3%, performing mortgage loans represented 20%, performing government loans represented 24% and performing consumer loans represented 15%.

As of December 31, 2018, total performing loans were Ps.756,335 million compared to Ps.603,522 million as of December 31, 2017, an increase of Ps.152,813.18 million, or 25.32%. This variation was mainly due to the effects of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”). Total performing loans represented 64.1% of total assets as of December 31, 2018, compared to 57.1% of total assets as of December 31, 2017. As of December 31, 2018, performing business loans represented 36% of total performing loans, loans to financial institutions represented 3%, performing mortgage loans represented 21%, performing government loans represented 25% and performing consumer loans represented 15%.

We had total performing loans of Ps.603,522 million as of December 31, 2017, compared to Ps.556,972 million as of December 31, 2016, an increase of Ps.46,550 million, or 8.4%. This variation was mainly due to an increase in our corporate and government loan portfolios. Total performing loans represented 57.1% of total assets as of December 31, 2017. As of December 31, 2017, performing mortgage loans represented 22.4% of total performing loans, performing business loans represented 34.9%, loans to financial institutions represented 3.8%, performing government loans represented 22.0% and performing consumer loans represented 16.9%.

Non-Performing Loan Portfolio

We had total non-performing loans of Ps.13,095 million as of March 31, 2019 compared to Ps.12,839 million as of December 31, 2018, an increase of Ps.256 million, or 2%. Business loans represented Ps.7,422 million and consumer loans represented Ps.5,673 million of the total variation for the period. Total non-performing loans represented 1.1% of total assets as of March 31, 2019, compared to 1.1 % of total assets as of December 31, 2018. As of March 31, 2019, non-performing business loans represented 56.7%, non performing mortgage loans represented 11.9% and non-performing consumer loans represented 31.4% of total non-performing loans.

We had total non-performing loans of Ps.12,839 million as of December 31, 2018 compared to Ps.12,192 million as of December 31, 2017, an increase of Ps.648 million, or 5.31%. Business loans represented Ps.7,044 million and consumer loans represented Ps.5,795 million of the total variation for the period. Total non-performing loans represented 1.2% of total assets as of December 31, 2018, compared to 1.2% of total assets as of December 31, 2017. As of December 31, 2018, non-performing business loans represented 54.9%, non performing mortgage loans represented 11.4% and non-performing consumer loans represented 33.7% of total non-performing loans.

We had total non-performing loans of Ps.12,192 million as of December 31, 2017 compared to Ps.10,060 million as of December 31, 2016, an increase of Ps.2,132 million, or 21.2%. As of December 31, 2017, non-performing business loans represented 53.6% of total non-performing loans, non-performing consumer loans represented 35.50% and non-performing mortgage loans represented 10.85%.

Deferred Taxes and Employee Profit Sharing Assets

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

We had net deferred tax and employee profit sharing assets of Ps.3,328 million as of March 31, 2019, compared to Ps.4,839 million as of December 31, 2018, a decrease of Ps.1,511 million, or 31%. This decrease was primarily due to the valuation effect on securities and projects to be capitalized.

We had net deferred tax and employee profit sharing assets of Ps.4,839 million as of December 31, 2018, compared to Ps.3,517 million as of December 31, 2017, an increase of Ps.1,322 million, or 38%, derived primarily from the valuation effect on securities, surplus of loan loss reserves and non-deductible provisions.

We had net deferred tax and employee profit sharing assets of Ps.3,517 million as of December 31, 2017, compared to Ps.4,228 million as of December 31, 2016, an decrease of Ps.711 million, or 16.8%. This decrease derived primarily from the valuation effect on securities, tax losses pending amortization and projects to be capitalized.

Liabilities

We had total liabilities of Ps.1,056,082 million as of March 31, 2019 compared to Ps.1,072,090 million as of December 31, 2018, a decrease of Ps.16,008 million, or 1.5%, mainly as a result of a drop in deposits for Ps. 22,009 million due to the seasonality of customer deposits each year.

We had total liabilities of Ps. 1,072,090 million as of December 31, 2018 compared to Ps.970,361 million as of December 31, 2017, an increase of Ps.101,729 million, or 10%. This variation was mainly due to the effects of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”).

We had total liabilities of Ps.970,361 million as of December 31, 2017 compared to Ps.937,648 million as of December 31, 2016, an increase of Ps.32,713 million, or 3.5%, mainly as a result of a higher increase in total deposits of Ps.72,866 million during the period, of which Ps.54,752 were time deposits.

Deposits

We had total deposits of Ps.737,226 million as of March 31, 2019 compared to Ps.759,235 million as of December 31, 2018, a decrease of Ps.22,009 million, or 2.9%. This decrease was driven mainly by the drop in demand deposits for Ps. 20,263 million due to the seasonality of customer deposits each year. As of March 31, 2019, demand deposits represented 53.4% of total deposits and general public time deposits represented 46.6%. As of December 31 2018, demand deposits represented 54.5% of total deposits and general public time deposits represented 45.5%

We had total deposits of Ps. 759,235 million as of December 31, 2018 compared to Ps.648,622 million as of December 31, 2017, an increase of Ps.110,613 million, or 17%. This variation was mainly due to the effects of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”). As of December 31, 2018, demand deposits, which bear interest at lower rates, represented 54.5% of total deposits, while time deposits represented 45.5%.

We had total deposits of Ps.648,622 million as of December 31, 2017 compared to Ps.575,756 million as of December 31, 2016, an increase of Ps.72,866 million, or 12.7%, that was driven by good performance in time and money market deposits throughout the year, as a result of clients shifting towards interest bearing instruments, given the high rate cycle in Mexico. As of December 31, 2017, demand deposits represented 60.9% of total deposits and general public time deposits represented 39.1%. As of December 31, 2016, demand deposits represented 66.4% of total deposits and general public time deposits represented 33.6%.

Total deposits represented 69.8%, 70.8%, 66.8% and 61.4% of total liabilities as of March 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Interbank and Other Loans

We had interbank and other loans of Ps.33,631 million as of March 31, 2019 compared to Ps.35,722 million as of December 31, 2018. This decrease was mainly due to less funding requirements of government loans. Interbank and other loans represented 3.2% of total liabilities as of March 31, 2019 compared to 3.3% as of December 31, 2018.

We had interbank and other loans of Ps. 35,722 million as of December 31, 2018, compared to Ps.15,238 million as of December 31, 2017, an increase of Ps.20,484 million, or 134.4%. This variation was mainly due to the effects of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”). Interbank and other loans represented 3.3% of total liabilities as of December 31, 2018 compared to 1.6% as of December 31, 2017.

We had interbank and other loans of Ps.15,238 million as of December 31, 2017 compared to Ps.21,260 million as of December 31, 2016. This decrease was mainly due to a higher increase in total deposits of Ps.72,866 million during the period. Interbank and other loans represented 1.6% of total liabilities as of December 31, 2017 compared to 2.3% as of December 31, 2016.

Subordinated Debentures

We had outstanding non-convertible subordinated debentures of Ps. 33,327 million, Ps.33,560 million, Ps.32,445 million and Ps.21,917 million as of March 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively. The main variation from 2016 to 2017 was mainly due to the issuance of U.S.\$900 million Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes in July 2017. Subordinated debentures represented 3.2%, 3.1%, 3.3% and 2.3% of total liabilities as of March 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Stockholders' Equity

Our stockholders' equity was Ps.116,301 million as of March 31, 2019 compared to Ps.108,402 million as of December 31, 2018, an increase of Ps.7,899 million, or 7%, mainly as a result of a net income of Ps 7,362 million.

Our stockholders' equity was Ps.108,402 million as of December 31, 2018 compared to Ps.86,062 million as of December 31, 2017, an increase of Ps.22,340 million, or 26%, mainly as a result of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”).

Our stockholders' equity was Ps.86,062 million as of December 31, 2017 compared to Ps.92,787 million as of December 31, 2016, a decrease of Ps.6,725 million, or 7.3%, mainly as a result of an aggregate amount of Ps.23,380 million dividend paid in 2017.

Liquidity

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

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

Mexican Central Bank regulations require Mexican banks to comply with certain reserve requirements with respect to non-Peso-denominated liabilities. Reserves on non-Peso-denominated deposits continue to be required. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.” As of March 31, 2019 and December 31, 2018, 2017 and 2016, we were in compliance with all reserve requirements and liquidity coefficients.

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months, including our expected capital expenditures for the remaining quarters of 2019.

Foreign Currency Position

Mexican Central Bank regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.” As of March 31, 2019, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$ 869 million (Ps. 16,838 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S.\$218 million (Ps. 4,241 million). For a discussion of the components of Tier 1 Capital, see “Supervision and Regulation—Capitalization.”

As of March 31, 2019 and December 31, 2018, 2017 and 2016, we were in compliance with regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

As part of our asset liability management strategy, we closely monitor our exposure to foreign currency risk, with a view to minimizing the effect of exchange rate movements on our earnings. As of March 31, 2019, our foreign currency-denominated assets totaled U.S.\$8,364 million (Ps. 162,077 million), representing 14% of our total assets. At that date, our foreign currency-denominated liabilities amounted to U.S.\$ 8,777 million (Ps.170,080 million), representing 16% of our total liabilities. See “Selected Statistical Information—Interest-Bearing Deposits with Other Banks.”

Funding

Our principal sources of funding are customer deposits, which are concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Customer deposits are our least expensive source of funding. Our customer deposits decreased to Ps.673,935 million (or 63.8% of total liabilities) as of March 31, 2019 from Ps.691,585 million (or 64.5% of total liabilities) as of December 31, 2018, a decrease of Ps.17,650 million, or 2.6%. This decrease was primarily due to a drop in demand deposits for Ps. 20,263 million due to the seasonality of customer deposits each year. Our customer deposits increased to Ps.691,585 million (or 64.5% of total liabilities) as of December 31, 2018 from Ps.641,940 million (or 66.2% of total liabilities) as of December 31, 2017, an increase of Ps.49,645 million, or 7.7%. This increase was primarily due to the effect of the Interacciones Merger (see “—Effects of the Merger of Banco Interacciones into the Bank”).

Long-term debt is another source of funds for us. Long-term debt is issued to match long-term loans and investments and reduce liquidity risk. As of March 31, 2019, we had had Ps.21,767 million principal amount of long-term debt outstanding with maturities over one year. As of December 31, 2018, we had Ps.22,199 million principal amount of long-term debt outstanding with maturities over one year. We had Ps.6,797 million and Ps.9,178 million principal amount of long-term debt outstanding with maturities over one year as of December 31, 2017 and 2016, respectively.

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

UDI-denominated deposits from the Mexican government provide the funding for our off-balance sheet UDI Trusts. In return, we have purchased from the Mexican government *Cetes Especiales*, which have an interest rate based on the *Cetes* rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts (the “*Cetes Especiales*” or “Special *Cetes*”). These Special *Cetes* pay interest in cash

only as the loans in the UDI Trusts mature. The Mexican government's UDI-denominated deposits have a fixed real interest rate which varies depending on the type of loan in the UDI Trusts.

Our foreign currency-denominated assets, substantially all of which are dollar-denominated, are funded from a number of sources. These sources include deposits of the same currency obtained mainly through deposits of customers, medium and large Mexican companies, primarily in the export sector, interbank deposits and fixed rate notes. In the case of foreign trade transactions, we use trade financing facilities including from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on LIBOR. Our position in foreign currency as of March 31, 2019 amounted to U.S.\$8,363 million in assets (or 14% of total assets) and U.S.\$8,776 million in liabilities (or 16% of total liabilities). Our position in foreign currency as of December 31, 2018 amounted to U.S.\$7,914 million in assets (or 13% of total assets) and U.S.\$8,325 million in liabilities (or 15% of total liabilities).

Capital Expenditures

We budget internally for capital expenditures in U.S. dollars. We invested (in nominal terms) U.S.\$63 million, U.S.\$228 million, U.S.\$193 million and U.S.\$153 million in technology (including telecommunications, computer hardware and software, systems development, ATMs and POSs) in the three-month period ended March 31, 2019 and in fiscal years 2018, 2017 and 2016, respectively. In addition, we estimate that in 2019 we will invest U.S.\$33 million as part of our branch expansion program and approximately U.S.\$260 million in technology (including telecommunications, computer hardware and software, systems development, ATMs and POSs), out of which we will invest approximately U.S.\$25 million as part of our cybersecurity program.

We expect that capital expenditures for the remaining of 2019 will be funded with cash generated from future operations and other sources of liquidity. We can give no assurance, however, that the capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Risk-Based Capital

The Mexican Capitalization Requirements take into account credit risk, operational risk and market risk. See “Supervision and Regulation—Capitalization.” The tables below present our risk-weighted assets and Capital Ratios as of March 31, 2019 and as of December 31, 2018, 2017 and 2016, determined, as required by regulations. As of March 31, 2019, we were in compliance with all applicable capital adequacy regulations. On a general basis, in order for a Mexican bank not to be required to defer or cancel interest payments and defer principal payments of subordinated debt and not to be subject to certain other corrective measures, it needs to comply with the following minimum Capital Ratios required by the Mexican Capitalization Requirements: (a) 10.5% in the case of Total Net Capital, (b) 8.5% in the case of Tier 1 Capital, or (c) 7.0% in the case of Fundamental Capital, plus, in each case, any applicable Capital Supplement required under the Mexican Capitalization Requirements.

	As of March 31,		As of December 31,		
	2019	2019	2018	2018	2017
	(U.S. millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	(U.S. millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	
Capital:					
Fundamental Capital (CET1).....	5,401	104,654	4,901	94,970	75,220
Additional Tier 1 Capital	960	18,603	974	18,865	20,103
Tier 2 Capital	721	13,967	747	14,472	13,286
Total Net Capital.....	7,081	137,225	6,621	128,307	108,609
Risk-Weighted Assets:					
Credit risk.....	32,248	624,895	32,381	627,479	507,721
Market risk	3,931	76,166	3,412	66,119	72,848
Operational risk.....	2,926	56,697	2,780	53,865	46,406
Total Risk-Weighted Assets.....	39,104	757,758	38,573	747,464	626,976
Capital Ratios (credit, market and operational risk):					
Fundamental Capital (CET1) to risk-weighted assets	13.81%	13.81%	12.71%	12.71%	12.00%
Tier 1 Capital to risk-weighted assets.....	16.27%	16.27%	15.23%	15.23%	15.20%
Tier 2 Capital to risk-weighted assets.....	1.84%	1.84%	1.94%	1.94%	2.12%
Total Net Capital to Total Risk-Weighted Assets.....	18.11%	18.11%	17.17%	17.17%	17.32%

(1) Solely for the convenience of the reader, Peso amounts as of March 31, 2019 and as of December 31, 2018 have been translated into U.S. dollars at the Mexican Central Bank Exchange Rate on March 29, 2019 of Ps.19.3779 per U.S.\$1.00. See “Exchange Rates and Currency.”

SELECTED STATISTICAL INFORMATION

The following selected statistical information is provided with respect to Banorte and its consolidated subsidiaries only. Selected statistical information for Banorte is as of and for the three-month period ended March 31, 2019 and for the years ended December 31, 2018, 2017 and 2016.

Assets and liabilities have been classified by currency of denomination (Pesos or foreign currency), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in Pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions, although Euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then converted into Pesos at an exchange rate of Ps 19.3779 to U.S.\$1.00, the Mexican Central Bank Exchange Rate on March 29, 2019.

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

Unless otherwise indicated, balance sheet and statement of income items in the following tables are presented in millions of Pesos as of March 31, 2019. Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt securities and no tax-equivalence adjustments are considered necessary.

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

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

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

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

Average balances and interest income (expense) for foreign currency-denominated and UDI-denominated assets and liabilities have been translated into Pesos and calculated in the following manner: for each month, an average of the daily foreign currency or UDI balances and the total interest income (expense) was determined. In addition, the average balances and the total interest income (expense) were translated into Pesos using the applicable month-end exchange rate published in the Official Gazette. The average balance for each period presented below is the average of the monthly balances so determined. Interest income (expense) for each period is the total of the income (expense) for the months so determined.

Average Interest Rate

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

Average Assets and Interest Rates

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

	For the three-month period ended March 31,			For the year ended December 31,								
	2019			2018			2017			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
<i>(Ps. millions, except percentages)</i>												
Deposits in banks:												
Pesos	39,022	1,123	11.5%	41,893	3,989	9.5%	31,953	2,445	7.7%	37,384	1,506	4.0%
Foreign currency	-	-	-	-	-	-	2,112	19	0.9%	7,389	237	3.2%
Sub-total	39,022	1,123	11.5%	41,893	3,989	9.5%	34,065	2,464	7.2%	44,773	1,743	3.9%
Investment securities ^{(1) (3)} :												
Pesos	186,954	3,793	8.1%	210,267	16,261	7.7%	235,949	16,708	7.2%	230,856	10,443	4.5%
UDIs	3,949	84	8.5%	5,558	403	7.3%	4,110	302	0%	1,634	134	8.2%
Foreign currency	65,373	594	3.6%	63,587	2,310	3.6%	47,176	1,347	2.9%	37,109	894	2.4%
Sub-total	255,916	4,471	7.0%	279,412	18,974	6.8%	287,235	18,417	6.4%	269,599	11,471	4.3%
Loans ⁽²⁾ :												
Pesos	691,686	21,974	12.7%	627,383	79,448	12.7%	548,020	65,728	12.0%	488,766	50,769	10.4%
UDIs	6,894	12	0.7%	5,034	36	0.7%	270	3	1.1%	227	4	1.8%
Foreign currency	62,382	805	5.2%	52,987	2,556	4.8%	39,814	1,734	4.4%	38,243	1,517	4.0%
Sub-total	760,962	22,791	12%	685,404	82,040	12.0%	588,104	67,465	11.5%	527,236	52,290	9.9%
Repurchase Agreements:												
Pesos	150,292	2,717	7.2%	77,560	6,141	7.9%	34,542	2,283	6.6%	34,728	1,417	4.1%
Trading Derivatives:												
Pesos	1,700	-	0%	2,402	-	-	4,094	-	0.0%	5,488	-	0.0%
Hedging Derivatives:												
Pesos	44,838	1,503	13.4%	42,184	6,667	15.8%	26,823	5,073	18.9%	19,668	2,118	10.8%
Foreign Currency	-	-	-	-	-	-	-	-	0.0%	194	206	106.2%
Sub-total	44,838	1,503	13.4%	42,184	6,667	15.8%	26,823	5,073	11.2%	19,862	2,324	11.7%
Foreign exchange valuation:	-	30	-	-	157	-	-	-	0.0%	-	155	0%
Dividend from equity instrum,:	-	8	-	-	11	-	-	8	0.0%	-	7	0%
Total interest-earning assets:												
Pesos	1,114,132	31,148	11.2%	1,001,689	112,674	11.2%	881,381	92,245	10.5%	816,890	66,415	8.1%
UDIs	10,843	96	3.5%	10,592	439	4.1%	4,380	365	0.1%	1,861	138	7.4%
Foreign currency	131,058	1,399	4.3%	117,520	4,866	4.1%	89,102	3,100	3.5%	82,935	2,854	3.4%
Sub-total	1,256,033	32,643	10.4%	1,129,801	117,979	10.4%	974,863	95,710	9.8%	901,686	69,407	7.7%
Permanent stock investments:												
Pesos	354	-	-	229	-	-	558	-	-	10,738	-	-
Foreign Currency	1	-	-	1	-	-	1	-	-	13	-	-
Sub-total	355	-	-	230	-	-	559	-	-	10,751	-	-

	For the three-month period ended March 31,			For the year ended December 31,								
	2019			2018			2017			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
<i>(Ps. millions, except percentages)</i>												
Cash and due from banks:												
Pesos	23,176			20,933			18,067			16,726		
UDI	-			-			-			-		
Foreign currency	25,038			27,786			23,735			18,872		
Sub-total	48,214			48,719			41,802			35,598		
Securitizations (<i>Constancias</i>):												
Pesos	81			150			159			162		
Allowances for loan losses:												
Pesos	(16,625)			(15,917)			(14,368)			(13,534)		
UDIs	(43)			(39)			(4)			(4)		
Foreign currency	(995)			(876)			(283)			(299)		
Sub-total	(17,663)			(16,832)			(14,655)			(13,837)		
Property, furniture and equipment, net:												
Pesos	13,475			14,047			12,405			11,135		
Foreign Currency	127			132			92			122		
Sub-total	13,602			14,179			12,497			11,257		
Other non-interest-earning assets												
Pesos	78,177			46,571			43,676			39,907		
UDIs	240			229			106			-		
Foreign currency	16,391			16,179			14,181			21,369		
Sub-total	94,808			62,997			57,963			61,276		
Total assets:												
Pesos	1,212,770	31,148	10.3%	1,067,702	112,674	10.6%	941,878	92,607	9.8%	882,024	66,415	7.5%
UDIs	11,040	96	3.5%	10,782	439	4.1%	4,482	3	0.1%	1,857	138	7.4%
Foreign currency	171,620	1,3999	3.3%	160,760	4,866	3.0%	126,828	3,100	2.4%	123,012	2,854	2.3%
Total	1,395,430	32,643	9.4%	1,239,244	117,979	9.5%	1,073,188	95,710	8.9%	1,006,893	69,407	6.9%

- (1) Does not include equity investments in subsidiaries and affiliates. Includes securities purchased under agreements to resell and derivatives financial instruments.
- (2) Interest income includes fees on loans of Ps.1,199 million in 2016, Ps.1,169 million in 2017, and Ps.1,282 million in 2018.
- (3) UDI Trusts' deposits are payable to the Mexican federal government and deducted from *Cetes Especiales* (investment securities) for balance sheet purposes.

Average Liabilities, Stockholders' Equity and Interest Rates

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

	For the three-month period ended March 31,			For the year ended December 31,								
	2019			2018			2017			2016		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
<i>(Ps. millions, except percentages)</i>												
Demand deposits:												
Pesos	90,807	946	4.2%	106,671	3,735	3.5%	132,281	2,290	1.7%	137,701	1,461	1.1%
Foreign currency.....	19,023	10	0.2%	18,923	37	0.2%	17,384	9	0.1%	15,167	8	0.1%
Sub-total	109,830	956	3.5%	125,594	3,772	3.0%	149,665	2,299	1.5%	152,868	1,469	1.0%
Time deposits:												
Peso.....	342,566	5,987	7.0%	288,701	18,375	6.4%	226,060	12,570	5.6%	186,850	6,316	3.4%
UDI.....	2,323	29	5.0%	1,678	83	4.9%	-	-	0.0%	-	-	0%
Foreign currency.....	19,736	51	1.0%	21,272	235	1.1%	15,855	134	0.8%	20,077	52	0.3%
Sub-total	364,625	6,067	6.7%	311,651	18,693	6.0%	241,915	12,704	5.3%	206,927	6,368	3.1%
Bank loans:												
Pesos	1,631	40	9.8%	2,902	241	8.3%	1,700	118	6.9%	1,116	39	3.5%
Foreign currency.....	15,437	1	0.00%	6,419	3	0.0%	1,425	4	0.3%	2,274	41	1.8%
Sub-total	17,068	41	1.0%	9,321	244	2.6%	3,125	122	3.9%	3,390	80	2.4%
Loans from Mexican development banks:												
Pesos	15,358	423	11.0%	13,643	1,596	11.7%	10,015	1,061	10.6%	8,857	427	4.8%
Foreign currency.....	3,409	156	18.3%	4,089	301	7.4%	3,868	142	3.70%	3,933	99	2.5%
Sub-total	18,767	579	12.3%	17,732	1,897	10.7%	13,883	1,203	8.70%	12,790	526	4.1%
Outstanding subordinated debentures:												
Pesos	680	28	16.5%	131	52	39.7%	1,336	136	10.2%	8,902	489	5.5%
UDIs	2,835	35	4.9%	2,746	138	5.0%	2,615	132	5.0%	2,470	123	5.0%
Foreign currency.....	29,498	201	2.7%	29,452	820	2.8%	20,022	812	4.1%	8,086	608	7.5%
Sub-total	33,013	264	3.2%	32,329	1,010	3.1%	23,973	1,080	4.5%	19,458	1,220	6.3%
Securities sold under agreements to repurchase:												
Pesos	323,524	6,301	7.8%	271,315	21,102	7.8%	252,174	16,946	6.7%	248,307	10,435	4.2%
Foreign currency.....	2,886	28	3.9%	2,890	112	3.9%	2,520	93	3.7%	-	-	0%
Sub-total	326,410	6,329	7.8%	274,205	21,214	7.7%	254,694	17,039	6.7%	248,307	10,435	4.2%
Trading Derivatives:												
Foreign currency.....	-	-	-	-	-	-	3,168	-	0.0%	6,280	-	0.0%
Hedging Derivatives:												
Pesos	14,927	857	23%	12,451	4,230	34%	10,317	3,775	36.6%	6,802	2,358	34.7%

	For the three-month period ended March 31,			For the year ended December 31,								
	2019			2018			2017			2016		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	<i>(Ps. millions, except percentages)</i>											
Foreign currency.....	39,141	339	3.5%	39,141	1,362	3.5%	24,208	893	3.7%	20,135	229	1.1%
Sub-total	54,068	1,196	8.8%	51,592	5,592	10.8%	34,525	4,668	13.5%	26,937	2,587	9.6%
Foreign exchange valuation:												
Pesos	-	-	-	-	-	-	-	260	0.0%	-	74	0.0%
Cost for new credits:												
Pesos	0	280	0.0%	-	1,044	0.0%	-	687	0.0%	-	485	0.0%
Total interest-bearing liabilities:												
Pesos	789,493	14,862	7.5%	695,814	50,375	7.2%	633,883	37,844	6.0%	598,535	22,084	3.7%
UDIs	5,158	64	5.0%	4,424	221	5.0%	2,615	132	5.0%	2,470	123	5.0%
Foreign currency.....	129,130	786	2.4%	122,186	2,870	2.3%	88,450	2,087	2.4%	75,952	1,037	1.4%
Sub-total	923,781	15,712	6.8%	822,424	53,466	6.5%	724,948	40,062	5.5%	676,957	23,244	3.4%
Non-interest-bearing liabilities:												
Pesos	310,120			274,055			216,470			182,753		
UDIs	175			234			33			5		
Foreign currency.....	44,997			44,705			37,440			28,094		
Sub-total	355,292			318,994			253,943			210,852		
Stockholders' equity:												
Pesos	114,500			96,296			92,591			101,058		
UDIs	0			6			70			(93)		
Foreign currency.....	1,857			1,524			1,640			18,119		
Sub-total	116,357			97,826			94,301			119,084		
Total liabilities and stockholders' equity:												
Pesos	1,214,113	14,862	4.9%	1,066,165	50,375	4.7%	942,944	37,844	4.0%	882,346	22,084	2.5%
UDIs	5,333	64	4.8%	4,664	221	4.7%	2,718	132	4.9%	2,382	123	5.2%
Foreign currency.....	175,984	786	1.8%	168,415	2,870	1.7%	127,530	2,087	1.6%	122,165	1,037	0.8%
Total.....	1,395,430	15,712	4.5%	1,239,244	53,466	4.3%	1,073,192	40,063	3.7%	1,006,893	23,244	2.3%

Changes in Interest Income and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in interest income and interest expense between changes in volume and changes in rates for the three-month period ended March 31, 2019 compared to the corresponding period in 2018, for 2018 compared to 2017 and for 2017 compared to 2016. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	Three-month period ended March 31, 2019/2018			Years Ended December 31, 2018/2017			Years Ended December 31, 2017/2016		
	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change
(Ps. millions)									
Deposits in banks:									
Pesos	7	410	417	761	783	1,544	(219)	1,158	939
Foreign currency.....	-	-	-	(19)	-	-	(169)	(49)	(218)
Sub-total	7	410	417	742	783	(19)	(388)	1,109	721
Investment securities:									
Pesos	(1,350)	314	(1,036)	(1,819)	1,372	(447)	230	6,034	6,264
UDIs	33	(10)	23	128	(87)	41	202	27	229
Foreign currency.....	9	60	69	469	494	963	243	210	453
Sub-total	(1,308)	364	(944)	(1,222)	1,779	557	675	6,271	6,946
Loans ⁽¹⁾ :									
Pesos	3,736	491	4,227	9,519	4,201	13,720	6,155	8,804	14,959
UDIs	7	(1.0)	6	53	(20)	33	1	(2)	(1)
Foreign currency.....	204	106	310	574	248	822	62	155	217
Sub-total	3,947	596	4,543	10,146	4,429	14,575	6,218	8,957	15,175
Repurchase operations:									
Pesos	2,448	(66)	2,382	2,843	1,015	3,858	(8)	874	866
Hedging Derivatives:									
Pesos	184	(308)	(124)	2,905	(1,311)	1,594	771	2,184	2,955
Foreign currency.....	-	-	-	-	-	-	(206)	-	(206)
Sub-total	184	(308)	(124)	2,905	(1,311)	1,594	565	2,184	2,749
Foreign exchange valuation:									
Pesos	-	30	30	-	157	157	-	(155)	(155)
UDI Trusts' fiduciary liabilities:									
Pesos	-	4	4	-	3	3	-	1	1
Subtotal.....	-	4	4	-	3	3	-	1	1
Total interest-earning assets:									
Pesos	5,025	875	5,900	14,209	6,220	20,429	6,929	18,900	25,829
UDIs	40	(11)	29	181	(107)	74	203	25	228
Foreign currency.....	213	166	379	1,024	742	1,766	(70)	316	246
Total.....	5,278	1,030	6,308	15,414	6,855	22,269	7,062	19,241	26,303

(1) Interest income includes fees on loans of Ps.1,199 million in 2016, Ps.1,169 million in 2017 and Ps.1,282 million for the year ended December 31, 2018.

Interest-Bearing Liabilities

	March 31, 2019/2018			2018/2017			2017/2016		
	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change	Increase/(Decrease) due to Changes in Volume	Interest Rate	Net Change
	<i>(Ps. millions)</i>								
Demand deposits:									
Pesos	(158)	459	301	(443)	1,888	1,445	(58)	887	829
Foreign currency.....	-	8	8	1	27	28	1	-	1
Sub-total	(158)	467	309	(442)	1,915	1,473	(57)	887	830
Time deposits:									
Pesos	1,190	1,044	2,234	3,483	2,322	5,805	1,325	4,929	6,254
UDIs	-	29	29	-	83	83	-	-	-
Foreign currency.....	2	16	18	46	55	101	(11)	93	82
Sub-total	1,192	1,089	2,281	3,529	2,460	5,989	1,314	5,022	6,336
Bank loans:									
Pesos	(70)	10	(60)	83	40	123	20	59	79
Foreign currency.....	183	(183)	-	14	(15)	(1)	(15)	(22)	(37)
Sub-total	113	(173)	(60)	97	25	122	5	37	42
Loans from Mexican development banks:									
Pesos	177	(109)	68	384	151	535	56	578	634
Foreign currency.....	(1)	127	126	8	151	159	(2)	45	43
Sub-total	176	18	194	392	302	694	54	623	677
Outstanding subordinated debentures:									
Pesos	-	28	28	(123)	39	(84)	(416)	63	(353)
UDIs	1	-	1	7	(1)	6	7	2	9
Foreign currency.....	9	1	10	382	(374)	8	897	(693)	204
Sub-total	10	29	39	266	(336)	(70)	488	(628)	(140)
Securities sold under agreements to repurchase:									
Pesos	1,297	292	1,589	1,286	2,870	4,156	163	6,348	6,511
Foreign currency.....	1	-	1	14	5	19	-	93	93
Sub-total	1,298	292	1,590	1,300	2,875	4,175	163	6,441	6,604
Hedging derivatives:									
Pesos	67	(286)	(219)	783	(329)	454	1,217	200	1,417
Foreign currency.....	29	18	47	551	(82)	469	46	618	664
Sub-total	96	(268)	(172)	1,334	(411)	923	1,263	818	2,081
Foreign exchange valuation:									
Pesos	-	(100)	(100)	-	(260)	(260)	-	186	186
Cost for Credits:									
Pesos	-	43	43	-	357	357	-	202	202

	March 31, 2019/2018			2018/2017			2017/2016		
	Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in			Increase/(Decrease) due to Changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
Total interest-bearing liabilities:									
Pesos	2,503	1,381	3,884	5,453	7,078	12,531	2,307	13,452	15,759
UDIs	1	29	30	7	82	89	7	2	9
Foreign currency.....	223	(13)	210	1,1016	(233)	783	916	134	1,050
Total.....	2,727	1,397	4,124	6,476	6,927	13,403	3,230	13,588	16,818

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (other than fees on credit card cash disbursements and merchant fees on credit card purchases) in net interest income has been included.

	For the three-month period ended March 31,	For the year ended December 31,		
	2019	2018	2017	2016
	(Ps. millions, except percentages)	(Ps. millions, except percentages)		
Total average earning assets:				
Pesos	1,114,132	1,001,689	881,381	816,890
UDIs	10,843	10,592	4,380	1,861
Foreign currency.....	131,058	117,520	89,102	82,935
Total.....	1,256,033	1,129,801	947,863	901,686
Historical not including loan fees:				
Net interest income:				
Pesos	15,961	61,019	53,233	43,133
UDIs	32	218	233	14
Foreign currency.....	613	1,996	1,013	1,817
Total.....	16,606	62,233	54,479	44,964
Gross yield ⁽¹⁾ :				
Pesos	2.8%	11.1%	10.3%	8.0%
UDIs	0.9%	4.1%	8.3%	7.4%
Foreign currency.....	1.1%	4.1%	3.5%	3.4%
Weighted-average rate.....	2.6%	10.3%	9.7%	7.6%
Net yield ⁽²⁾ :				
Pesos	1.4%	6.1%	6.0%	5.3%
UDIs	0.3%	2.1%	5.3%	0.8%
Foreign currency.....	0.5%	1.7%	1.1%	2.2%
Weighted-average rate.....	1.3%	5.6%	5.6%	5.0%
Yield spread ⁽³⁾ :				
Pesos	3.5%	3.9%	4.4%	4.3%
UDIs	(1.4%)	(0.9%)	3.3%	2.4%
Foreign currency.....	1.8%	1.8%	1.1%	2.1%
Weighted-average rate.....	3.5%	3.8%	4.2%	4.1%

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

(2) Net yield represents the total of net interest income divided by average earning assets, based on beginning and end-of-year balances. For the three-month period ended March 31, 2019, determined on an annualized basis.

(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities, based on beginning and end-of-year balances. For the three-month period ended March 31, 2019, determined on an annualized basis.

Return on Average Total Assets and Average Stockholders' Equity

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

	For the three-month period ended March 31,	For the year ended December 31,		
	2019	2018	2017	2016
	(Ps. millions, except percentages)	(Ps. millions, except percentages)		
Net income	7,362	24,834	18,339	15,044
Average total assets.....	1,395,430	1,239,244	1,073,188	1,006,893
Average stockholders' equity	116,357	97,826	94,301	119,084
Return on average assets ⁽¹⁾⁽²⁾	2.5%	2.2%	1.8%	1.5%
Return on average equity ⁽¹⁾⁽²⁾	26.2%	25.5%	20.5%	15.4%
Average stockholders' equity as a percentage of average total assets	8.3%	7.9%	8.8%	11.8%
Dividend Payout Ratio	0.00%	0.00%	155.41%	44.10%

(1) The average for each period was determined by calculating the sum of the line item at the end of the period and the line item at the end of the prior period and then dividing this sum by two.

(2) Figures for the three-month period ended March 31, 2019 have been annualized.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

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

In accordance with the Mexican Central Bank regulations, our policy with respect to non-Peso lending activities, mainly in U.S. dollars, is to price such loans generally on the basis of LIBOR or a fixed rate. Spreads over LIBOR are determined in accordance with our marginal cost of funding in currencies other than Pesos. Under Mexican Central Bank regulations, a portion of our non-Peso liabilities must be invested in certain dollar-denominated, low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." Our cost associated with funding the reserve is also included in determining the cost to customers of non-Peso-denominated loans.

Interest Rate Sensitivity

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

The following table reflects our interest-earning assets and interest-bearing liabilities as of March 31, 2019. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

As of March 31, 2019						
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	Non-Rate Sensitive or Over One Year	Total
<i>(Ps. millions, except percentages)</i>						
Assets⁽¹⁾:						
Variable-rate loans	412,303	10,696	4,037	803	201	428,039
Fixed-rate loans	8,151	14,416	13,875	24,191	257,063	317,696
Total performing loans	420,454	25,112	17,912	24,993	257,263	745,735
Securities and investments	50,995	15,234	1,512	82	179,507	247,330
Repurchase agreements and derivative financial instruments	12,172	900	1,166	1,003	8,570	23,811
Total interest-earning assets	483,621	41,247	20,590	26,078	445,340	1,016,876
Cash, property and other non-interest-earning assets	-	-	-	-	160,234	160,234
Non-performing loans	-	-	-	-	13,095	13,095
Less: Allowance for loan losses	-	-	-	-	(17,822)	(17,822)
Total assets	483,621	41,247	20,590	26,078	445,340	1,172,383
Liabilities And Stockholders' Equity⁽¹⁾:						
Demand deposits	52,532	3,134	13,500	27,767	295,083	391,855
Time deposits	233,753	86,219	6,782	12,363	6,092	345,371
Total deposits	286,285	89,353	20,283	40,131	301,175	737,226
Short-term debt	2,577	3,804	1,111	1,152	2,945	11,864
Long-term debt	-	15,502	-	-	6,538	21,767
Securities and derivative financial instruments	198,739	1,936	754	5,223	10,207	216,859
Subordinated debentures	1,000	-	-	-	32,327	33,327
Other liabilities	-	-	-	-	35,116	35,116
Stockholders' equity	-	-	-	-	116,299	116,301
Total liabilities and stockholders' equity	488,601	110,596	22,147	46,506	504,533	1,172,383
Interest rate sensitivity gap	(4,980)	(69,349)	(1,557)	(20,417)	96,314	-
Cumulative interest rate sensitivity gap	(4,980)	(74,330)	(75,887)	(96,314)	-	-
Cumulative gap as percentage of total interest-earning assets	-	-	-	-	-	-

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

As of March 31, 2019, interest-earning assets totaled Ps.1,016,876 million. Of these assets, 47.5% repriced periodically every 30 days or less. Such assets included 86.9% of performing loans and 10.5% of securities and investments. Of our total performing loan portfolio, 98.1% was comprised of variable-rate loans and 1.9% was comprised of fixed-rate loans.

Of our liabilities as of March 31, 2019, 69.8% consisted of deposits, totaling Ps. 737,226 million, of which 38.8% reprice every 30 days or less. The remaining 30.2% of our liabilities amounting to Ps.318,933 million consisted of Ps.21,767 million of funds from bank borrowings, Ps.33,327 million of subordinated debentures, Ps.216,859 million of financial instruments repurchase operations, and Ps.35,116 million of other liabilities. Of such Ps.1,056,082 million of liabilities, 73.3% reprice every 30 days or less.

Interest-Bearing Deposits with Other Banks

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

Mexican Central Bank regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 Capital. As of December 31, 2017, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$9,881 million (Ps. 194,281 million). As of December 31, 2017, our maturity-adjusted net foreign currency liabilities totaled U.S.\$3,049 million (Ps.59,942 million). As of December 31, 2018, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$ 10,661 million (Ps. 209,500 million). As of December 31, 2018, our maturity-adjusted net foreign currency liabilities totaled U.S.\$ 3,694 million (Ps. 72,593 million). As of March 31, 2019, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$ 10,601 million (Ps.205,422 million). As of March 31, 2019, our maturity-adjusted net foreign currency liabilities totaled U.S.\$3,205 million (Ps.62,110 million).

Securities

We held securities in the amount of Ps.247,250 million as of March 31, 2019, representing 21.1% of our total assets.

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

	As of March 31, 2019	As of December 31, 2018 2017 2016 (Ps. millions, except percentages)		
Peso-Denominated:				
Mexican government securities:				
<i>Cetes</i>	505	3,458	2,995	119
<i>Cetes Especiales</i> ⁽¹⁾	550	545	523	951
Bonds	137,383	136,543	157,937	208,594
Total Mexican government securities	138,438	140,546	161,455	209,664
Bank bonds and certificates	39,506	39,885	48,350	38,956
Other fixed income securities	5,130	4,920	4,078	3,807
Equity securities (GFNorte, Banorte Stock Plan)	103	93	201	145
Total Peso-denominated	183,177	185,444	214,084	252,571
Foreign Currency-Denominated:				
Government securities:				
Mexican government securities issued abroad	47,699	48,821	46,268	17,754
U.S. Treasury bills	-	-	-	-
Total government securities	47,699	48,821	46,268	17,754
Eurobonds PEMEX	10,321	10,562	13,063	11,526
U.S. commercial paper	0	-	-	-
US Agencies	7,111	4,020	-	-
Other fixed income securities	57	48	8,694	7,338
Equity securities (Visa & MC)	-	-	168	120
Total foreign currency-denominated	65,188	63,452	68,192	36,738
Sub-total securities	248,365	248,896	282,277	289,310
Assigned Securities Pending Settlement	(1,115)	-	(467)	(447)
Total Securities	247,250	248,896	281,809	288,863

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

Securities—Maturities and Average Yields

The following table analyzes, as of March 31, 2019, remaining maturities and weighted-average yields of our securities that have a specific date of maturity:

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Balance
<i>(Ps. millions, except percentages)</i>																	
PESO-DENOMINATED:																	
<i>Cetes</i>	1,034,604.20	8.05%	474,951,701.40	8.10%	28,852,556.43	8.15%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	504,838,862
<i>Cetes Especiales</i>	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	549,743,017.90	3.68%	0.00	0.00%	0.00	0.00%	549,743,018
Bonds	1,238,142,504.84	8.25%	0.00	0.00%	6,283,628,028.75	8.34%	17,921,363,678.93	8.30%	22,401,884,287.51	8.38%	26,473,944,784.39	8.40%	48,013,320,885.74	8.43%	15,050,971,951.71	8.24%	137,383,256,122
Total Mexican government securities	1,239,177,109	8.3%	474,951,701	8.1%	6,312,480,585	8.3%	17,921,363,679	8.3%	22,401,884,288	8.4%	27,023,687,802	8.3%	48,013,320,886	8.4%	15,050,971,952	8.2%	138,437,838,002
Bank bonds and certificates	6,591,891,812.62	8.48%	3,463,385,996.55	8.55%	5,553,150,592.06	8.65%	4,101,349,041.61	8.86%	2,677,878,163.93	8.67%	6,875,385,575.44	9.80%	1,671,063,574.10	10.49%	8,572,167,165.30	8.02%	39,506,271,922
Other fixed-income securities	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0
Total Peso-denominated	7,831,068,922	8.4%	3,938,337,698	8.5%	11,865,631,177	8.5%	22,022,712,721	8.4%	25,079,762,451	8.4%	33,899,073,378	8.6%	49,684,384,460	8.5%	23,623,139,117	8.2%	177,944,109,923
FOREIGN CURRENCY-DENOMINATED:																	
Mexican government securities issued abroad	0.00	0.00%	0.00	0.00%	0.00	0.00%	5,685,034,887.15	2.44%	0.00	0.00%	330,311,225.58	3.12%	4,768,550,406.71	2.87%	36,915,475,192.44	3.67%	47,699,371,712
U.S. Treasury securities	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0
Eurobonds																	
PEMEX	2,810,703.65	4.31%	0.00	0.00%	0.00	0.00%	199,721,556.00	4.33%	204,563,765.44	4.75%	448,180,192.33	4.20%	2,238,473,321.31	5.10%	7,227,002,575.22	4.04%	10,320,752,114
U.S. commercial paper	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0
Agencies	3,864,477,298.10	2.81%	0.00	0.00%	0.00	0.00%	0.00	0.00%	276,923,640.47	3.15%	775,784,113.70	3.59%	567,569,325.02	5.21%	1,626,654,406.35	4.36%	7,111,408,784
Other fixed-income securities	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0
Total foreign currency denominated	3,867,288,002	2.8%	0	0.0%	0	0.0%	5,884,756,443	2.5%	481,487,406	3.8%	1,554,275,532	3.7%	7,574,593,053	3.7%	45,769,132,174	3.8%	65,131,532,609
Total securities (excluding equity securities)	11,698,356,923	6.6%	3,938,337,698	8.5%	11,865,631,177	8.5%	27,907,469,164	7.2%	25,561,249,857	8.3%	35,453,348,909	8.4%	57,258,977,513	7.9%	69,392,271,291	5.3%	243,075,642,533
UDI Trusts' deposits																	0
Equity Securities (GFNorte, Banorte Stock Plan)																	190,436,154
Managed Fund Stocks																	5,099,405,137
Assigned Securities Pending Settlement.....																	(1,115,328,226)
Consolidated securities balance																	247,250,155,598

Bank Loans and Securities Sold Under Repurchase Agreements

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

	As of and for the three-month period ended March 31,		As of and for the year ended December 31,					
	2019		2018		2017		2016	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Ps. millions, except percentages)		(Ps. millions, except percentages)					
Bank loans:								
At end of period.....	33,631	2.9%	35,722	4.5%	15,238	5.3%	21,153	4.0%
Daily average indebtedness during period.....	35,326	5.0%	26,591	5.9%	16,226	5.1%	15,920	3.7%
Maximum month-end balance	38,331	5.4%	40,888	7.4%	19,148	6.4%	21,153	4.0%
Securities sold under repurchase agreements:								
At end of period.....	172,118	10.1%	163,507	10.4%	190,363	5.9%	234,490	4.8%
Daily average indebtedness during period.....	180,667	9.8%	189,073	7.7%	215,980	5.4%	216,149	3.4%
Maximum month-end balance	185,225	11.0%	253,053	10.4%	231,559	5.9%	234,490	4.8%
Total at end of period.....	205,749	9.0%	199,229	9.3%	205,601	5.8%	255,641	4.7%
Daily average indebtedness during period.....	215,993	9.1%	215,664	7.5%	232,206	5.4%	232,066	3.4%
Maximum month-end balance	223,556	10%	293,941	10%	253,707	6.0%	255,641	4.7%

Deposits

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

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	(Ps. millions)		(Ps. millions)	
Interest-bearing demand deposits:				
Peso-denominated.....	94,079	93,609	143,392	135,932
Non-Peso-denominated	15,975	18,952	15,690	17,786
Sub-total.....	110,054	112,561	159,082	153,719
Non-interest-bearing demand deposits:				
Peso-denominated.....	254,975	270,118	202,118	196,553
Non-Peso-denominated	28,629	31,331	35,452	33,489
Sub-total.....	283,604	301,448	237,570	230,042
Savings deposits:				
Peso-denominated.....	-	-	-	-
Non-Peso-denominated	-	-	-	-
Sub-total.....	-	-	-	-
Time deposits:				
Peso-denominated.....	320,836	322,121	229,647	174,203
Non-Peso-denominated	22,732	23,104	22,323	17,792
Sub-total.....	343,568	345,226	251,970	191,995
Total.....	737,226	759,235	648,622	575,756

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of our performing and non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms “total loans” and “total loan portfolio” include total performing loans plus total non-performing loans. The terms “net total loans” and “net total loan portfolio” refer to net total performing loans plus net non-performing loans. See “Presentation of Financial and Other Information—Terms Relating to Our Loan Portfolio.”

Total balance of our loan portfolio as of the three-month period ended March 31, 2019 amounted to Ps.758,830 million, an decrease of Ps.10,344 million, or 13.4%, from the balance as of December 31, 2018. This variation was mainly due to a decrease in our government loans portfolio by Ps. 12,800 million offsetting with an increase in our housing mortgage loans by Ps.2,807 million.

Total balance of our loan portfolio as of December 31, 2018 amounted to Ps.769,174 million, an increase of Ps.153,460 million, or 24.9%, from the balance as of December 31, 2017. This variation was mainly due to the effects of the Interacciones Merger (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of the Merger of Banco Interacciones into the Bank”), which generated significant growth in government loans by Ps.59,418 million, or 44.7% and business loans by Ps.65,548 million or 31.1% and the increase in our consumer and housing mortgage loans by Ps.20,392 million, and to the segments focus strategy.

As of December 31, 2017, our loan portfolio amounted to Ps.615,714 million, an increase of Ps.48,682 million, or 8.6% compared to December 31, 2016. This increase was mainly due to the increase in our consumer loans by Ps.15,636 million backed by the growth on credit cards by Ps.5,461 million and other consumer credit by Ps.9,902 million, which was based on a successful commercial strategy, also to the increase in our housing mortgage loans by Ps.20,598 million due to higher origination in all products comprising this segment. and an increase in our total commercial loans of Ps.10,589 million, mainly due to the reactivation of the *Crediativo* product for businesses, better business dynamics in the corporate sector and efforts by our corporate banking area to increase lending.

Loans by Type and by Borrower

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

	As of March 31, 2019 (Ps. millions)	As of December 31, 2018 2017 2016 (Ps. millions)		
Performing and Non-Performing Loans				
Commercial and Corporate loans:				
Government loans.....	179,434	192,234	132,816	133,540
Loans granted to financial institutions	22,708	21,088	22,875	20,240
Commercial loans:				
Collateralized or guaranteed.....	188,450	193,036	155,861	141,651
Unsecured	84,434	82,943	54,570	60,101
Sub-total	272,884	275,979	210,431	201,753
Total commercial and corporate loans.....	475,026	489,301	366,122	355,533
Consumer loans:				
Mortgage.....	158,604	155,797	135,405	114,807
Credit cards.....	36,544	36,657	33,906	28,445
Other consumer credit	75,561	74,580	68,089	58,187
Total consumer loans	270,709	267,034	237,400	201,439
Total performing loans	745,735	756,335	603,522	556,972
Total non-performing loans	13,095	12,839	12,192	10,060
Total loans⁽¹⁾	758,830	769,174	615,714	567,032

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

Commercial Loans

Total performing commercial loans as of March 31, 2019 amounted to Ps.475,026 million, which decreased by Ps.14,275 million, or 2.9%, from the amount recorded on December 31, 2018. This decrease was mainly due to a reduction in government loans by Ps. 12,800 million as well as a decrease in business loans by Ps. 3,095 million.

Total performing commercial loans as of December 31, 2018 amounted to Ps.489,301 million, which increased by Ps.123,179 million, or 33.6%, from the amount recorded on December 31, 2017. This increase was mainly due to the effects of the Interacciones Merger (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of the Merger of Banco Interacciones into the Bank”).

Performing commercial loans totaled Ps.366,122 million as of December 31, 2017, reflecting an increase of Ps.10,589.14 million, or 3.0%, compared to December 31, 2016. The increase in commercial lending in 2017 was primarily due to an increase in business loans by Ps.8,678.14 million and an increase in financial institution loans by Ps.2,635 million, slight offset by a decrease in government loans by Ps.724 million. Outstanding commercial loans as a percentage of the total loan portfolio accounted for 63% as of March 31, 2019, 64% as of December 31, 2018, 59% as of December 31, 2017, and 63% as of December 31, 2016.

As of March 31, 2019 and December 31, 2018, 2017 and 2016 the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single corporate group or to the Mexican government) represented 29.1%, 30.5%, 30.0% and 31.4%, respectively, of total government, commercial and corporate loans. Of these 15 largest clients, as of March 31, 2019, 12 were classified as “A”, 2 as “B” and 1 as “C”, under the CNBV’s regulatory loan classification guidelines.

As of March 31, 2019, 17.8% of our commercial loan portfolio was unsecured. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process.

Consumer Loans

Performing consumer loans, including mortgage, credit card and other consumer loans, increased 15.6% in 2016, increased 17.9% in 2017 and increased 12.5% during the year ended December 31, 2018. Performing consumer loans, including mortgage, credit card and other consumer loans, increased 1.4% as of March 31, 2019 compared against the same period for 2018.

Our performing credit card portfolio increased 10.1% in 2016, increased 19.2% in 2017 and increased 8.11% during the year ended December 31, 2018. Our performing credit card portfolio decreased 0.3% during the three months ended March 31, 2019. Like other Mexican banks, we reflect in our interest rates for credit cards the greater risk associated with such loans. Other types of loans, such as mortgage and automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral.

Performing automobile and other consumer loans increased 17.0% from December 31, 2016 to December 31, 2017 and increased 9.5% from December 31, 2017 to December 31, 2018. Our performing automobile and other consumer loans decreased 1.3% from December 31, 2018 to March 31, 2019. The preferred lending products for this market segment have been automobile loans and payroll advances.

As of March 31, 2019, our mortgage portfolio consisted 4,182 residential loans, with an aggregate principal amount outstanding of Ps. 7,746 million. These loans were originally granted in Pesos or UDIs. The Peso-denominated loans were funded by us and carry market interest rates, but the monthly payment is fixed or variable. The UDI-denominated loans were funded by us and the Mexican government, and the monthly payment is fixed, but the outstanding balance in Pesos increases monthly in proportion to the variation of the NCPI.

Loans by Currency

Foreign currency-denominated loans amounted to Ps.63,672 million on March 31, 2019, reflecting a decrease of 0.4% from December 31, 2018. The decrease in foreign currency-denominated loans from December 31, 2018 to March 31, 2019 was partly due to the decrease of the exchange rate. Foreign currency-denominated loans amounted to Ps. 63,910 million on December 31, 2018, reflecting an increase of 28% from December 31, 2017. Foreign currency-denominated loans amounted to Ps.45,993 on December 31, 2017, reflecting an increase of 8.5% from December 31, 2016. The increase in foreign currency-denominated loans from December 31, 2017 to December 31, 2018 was partly due to the effects of the Interacciones Merger (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of the Merger of Banco Interacciones into the Bank”) and the result of reflecting the exchange rate volatility linked to economic and political events.

The following table presents our Peso and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in Pesos, at the Mexican Central Bank Exchange Rate.

	As of March 31,		As of December 31,					
	2019		2018		2017		2016	
	Loan Amount	% of Portfolio ⁽²⁾	Loan Amount	% of Portfolio ⁽²⁾	Loan Amount	% of Portfolio ⁽²⁾	Loan Amount	% of Portfolio ⁽²⁾
<i>(Ps. millions, except percentages)</i>								
Peso-denominated loans.....	90.71%	90.79%	92.01%	92.49%	566,538	92.0%	524,420	92.5%
UDI denominated loans.....	0.90%	0.90%	0.52%	0.04%	3,183	0.5%	204	0.0%
Foreign currency-deno minated loans.....	8.39%	8.31%	7.47%	7.48%	45,993	7.5%	42,407	7.5%
Total loans⁽¹⁾	100.00%	100.00%	100.00%	100.00%	615,714	100.0%	567,032	100.0%

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

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

Loans to the Public and Private Sectors

As of March 31, 2019, our loans to the public sector amounted to Ps. 179,434 million, accounting for 23.6% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans decreased to 23.6% from December 31, 2018 to March 31, 2019. This decrease was mainly due to the decrease in the portfolio of state and municipal governments by Ps. 5,657 million and Federal Government by Ps.7,143 million. As of December 31, 2018, our loans to the public sector amounted to Ps.192,234 million, accounting for 25% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans decreased from 23.6% as of December 31, 2016 to 21.6% as of December 31, 2017, and increased to 25% as of December 31, 2018. This increase was mainly due to the effect of the Interacciones Merger (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of the Merger of Banco Interacciones into the Bank”) and new financing opportunities for our clients in the government sector. See “Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments” and “Risk Factor—Risks Relating to Our Business—Some of our loans to Mexican states and municipalities may be restructured.”

Loans to individuals consisted of loans for business activities, mortgage loans, credit card loans and automobile and other consumer loans. Our loans to individuals totaled Ps.284,155 million as of March 31, 2019, reflecting an increase of 1.1% from Ps. 281,067 million as of December 31, 2018. Our loans to individuals totaled Ps.281,067 million as of December 31, 2018, reflecting an increase of 11.7% from Ps.251,561 million as of December 31, 2017, which increased by 17.12% from December 31, 2016.

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

	As of March,		As of December 31,					
	2019		2018		2017		2016	
	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾
	<i>(Ps. millions, except percentages)</i>		<i>(Ps. millions, except percentages)</i>					
Public sector ⁽¹⁾	179,434	23.6%	192,234	25%	132,816	21.6%	133,540	23.6%
Private sector:								
Businesses	295,241	38.9%	295,875	38.5%	231,336	37.6%	218,699	38.6%
Individuals ⁽²⁾	284,155	37.4%	281,067	36.5%	251,561	40.9%	214,793	37.9%
Total private sector loans	579,396	76.4%	576,942	75%	482,898	78.4%	433,491	76.4%
Total loans	758,830	100%	769,174	100%	615,714	100.0%	567,031	100.0%

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

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

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

Loans by Economic Activity

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

By December 31, 2017, the total balance of our mortgage loan portfolio increased by Ps. 20,872 million, or 18.0% of our total portfolio, mainly due to higher levels of mortgage loans. As of December 31, 2018, our mortgage loan portfolio totaled Ps. 157,261 million, representing an increase of Ps.20,533 million, or 15.0%, from the mortgage loan balance as of December 31, 2017. This increase was mainly the result of a major focus in our business strategy of sales through different channels (branches, agencies and third party sellers). As of March 31, 2019, our mortgage loan portfolio totaled Ps.160,162 million, representing an increase of Ps.2,900 million, or 1.84%, from the mortgage loan balance as of December 31, 2018. This increase was mainly the result a major focus in our business strategy of sales through different channels (branches, agencies and third party sellers). Mortgage loans represented 21.1%, 20.4%, 22.2% and 20.4%, respectively, of our total loan portfolio as of March 31, 2019, December 31, 2018, 2017 and 2016, respectively.

As of March 31, 2019, our government loans decreased by Ps12,800 million, or 6.6%, and our mortgage loans increased by Ps.2,807 million, or 1.8%. These variations along with decreases in loans granted to manufacturing entities of Ps. 955 million, or 2.33%, and the decrease in transportation and communication loans of Ps. 691 million, or 1.9%, contributed to the decrease on our total loan portfolio of Ps. 10,345 million, or 1.35%. The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity:

	As of March 31,		As of December 31,					
	2019		2018		2017		2016	
	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾	Loan Amount	% of Portfolio ⁽⁵⁾
<i>(Ps. millions, except percentages)</i>								
Economic Activity⁽¹⁾:								
Mortgages.....	160,162	21.1%	157,261	20.4%	136,728	22.2%	115,856	20.4%
Social and community services ⁽²⁾	29,435	3.9%	28,326	3.7%	12,418	2.0%	15,997	2.8%
Manufacturing	40,082	5.3%	41,037	5.3%	33,173	5.4%	35,844	6.3%
Construction and real estate development	43,013	5.7%	44,287	5.8%	35,403	5.7%	42,914	7.6%
Commercial activities ⁽³⁾	71,667	9.4%	70,526	9.2%	65,005	10.6%	54,363	9.6%
Credit card	38,847	5.1%	38,808	5.0%	36,093	5.9%	30,068	5.3%
Financial services ⁽⁴⁾	63,646	8.4%	63,311	8.2%	55,992	9.1%	52,541	9.3%
Energy and utilities	9,788	1.3%	9,794	1.3%	6,606	1.1%	2,048	0.4%
Agriculture, forestry and livestock.....	8,338	1.1%	8,965	1.2%	8,247	1.3%	7,729	1.4%
Mining	2,276	0.3%	2,405	0.3%	2,803	0.5%	150	0.0%
Transportation and communication	34,747	4.6%	35,438	4.6%	20,199	3.3%	16,218	2.9%
Government.....	179,434	23.6%	192,234	25%	132,816	21.6%	133,540	23.6%
INB commercial portfolio	-	-	-	-	-	-	-	-
Other consumer loans.....	77,373	10.2%	76,761	10.0%	70,231	11.4%	59,763	10.5%
ADE.....	-	0.0%	-	0.0%	-	-	-	-
Fid. FCICK16-1	20	0.0%	22	0.0%	-	-	-	-
Total loan portfolio.....	758,830	100.0%	769,174	100.0%	615,714	100.0%	567,031	100.0%

(1) The loan amounts set out in the above table include accrued interest and non-performing loans.

(2) Includes certain loans to the public sector and to educational and cultural institutions.

(3) Includes loans for commercial activities not directly related to manufacturing.

(4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.

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

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

Maturity Composition of the Loan Portfolio

The following table sets forth an analysis with reference to time remaining to maturity of our loan portfolio, as of March 31, 2019 and as of December 31, 2018, 2017 and 2016:

	As of March 31,		As of December 31,					
	2019		2018		2017		2016	
	Loan Amount	% of Portfolio⁽³⁾	Loan Amount	% of Portfolio⁽³⁾	Loan Amount	% of Portfolio⁽³⁾	Loan Amount	% of Portfolio⁽³⁾
	<i>(Ps. millions, except percentages)</i>							
Due within 1 year ⁽¹⁾	176,269	23.2%	136,081	17.7%	144,222	23.4%	138,230	24.4%
Between 1 and 5 years ⁽¹⁾	236,957	31.2%	193,902	25.2%	206,278	33.5%	210,428	37.1%
Over 5 years ⁽¹⁾	332,510	43.8%	426,352	55.4%	253,022	41.1%	208,314	36.7%
Sub-total loans	745,735	98.3%	756,335	98.3%	603,522	98.0%	556,972	98.2%
Non-performing loans	13,095	1.7%	12,839	1.7%	12,192	2.0%	10,060	1.8%
ADE	-	-	-	-	-	-	-	-
Total loan portfolio⁽²⁾	758,830	100.0%	769,174	100.0%	615,714	100.0%	567,032	100.0%

(1) These loans may be prepaid.

(2) Maturity composition is based on the period remaining to the maturity of the loans.

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

From December 31, 2016 to December 31, 2017, the balance of the loans due within one year increased by Ps.5,992 million, or 4.3%. From December 31, 2017 to December 31, 2018, such loans decreased by Ps.8,141 million, or 5.6%. From December 31, 2018 to March 31, 2019, such loans increased by Ps.40,187 million, or 29.5%.

For the three-month period ended March 31, 2019 and for the years ended December 31, 2018, 2017 and 2016, our loans with a maturity of over five years increased as a percentage of total loans. These trends are the result of increases in our mortgage loan portfolio with maturities of fifteen years.

Interest Rate Sensitivity of Outstanding Loans

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

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

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	<i>(Ps. millions)</i>			
Fixed-rate	317,696	317,321	244,328	255,640
Variable rate	428,039	439,014	359,194	301,332
Total loan portfolio	745,735	756,335	603,522	556,972
Non-performing loans	13,095	12,839	12,192	10,060
Allowances for loan losses	(17,822)	(18,264)	(15,551)	(13,941)
Net total loan portfolio⁽¹⁾	741,008	750,910	600,163	553,091

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

Non-Performing Loan Portfolio

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

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

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

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

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

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

As of March 31, 2019, the total amount of non-performing loans was Ps. 13,095 million, which represented 1.7% of total loans. Of this amount, Ps. 195 million, or 1.1%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.256 million, or 2.0%, during the three-month period ended March 31, 2019. Of this amount, the business loans represented Ps.7,422 million and the consumer loans represented Ps.5,673 million.

As of December 31, 2018, the total amount of non-performing loans was Ps.12,839 million, which represented 1.7% of total loans. Of this amount, Ps.174 million, or 1.0%, of the total amount of non-performing loans represented non-performing interest. The total amount of non-performing loans increased by Ps.648 million, or 5.31%, during the year ended December 31, 2018, out of which business loans represented Ps.7,044 million and consumer loans represented Ps.5,795 million.

As of December 31, 2017, the total amount of non-performing loans was Ps.12,192, or 2.0% of total loans. Of this amount, Ps.149 million, or 1.1%, of the total amount of non-performing loans represented non-performing interest.

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

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

	As of March 31, 2019	As of December 31, 2018 2017 2016		
		(Ps. millions)		
Non-Performing Loans				
Commercial and Corporate loans:				
Collateralized or guaranteed.....	3,156	2,857	4,482	3,311
Unsecured	4,267	4,187	2,058	2,501
Total commercial and corporate loans.....	7,422	7,044	6,540	5,812
Consumer loans:				
Residential Mortgage.....	1,557	1,464	1,323	1,049
Credit card	2,304	2,151	2,188	1,623
Other consumer credit	1,812	2,180	2,141	1,576
Total consumer loans.....	5,673	5,795	5,652	4,249
Total non-performing loans.....	13,095	12,839	12,192	10,060
Allowance for loan losses	(17,822)	(18,264)	(15,551)	(13,941)
Total non-performing portfolio net of allowance for loan losses	(4,727)	(5,425)	(3,359)	(3,881)

Grading of Loan Portfolio

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

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

General description of rules established by the CNBV

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

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

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

- For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

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

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

As of December 31, 2018 and March 31, 2019, the aggregate outstanding principal amount of our 15 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican government) represented 19.7% and 18.5%, respectively, of our total loans. The largest single loan exposure at December 31, 2018 and March 31, 2019 (excluding the Mexican government and our affiliates) accounted for 6.3% and 4.8% of our stockholders’ equity, respectively.

The following table analyzes the grading of our commercial loan portfolio at the dates indicated. In accordance with the CNBV rules, loans are graded based on their outstanding balance at the end of the reported update. This table excludes loans to the Mexican federal government and the Mexican Central Bank or to any party that is guaranteed by these institutions, but includes accrued interest, non-performing interest and our off-balance sheet commitments (such as guarantees and letters of credit).

	As of March 31,		As of December 31,					
	2019		2018		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>(Ps. millions, except percentages)</i>								
Total graded loans:								
A.....	663,179	84.4%	679,561	85.3%	546,862	85.8%	489,477	84.6%
B.....	77,141	9.8%	69,463	8.7%	59,368	9.3%	61,593	10.6%
C.....	24,172	3.1%	29,360	3.7%	14,262	2.2%	12,208	2.1%
D.....	15,763	2.0%	12,959	1.6%	10,480	1.6%	10,540	1.8%
E.....	5,169	0.7%	5,748	0.7%	6,338	1.0%	4,652	0.8%
Total graded loans ⁽¹⁾	785,424	100.0%	797,091	100.0%	637,310	100.0%	578,470	100.0%
Allowance grading of our loans:								
Additional allowances derived from grading:								
Commercial loans.....	6,856	38.5%	7,791	42.7%	5,089	32.7%	5,410	38.8%
Mortgage loans.....	995	5.6%	958	5.2%	934	6.0%	748	5.4%
Credit card.....	4,515	25.3%	4,588	25.1%	4,777	30.7%	3,929	28.2%
Other consumer loans.....	4,802	26.9%	4,321	23.6%	4,560	29.3%	3,662	26.3%
Non-performing interest....	195	1.1%	174	1.0%	149	1.0%	160	1.1%
Excess over minimum regulatory requirements.....	459	2.6%	432	2.4%	43	0.3%	33	0.2%
Total allowance for loan losses.....	17,822	100.0%	18,264	100.0%	15,551	100.0%	13,941	100.0%
Total loans graded C, D or E.....	45,104		48,067		31,081		27,400	
Allowances as a percentage of:								
Graded loans.....		2.3%		2.3%		2.4%		2.4%
Total loans plus interest ⁽²⁾		2.3%		2.4%		2.5%		2.5%
Total non-performing amounts.....		136.1%		142.3%		127.6%		138.6%
Total loans graded C, D or E.....		39.5%		38.0%		50.0%		50.9%
Total non-performing amounts as a percentage of total loans plus interest ⁽²⁾		1.7%		1.7%		2.0%		1.8%
Total net non-performing loans (non-performing amounts less allowance) as percentage of net total loans plus interest.....		(0.6%)		(0.7%)		(0.6%)		(0.7%)
Total loans graded C, D or E as a percentage of total loans.....		5.9%		6.2%		5.0%		4.8%

(1) Total graded loans include our surety bonds and stand-by letters of credit, which are not included in the balance sheet.

(2) Interest includes non-performing and outstanding interest.

Allowance for Loan Losses

We provide for possible loan losses in accordance with the Loan Classification and Rating Rules as required by the CNBV and currently we are in compliance with the allowance for losses required to be set aside by such rules. The grading of loans determines the amount of the allowance for loan losses required to be set aside, which is determined based on the percent of the outstanding balance of such loans depending on their type of portfolio: between 0.0% and 0.99% for Grade “A” loans, between 1% and 19.99% for Grade “B” loans, between 20% and 59.99% for Grade “C” loans, between 60% and 89.99% for Grade “D” loans and between 90% and 100% for Grade “E” loans. Mexican government and the Mexican Central Bank loans or loans to a third party guaranteed by these institutions are not subject to the grading system and are effectively deemed to be Grade “A” loans for loan loss allowance purposes. See “Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments.” The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

During the three-month period ended March 31, 2019, we recorded net provisions from liberation of reserves charged against earnings totaling Ps.17,822 million. For the year ended December 31, 2018, we recorded net provisions from liberation of reserves charged against earnings totaling Ps.18,264 million. Consequently, our allowance for loan losses amounted to Ps.6,327 of non-performing loans as of March 31, 2019, compared to Ps.6,459 as of March 31, 2018.

Analysis of Allowance for Loan Losses

The following table analyzes our allowance for loan losses and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses:

	For the three-month period March 31,	For the year ended December 31,		
	2019	2018	2017	2016
		<i>(Ps. millions)</i>		
Balance at beginning of year.....	18,264	15,551	13,941	13,334
Increase:				
Allowances charged to income	4,142	17,454	14,628	12,727
Appreciation of foreign currency items and UDIs.....	-	54	-	82
Recognized against retained earnings from prior years...	-	1,508	1,015	672
Other	-	72		
Sub-total.....	4,142	19,088	15,643	13,481
Decrease:				
Benefits and reductions granted to UDI loan programs ..	-	7	9	8
Losses and write-offs.....	4,566	16,368	13,691	12,669
Valuation of foreign currencies and UDIs	18	-	12	-
Other	-	-	321	197
Sub-total.....	4,584	16,375	14,033	12,874
Balance at period end	17,822	18,264	15,551	13,941

Allocation of Allowance for Loan Losses by Category

	As of March 31,		As of December 31,					
	2019		2018		2017		2016	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	<i>(Ps. millions, except percentages)</i>		<i>(Ps. millions, except percentages)</i>					
Commercial, financial and agricultural.....	6,856	38.5%	7,791	42.7%	5,089	32.7%	5,410	38.8%
Residential mortgages.....	995	5.6%	958	5.2%	933	6.0%	747	5.4%
Credit card.....	4,515	25.3%	4,588	25.1%	4,777	30.7%	3,929	28.2%
Other consumer loans.....	4,802	26.9%	4,321	23.6%	4,560	29.3%	3,662	26.3%
Non-performing interest.....	195	1.1%	174	1.0%	149	1.0%	160	1.1%
Excess over minimum regulatory requirements ...	459	2.6%	432	2.4%	43	0.3%	33	0.2%
Total.....	17,822	100.0%	18,264	100.0%	15,551	100.0%	13,941	100.0%

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the Loan Classification and Rating Rules in the case of commercial loans, and in the case of mortgage loans the greater of the minimum required by the Loan Classification and Rating Rules or the percentage required under methodologies approved by the CNBV. This loan loss allowance forms part of the loan loss allowance shown in our Financial Statements included elsewhere in this offering memorandum.

Foreclosed Real Estate and Other Assets

As of March 31, 2019, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps2,927million and Ps.3 million, respectively, an increase of 0.5% and a decrease of 45.1%, respectively, from December 31, 2018.

As of December 31, 2018, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps.2,913 million and Ps.7 million, respectively, a 15.5% and a 133.3% decrease, respectively, from December 31, 2017.

Under the CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the lesser of the amount set in the auction and the appraised value. Real estate assets we received in a negotiated settlement with the borrower are required to be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. Pursuant to CNBV rules, the loss in the value of foreclosed assets is recognized on the basis of the amount of time that has elapsed following the foreclosure proceedings or settlement.

The following table analyzes as of March 31, 2019 the ranges of elapsed times and the applicable provision for losses in connection with foreclosed real estate and other assets:

Other Foreclosed Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 6.....	0%
6 to 12.....	10%
12 to 18.....	20%
18 to 24.....	45%
24 to 30.....	60%
More than 30	100%

Foreclosed Real Estate Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 12.....	0%
12 to 24.....	10%
24 to 30.....	15%
30 to 36.....	25%
36 to 42.....	30%
42 to 48.....	35%
48 to 54.....	40%
54 to 60.....	50%
More than 60	100%

We have a special division that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at the periods indicated. The book value does not include the assets foreclosed from credits sold to the Banking Fund for Savings Protection (*Fondo Bancario de Protección al Ahorro*) (“FOBAPROA”) and the IPAB.

	As of March 31,	As of December 31,		
	2019	2018	2017	2016
	(Ps. millions)			
Real estate:				
Rural land	669	663	604	637
Urban land	932	926	685	683
Single-family houses	800	802	857	1,009
Condominiums	72	74	81	51
Industrial plants	121	121	119	131
Commercial buildings	49	42	92	109
Other	284	284	85	82
Sub-total.....	2,927	2,913	2,523	2,701
Non-real estate.....	3	7	3	5
Provisions for losses.....	(2,160)	(2,182)	(1,774)	(1,484)
Total	770	738	752	1,222

Restructuring of Loans

The deteriorating economic situation in Mexico subsequent to the December 1994 devaluation of the Peso and the increase in the portfolio of non-performing loans led Mexican banks, including us, to implement restructuring programs in most of their business divisions. In addition, the Mexican government adopted a number of debtor relief programs to facilitate this process. Restructured loans remain classified as “non-performing” until at least three payments on such loans have been made or until one payment on such loans has been made where the installment period is greater than 60 days. Restructured loans under Mexican government support programs are classified as performing loans as long as the debtor remains current on such loans.

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

Workout and Credit Recovery

Our workout unit handles debt recovery from borrowers with non-performing loans. The workout unit focuses on consumer loan recovery, mortgage collections and commercial loan recovery.

Consumer Loan Recovery

As of December 31, 2018, the consumer loan recovery unit settled 2,354,246 non-performing loan accounts amounting to more than Ps.7,842 million. As of March 31, 2019, this unit managed 559,786 accounts involving Ps.1,840 million. Commencing in 2004, we adopted a policy to write-off non-performing consumer loans that are six months or more past due and non-performing mortgage loans that are nine months or more past due

Mortgage Collections

As of December 31, 2018, 229,793 mortgage loans were settled in the aggregate amount of Ps.4,588 million. For the three-month period ended March 31, 2019, the unit settled 54,314 cases. The total number of cases settled for the three-month period ended March 31, 2019 represented an aggregate amount of Ps.1,220 million

Commercial Loan Recovery

The commercial loan recovery unit focuses on recovering non-performing loans in excess of Ps.1 million which have missed three payments. As of March 31, 2019, this unit is negotiating 7,719 loans totaling Ps.798 million.

For the year ended December 31, 2018 this unit has settled 31,484 cases representing a total value of Ps.2,894 million.

In the event that the credit recovery unit is unable to reach an agreement with a borrower in respect of non-performing loan amounts and the borrower fails to propose terms for an alternative restructuring agreement satisfactory to us, the unit submits the loan to our litigation department for the initiation of legal action to recover the amount outstanding on the loan. Foreclosure proceedings on collateral in Mexico can take a long time. The procedure requires the filing of a written petition with the competent court requesting the court's authorization to complete the foreclosure. This petition and the approval process is generally subject to significant delays and accordingly, the value of the collateral may be negatively affected. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation are charged off.

BUSINESS

Overview

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders' equity, that is not controlled by or affiliated to a non-Mexican financial institution. As of March 31, 2019, we ranked second among all Mexican banks in terms of loan portfolio and third in core deposits (a combination of demand deposits and time deposits), according to information published by the CNBV. With 120 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 11.5 million customers in Mexico as of March 31, 2019.

We are the banking subsidiary of GFNorte, the second largest financial services holding company in Mexico in terms of total assets as of March 31, 2019, according to information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte's most significant subsidiary, representing approximately 73.5% of GFNorte's total assets and 62.82% of its total equity, as of March 31, 2019.

As of March 31, 2019, we had total assets of Ps. 1,172.4 billion, total liabilities of Ps. 1,056.1 billion (including total deposits of Ps. 737.2 billion) and stockholders' equity of Ps. 116.3 billion. In the three-month period ended March 31, 2019, we generated net income of Ps. 7.4 billion, and had a return on average equity ("ROAE") of 26.2% (annualized average based on beginning and end-of-period balances) and a return on average total assets ("ROAA") of 2.5% (annualized average based on beginning and end-of-period balances). In 2018, we generated net income of Ps. 24.8 billion, and had a ROAE of 25.5% (average based on beginning and end-of-period balances) and a ROAA of 2.2% (average based on beginning and end-of-period balances).

Our Capital Ratios were 18.1% for Total Net Capital, 16.3% for Tier 1 Capital and 13.81% for Core Equity Tier 1 Capital as of March 31, 2019, exceeding the minimum Capital Ratios that we are required to comply with at the end of 2018 under Mexican banking regulations, and applicable to us, of 11.18%, 9.18% and 7.68%, respectively. These Capital Ratios are inclusive of the Systemically Important Bank Capital Supplement. Given our status as a bank of systemic importance in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90% over a four-year period, to be constituted in four equal parts in December of each year, on a cumulative basis, commencing in December 2016; accordingly, the first three portions of this supplement are now in place, which amount to 0.675%.

Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,149 branches, 8,453 ATMs (57% of which are located outside of our branches) and 160,701 POSs, in each case, as of March 31, 2019. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We process approximately 274 million banking transactions per month, as of March 31, 2019. We had 22,782 employees as of March 31, 2019.

History and Ownership

We were founded in 1899 and historically have had a strong regional presence in Northeastern Mexico, particularly in the metropolitan area of Monterrey, which is the third most populous city and one of the most important industrial centers in Mexico. Together with other Mexican commercial banks, we were nationalized by the Mexican government on September 1, 1982. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the government enacted the

Mexican Banking Law which provided for private ownership of Mexican commercial banks. The reprivatization of Mexican commercial banks began in 1991.

As part of the privatization process, Grupo Financiero Banorte, S.A. de C.V., our parent company, was incorporated as Grupo Financiero AFIN, S.A. de C.V. on July 21, 1992, as a Mexican limited liability company with variable capital (*a sociedad anónima de capital variable*). In September 1992, the SHCP authorized the operation of our parent company as a financial services holding company under the Financial Groups Law.

A group of Mexican investors led by Don Roberto González Barrera acquired 66.0% of our outstanding shares from the Mexican government in 1992. In September 1993, this same group of investors entered into an exchange offer whereby they purchased 186 million newly issued shares of AFIN, 89.3% of AFIN's then outstanding shares, in exchange for AFIN's purchase of our shareholders 66.0% interest in us. Following the exchange offer, we became a subsidiary of AFIN and our parent company was renamed Grupo Financiero Banorte, S.A. de C.V. In May 1993, GFNorte carried out a tender offer for the remaining 34.0% of our outstanding shares. As a result, GFNorte increased its ownership interest in us to 97.5%. GFNorte currently owns 98.26% of our capital stock.

The 1995 Mexican Peso crisis and the penetration of foreign institutions into Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of our relative strength in the Mexican banking system, GFNorte purchased Bancentro in 1996 and Banpaís in 1997. GFNorte's primary goals in acquiring Bancentro were to gain additional market share and add 195 additional branches, 80% of which were located in the central and western regions of Mexico. GFNorte completed the acquisition of Bancentro on June 30, 1997, at which time it became formally integrated into GFNorte. On August 29, 1997, GFNorte also acquired 81% of Banpaís' shares, enabling further expansion of GFNorte's client base, geographical position and national coverage through the addition of 161 branches. In an effort to consolidate the banking activities of GFNorte and to strengthen our capitalization, we were merged with Banpaís in January 2000 and the banking operations of Bancentro, including its branch network, loan portfolio (including non-performing loans) and FOBAPROA notes (which were subsequently converted into IPAB notes), were transferred to us in December 2000.

In 2001 GFNorte acquired Bancrecer and, on June 30, 2002, we merged with and into Bancrecer. Our assets, liabilities and stockholders' equity were transferred to Bancrecer, thereby eliminating intercompany operations between the two entities. The surviving entity changed its name to "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte." We implemented a single organizational structure in the first quarter of 2002 and transferred Bancrecer employees that were re-hired to our payroll and benefits plans. We established a new institutional pay scale and restructured the organization of personnel in our branches to standardize their positions and functions. We also provided intensive training to former Bancrecer employees regarding our sales policy and products.

On August 28, 2006, we merged Bancentro into us pursuant to an authorization received from the SHCP. Bancentro's remaining assets, liabilities and stockholders' equity were transferred to Banorte, eliminating intercompany loans to Bancentro, with Banorte as the surviving entity.

In 2006, we expanded our operations into the United States, through the acquisition of INB, based in Texas, which is a regional bank with primary presence in the Rio Grande Valley and its headquarters in McAllen, Texas where it had 14 branches at the time of the acquisition.

Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, another money transfer company based in California.

In 2009, we acquired three Afores, namely, Ixe Afore, S.A. de C.V., Afore Ahorra Ahora, S.A. de C.V. and Afore Argos, S.A. de C.V. in order to further increase our scale in the pension fund management sector in Mexico. In January 2012, the Bank and the IMSS merged Afore Banorte Generali with Afore XXI, thereby creating Afore XXI Banorte ("Afore XXI Banorte"), with each of the Bank and the IMSS owning 50% of the entity. In January 2013, Afore XXI Banorte finalized the acquisition of 100% of the equity interest in Afore Bancomer.

On April 15, 2011, GFNorte merged with IXE in a stock-for-stock transaction valued at approximately Ps.17.2 billion. IXE's operations were integrated into ours and as a result GFNorte became the third-largest financial group in Mexico in terms of total assets, performing loans, deposits and distribution network. IXE conducted its business through its own subsidiaries, the largest being Ixe Banco, a commercial bank in Mexico focusing on middle- and upper-income customers. On April 15, 2013 and May 7, 2013, IXE Banco and Fincasa received the authorization by the CNBV and the Mexican Central Bank to be merged into the Bank.

During 2016, we obtained the authorization from the SHCP, the CNBV, the Mexican Commission for the Retirement Savings and Pensions System (*Comisión Nacional del Sistema de Ahorro para el Retiro*) ("CONSAR") and the Mexican Insurance and Bonds Commission (*Comisión Nacional de Seguros y Fianzas*) ("CNSF"), to spin-off our investment in Afore XXI Banorte and transfer our 50% stake in that entity to Banorte Futuro, a subsidiary of Seguros Banorte. Our spin-off of the Afore XXI Banorte was effective on October 17, 2016. We no longer own the 50% equity interest in Afore XXI Banorte.

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

On July 13, 2018, the merger of GFInter into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank. As a result of the Interacciones Merger, we consolidated our position as the second largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

On January 25, 2018, the Board of Directors of Banorte approved the spin-off of Banorte USA Corporation ("Banorte USA"), and the subsequent investment of Banorte USA's assets, including the total shareholders' equity of INB Financial Corporation ("INBFC") and the total shareholders' equity of Uniteller Financial Services in Banorte Financial Services. The spin-off and the transfer of these assets occurred on December 14, 2018. This spin-off did not have any effect on our Financial Statements due to the fact that the Bank consolidates Banorte USA and Banorte Financial Services as of December 31, 2018.

Subsequent to the transfer of Uniteller Financial Services and INBFC's assets to Banorte Financial Services, on January 14, 2019, Banorte USA was liquidated.

As of March 29, 2019, GFNorte had a public float equal to 85.47% of our capital stock.

Competitive Strengths

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

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, which is the second largest financial group in Mexico as of December 31, 2018 in terms of assets, deposits and loan portfolio, and the largest controlled by Mexican investors, according to CNBV data, after it merged with GFInter. GFNorte has operated in the Mexican financial industry for 24 years under the "Banorte" brand name. We believe GFNorte's long standing history in the Mexican market is recognized by our customers and the general public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

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

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of March 31, 2019, GFNorte had the largest Afore in Mexico in terms of assets under management, with a market share of 22.5% of the pension system managed by Afores.

Leading Market Presence across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 265,174 corporate clients and over 11.5 million individual customers as of March 31, 2019. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 3.0% market share in terms of performing loans in 1992 to becoming the fourth largest bank in Mexico in terms of total assets (Ps. 1,172 billion), performing loans (Ps. 746 billion) and total deposits (Ps. 737 billion), with nationwide presence and a 14.5% market share of total loans as of March 31, 2019, according to the CNBV.

We are the third largest operator of POSs in Mexico, the fourth in ATMs and the sixth in branches, according to the CNBV, as of March 31, 2019. As of the same date, we had a 34.5% market share of the government banking sector, the largest in the Mexican banking system. As of the same date, we had a market share of 19.5% and 10.6% of mortgage loans and commercial loans, the second and fourth largest in the Mexican banking system, respectively.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We have maintained a solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 19 of the last 20 operating quarters (considering the period from April 2014 through March 2019). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and contact center with products and differentiated services. With a clear segmentation of customers, in retail banking we can offer services according to their specific profiles, through appropriate channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

The positive trend of our financial performance continued in the first three months of 2019 as we increased our net income by 59% as compared to the same period in 2018, while our ROAE and ROAA reached 26.2% and 2.5%, respectively, in the first three months of 2019 compared to 20.9% and 1.8%, respectively, in the same period in 2018. Our efficiency ratio improved year over year from 45.1% in the first three months of 2018 to 40.5% in the first three months of 2019. As of March 31, 2019, we had non-performing loans to total loans ratio of 1.7% and a coverage ratio, defined as allowance for loan losses divided by total non-performing loans, of 136.1%. We believe these ratios reflect our prudent risk management practices. We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and operating efficiency.

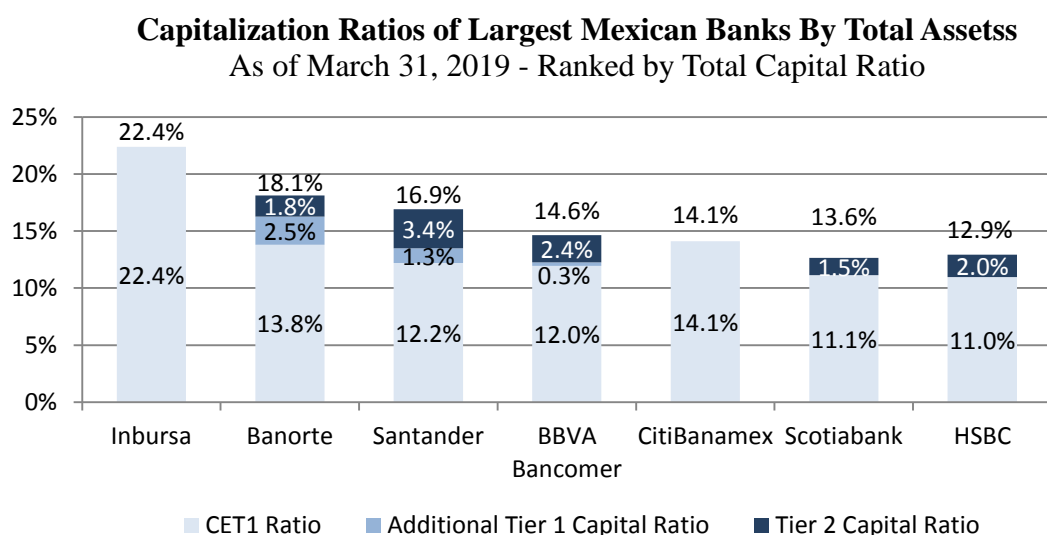
Strong Capital Base and Capitalization Ratios

We believe we have a strong capital base, as evidenced by each of our Capital Ratios, which have been above the average for the G-7 Mexican banks during the past thirteen quarters (considering the period from January 2016 through March 2019). Mexican banks already comply with Basel III capitalization requirements and are well capitalized compared to other banks in more developed economies, and within this group of Mexican banks, we compare very favorably in terms of capitalization levels and composition of capital. As of March 31, 2019, our Fundamental Capital ratio was 13.8%, the third highest among the G-7 Mexican banks; our Additional Tier 1 Capital was 2.5%, the highest among the G-7 Mexican banks; and our Total Net Capital ratio was 18.1%, the second highest among the G-7 Mexican banks; in each case, according to data published by the CNBV.

With the offering of the Notes, we expect to offset the decrease in Tier 1 Capital resulting from a dividend payment made in June 2019 and strengthen further our Total Net Capital ratio, by increasing the Tier 1 Capital component. Tier 1 Capital is an important component of our capitalization and with a Tier 1 Capital ratio of 16.3% as of March 31, 2019, we are 4.6% above the current minimum of 9.18% required to us by the Mexican banking regulations to be classified as a grade II D-SIB. Our strong capital base permits us to continue our prudent growth, while maintaining an acceptable risk profile for our clients and shareholders.

In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. In July 2018, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and required to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.001%. We are required to implement and comply with these Capital Supplements over a four-year period to be constituted in four equal parts in December of each year, on a cumulative basis, commencing on December 31, 2016. Given our strong capital base, our Capital Ratios as of March 31, 2019 already complied with such Capital Supplement requirements as if they were to be fully implemented as of the date hereof.

The chart below presents the Capital Ratios for the G-7 Mexican Banks by total assets as of March 31, 2019, ranked by Total Capital Ratio.



Source: CNBV

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

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013 and March 31, 2019 we increased the number of ATMs and POSs by 15% and 65%, respectively, reaching a total of 8,453 ATMs and 160,701 POSs, ranking fourth in ATMs and third in POSs in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking fourth in terms of market share. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of March 31, 2019, we had approximately 4.3 million active internet banking customers and around 1.8 million of our customers utilized *Banorte Móvil*. We also consider ourselves pioneers in banking services through third parties in Mexico, reaching a total of 28,470 correspondent contact points as of March 31, 2019.

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

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 15 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. This demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

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

Track Record of Product Innovation

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

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 11 years of experience with us and has more than 22 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the second largest bank in Mexico, generating significant profitability while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, key employees of acquired companies have remained with our team and have broadened the experience of our team. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed by a majority of independent directors (currently 71.4%), which ensures collegial decision-making for the benefit of our stakeholders, as well as having several supporting committees, including an audit committee and a risk policies committee, each chaired by independent directors with recognized experience. Our corporate governance model not only complies with applicable standards, but also seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Strategy

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

Selectively Increase our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in total loans and deposits has increased from 8.0% and 6.6%, respectively, as of December 31, 2000, to 14.5% and 13.6% respectively, as of March 31, 2019. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and the internet banking to increase the origination of payroll loans in Mexico. As of March 31, 2019, we had a 20.4% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan and vice-versa. We intend to leverage our central customer repository (“CCR”) database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand our Credit Card Business

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

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

Our market share in the Mexican credit card segment was 9.6% as of March 31, 2019, according to the CNBV. As of that date, we had approximately 1.8 million credit cards outstanding, with past due balances of 5.9%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio through more active marketing and promotions to our current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as performing loans and deposits.

Expand our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of March 31, 2019, our market share on pre-approved car loans was 17.7% according to the CNBV, excluding financings by automobile manufacturers against whom we compete in this business. We also believe that, given the expected growth in GDP in Mexico, the automobile sector, and consequently the automobile loan business will experience growth in the coming years.

Increase our Mortgage and Infrastructure Financing Originations

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from one to 20 years for financing of up to 90% of loan-to-value. We offer financings exclusively for residential mortgages. Other products we offer include home improvement, construction and land acquisition. For the three-month period ended March 31, 2019, we provided 4,182 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps.160,162 million, compared to Ps.141,094 million for the three-month period ended March 31, 2018.

The current average of the initial amounts of our mortgage loans (Ps.1.8 million) is 28% higher than the current average for other financial institutions (Ps.1.4 million) reflecting our higher income target segment. We also have the lowest delinquency rate in the mortgage loan portfolio in the industry with 0.97%. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times; offering financings for purchases, refinancings and real estate improvements.

In addition, we have implemented new sales channels and deployed specialized sales forces that will enhance our presence with home developers and generate strategic alliances with real estate brokers, which will strengthen our mortgage broker channel. We also expect to increase the origination of co-financing products with Infonavit, and Fovissste". In addition, we expect to grow our special program mortgage loans developed exclusively for large corporations, state and municipal governments, productive state enterprises or public agencies, such as PEMEX, CFE and IMSS, with centralized payments through payrolls that also generate a high volume of payroll loan origination. Finally, we expect to increase our financing to infrastructure projects, taking advantage of the expertise and know-how of Banco Interacciones in this sector.

Strengthen our Relationships with Government Entities and their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which, as of March 31, 2019, together comprised 23.8% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. This opportunity to cross-sell has been enhanced by the merger with Banco Interacciones, whose government lending business has complemented our successful operation. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling opportunities and attractive return on equity.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today.

For instance, Banorte Go is an add-on to Banorte Móvil, our mobile banking platform. Banorte Go allows our customers to check their account balances, transfer funds and make payments among users of Banorte Móvil through social media mobile applications or any mobile application where an alphanumeric keyboard is used without the need to login to the Banorte Móvil mobile application. This allows users to enjoy the benefits of our mobile banking capabilities without having to exit their favorite mobile application.

Our emphasis on multi-channel distribution is aligned with our paperless initiative, which we expect to be fully implemented by the end of 2019. Currently, the use of mobile devices for these purposes is limited; however, we believe consumers in Mexico are becoming increasingly comfortable with conducting mobile banking transactions.

We intend to continue to develop new specialized sales forces, telemarketing efforts and use “*Banorte Visita*” in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of ATMs, providing us with a 16% of market share as of March 31, 2019, according to the CNBV.

Enhance our Customer-Oriented Business Model

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

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

Increase Wallet-Share Penetration with Corporate and SME Customers

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

Continue to Increase our Profitability

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

Improve the Profitability of our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;
- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;
- increasing non-interest income through the offering of services and using cross-selling efforts;
- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and
- channeling less value-added transactions to online and mobile services.

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

A central strategy to improve our cost efficiencies is to lower our operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts that are continuously implemented. For the three-month period ended March 31, 2019, our efficiency ratio was 40.5%, as compared to 45.1% for the corresponding period in 2018.

Promote Synergies within the GFNorte Group

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

Increase Our Non-Interest Income

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

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

- increasing our cross-selling efforts within the GFNorte group;
- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;
- establishing new relationships with businesses generating high volume point-of-sale transactions; and
- optimizing customer profitability by increasing fees and reducing transactional costs to low-value customers and increasing cross-selling within affluent customer base.

Principal Business Activities

One of our principal goals is to efficiently deliver services and products to our clients. In an effort to meet this goal, we have organized our business operations into the following businesses:

- retail banking, which includes, among others:
 - affluent banking;
 - personal banking;
 - SME banking; and
 - state and municipal government banking; and
- wholesale banking, which includes, among others:
 - corporate and enterprise banking;
 - transactional banking;
 - federal government banking; and
 - international banking.

These segments report to the main office in one of our eight territories in Mexico: Northern, Central, Mexico City North, Mexico City South, West, Northeast, North Border and South. In addition, our treasury and the money market divisions are responsible for, among other activities, managing our assets and liabilities while maximizing our income in accordance with certain risk policies and limits established by our Risk Policy Committee. See “—Treasury and Money Market Divisions.”

Retail Banking

The retail banking area is responsible for creating value propositions for each segment, in order for us to offer suitable products to each of our customers using diverse channels. Our retail banking area develops strategies to approach every customer in a unique manner, encourages cross-selling, shifts operations to digital platforms and constantly develops innovative products. There are four lines of business within our retail banking:

- Affluent banking: Since the last quarter of 2015, our aim is to provide a differentiated service model and proposition to our high value customers. In the first quarter of 2017, we achieved a nationwide coverage and trifold the affluent service model in 310 of our branches. By March 2019 these 818 branches had the new Queue Manager System installed, with the presence of at least one relationship manager; in overall we have 498 relationship managers. Our affluent contact center (*Línea Preferente*) is now a service referral in the market with a more than 84% solution response at the first call. With 4% of the total customer base, for the three-month period ended March 31, 2019, affluent banking represented 27% of the wholesale and retail banking of GFNorte in terms of net income.

- **Personal banking:** As of March 31, 2019, this area provided services to more than 10.6 million customers with their own profit and loss, focusing on total relationship balance and profitability by seeking to maintain high-value customers and by creating an exit strategy for low-value customers. We continuously work to migrate the operations of our customers in this area to self-service channels. As of March 31, 2019, personal banking represented 28% of the wholesale and retail banking of GFNorte in terms of net income.
- **SME banking:** As of March 31, 2019, this area offered innovative and competitive financial products and services to approximately 423,765 SMEs. In March 2016, we also re-launched Banorte SME Integral Solution, a package by which we offer to serve our SME customers all of our financial services under a single contract. As of March 31, 2019, SME banking represented 4.6% of the wholesale and retail banking of GFNorte in terms of total loans.
- **State and municipal government banking:** We believe we are one of the nationwide leaders in the state and municipal government banking segment in terms of deposits, loans and payroll, as of March 31, 2019, according to information published by the CNBV. As of March 31, 2019, deposits, loans and payroll for state and municipal government banking segment represented 6.2%, 16.8% and 21.2%, respectively, of the total wholesale and retail banking of GFNorte in terms of net income. We have full coverage in 32 states and over 1,639 municipalities. We believe this area offers unique products and services such as government funds, payroll services, public finance analysis, advisory services and credit risk analysis. We estimate that state and municipal local government banking sales will see significant growth in the following years.

Our retail banking segment targets individual customers and SMEs by providing them with non-specialized banking products and services through our distribution channels. See “—Distribution Channels.” Nearly all of the transactions taking place in this segment occur through our branches, telephone banking, on-line banking and ATMs.

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See “—Products and Services.” One of our main products in this segment, *CrediActivo Comercial*, is a loan issued in amounts of up to 2 million UDIs (equivalent to approximately Ps.13 million, as of March 31, 2019) and is targeted towards SMEs.

We are increasingly becoming a more significant retail bank in the Mexican marketplace, and we believe the contribution of this business, particularly credit cards, payroll loans, SME financing and mortgage loans will grow significantly over the next three years.

Wholesale Banking

The wholesale banking division incorporates: Economic, Research and Fundamental Analysis; Private Banking and Wealth Management; Transactional Banking; Corporate and Enterprise Banking; Federal Government Banking; Trading and Institutional Sales; Warehouse, Leasing and Factoring; International Banking; and Treasury Management. Our wholesale banking area’s contribution to our total net income may increase as we assume a more prominent position in Mexico’s wholesale banking industry, and also as a result of its increasing share in our total loan portfolio.

Corporate and Enterprise Banking

Corporate and enterprise banking is committed to providing integrated financial solutions for our corporate customers through various types of specialized financing, including structured credits, syndicated loans, acquisition financing and financing of investment plans. Other products and services offered to our corporate customers include cash management services, collection services and fiduciary and payroll services. The customers in corporate banking generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of 2,954 large corporations. As of March 31, 2019, the average outstanding individual balance of our 1,212 loans to corporations was Ps.103.7 million.

In 2016, we created a team with a high degree of specialization and market recognition in the energy and infrastructure sectors to better position ourselves in light of the opportunities created by the recent reforms adopted in Mexico in these sectors. This has allowed us to increase our market penetration and further enhance our market share of these sectors with current and future clients.

Our enterprise banking segment specializes in high-margin credit products for medium-sized business customers. Our medium-sized business customers consist primarily of 21,312 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors. As of March 31, 2019, the average outstanding individual balance of loans to our enterprise customers was Ps.120,975 million.

Our main products in this segment are:

- loans and lines of credit;
- *CrediActivo Empresarial*, a loan product partially guaranteed by NAFIN;
- cash management services;
- fiduciary services;
- checking account services; and
- payroll services.

In 2016, we implemented a new business model aimed at allowing our relationship managers to dedicate more time to attracting clients and increasing sales. This model is in constant evolution and in 2019 we expect to further enhance the business model by allowing the relationship managers to have client information on their mobile device.

Transactional Banking

Our Transactional Banking area is focused on deploying our cross-selling strategy through sales, implementation and post-sale support of transactional services, to strengthen and deepen our business relationship with existing clients. Through our Transactional Banking area we offer self-service cash solutions to our clients, including: remote deposits, cash counters, addressed payments and online foreign exchange transactions. We have also developed a new cross-selling strategy with Banorte Seguros (GFNorte's insurance subsidiary) to offer specialized insurance products.

As part of our focus on cross-selling opportunities, we deployed a client feedback system to assess our client's perception of our services and products (including NPS, market valuation, etc.) and to increase our new product allocation such as check counters, SWIFT, T2M checks and BTF Modules. This has allowed us to adapt our services in accordance to our clients' expectations, such as the SWIFT operations, which were unavailable on past years, but is now fully operational.

Federal Government Banking

We have increased our presence as a provider of financial services to Mexican federal governmental entities and their agencies, including social security institutions, unions, public trusts, public works and quasi-governmental entities. Through specialized attention, we expect to maintain our commitment to providing services to this important sector of the economy.

The products and services offered by our Federal Government Banking segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allow us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees.

As of March 31, 2019, the aggregate outstanding balance of our federal government loan portfolio was Ps.52,396 million. We are among the providers of loans to federal government entities in Mexico and as of March 31, 2019, we had a 18.4% market share in performing loans, according to the CNBV.

International Banking

Through this segment we offer products and services to our corporate and enterprise banking and SME clients to assist them with international trade needs, as well as provide correspondent banking services to foreign financial institutions. We have strategic agreements with financial institutions outside of Mexico, which allow us to offer highly competitive solutions and financial services to our clients both locally and globally.

Among the products and services offered to our import and export clients as well as to those with international or risk mitigation needs are: import and export letters of credit, documentary collections, banking guarantees, stand-by letters of credit, letters of credit financing, cross-border financing for import and export transactions, as well as international transfer services. We also provide specialized local banking services to foreign-based companies with operations in Mexico.

Treasury and Money Market Divisions

Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs and engaging in hedging transactions. Its goal is to maximize our income in accordance with certain risk policies and limits established by our Risk Policy Committee, as explained in “Risk Management—Risk Management Organizational Structure.” The treasury division is also responsible for managing our liquidity requirements and cash flows, monitoring market risks and funding costs, obtaining funding for certain loans and obtaining funding in the international market. The treasury division monitors our positions in fixed income securities, foreign currencies and derivatives positions for hedging and liquidity purposes.

Our money market division is responsible for our repurchase transactions, investments in domestic fixed and floating rate securities and the promotion of instruments and investment alternatives to our high net worth clients. This division also purchases futures to hedge its open risk positions or for trading purposes.

The treasury and money market divisions are monitored on a daily basis by our risk management unit. See “Risk Management—Market Risk.” Strategies relating to these divisions are assessed on bi-weekly basis by our Assets and Liabilities Committee. Our treasury division does not trade equity securities.

Products and Services

Checking and Deposit Accounts

We continually strive to develop innovative, high-quality products and services that meet our clients’ financial needs.

Through our branch network, we offer deposit products which fall into four categories: time and savings deposits, demand deposits, installment deposits and certificates of deposit. Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may not be made without penalty. Savings deposits allow customers to deposit and withdraw funds at any time and accrue interest at a fixed rate that, in certain cases, increases over time. Demand deposits, which either do not accrue interest or accrue interest at a fixed rate, which is lower than the applicable time and savings deposits rates, allow customers to deposit and withdraw funds at any time and, in the case of “current” deposit accounts, to issue checks against the deposited amount. Installment deposits allow customers to make deposits either on a periodic basis or at any time during a fixed term, during which interest accrues at a fixed rate and there is a penalty for withdrawals. Certificates of deposit, which are sold in a variety of denominations and maturities and are negotiable, require an initial deposit of a fixed amount for a fixed term, during which interest accrues at a fixed rate and withdrawals may not be made without penalty. We believe our products address all of our customers’ financial

needs, regardless of their segment. Furthermore, we permanently develop special offers by which we aim to make our products more attractive to our customers than those of our competitors.

We have made significant efforts to increase traditional deposits through the retail banking segment in order to continue to reduce the cost of funds and to increase our net interest income.

During the three-month period ended March 31, 2019, we experienced significant growth in the opening of checking accounts and demand deposits. Our focus on the sale of deposit products and related strategic initiatives put into place during 2016 and 2017 led to an aggregate amount of Ps. 759,235 million in total deposits as of December 31, 2018. As of March 31, 2019, our total deposits amounted to Ps. 737,226 million. We have placed particular emphasis on increasing deposits for our low-cost products.

Credit Card Operations

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products under the Banorte brand: Por Ti de Banorte, Banorte Clásica, Banorte Oro, Mujer Banorte, Tarjeta 40, Banorte Básica, La Comer, Ke Buena, Tarjeta Platinum, Infinite, United and United Universe, the latter two of which are co-branded with United Airlines.

As of March 31, 2019, we had approximately 2 million credit cards outstanding, of which 5.9% carried a past-due balance. Credit card approvals are based on an internal credit scoring system, which we believe increases the quality of the portfolio and reduces approval response time. Our credit cards can be used in 8,453 ATMs across Mexico. Revenues from the credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders.

We currently rank fourth, both in number of transactions and in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of seven Mexican banking institutions. Our market share in the Mexican credit card sector was 9.7% as of March 31, 2019 in terms of performing loans according to the CNBV. Currently, the most important channel for promoting credit cards is our branch network; nevertheless, we are expanding our origination channels for all through a more robust sales force, co-branded offers and a one-step underwriting process (origination and first purchase). We also promote our credit cards by cross-selling them to customers across GFNorte's entities.

We charge an average annual fee of Ps.549.20 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, and have an initial maturity of one to two years, accrue interest at effective weighted average annual fixed rates of 27.8%. The average credit limit of credit cards is Ps.49,916; whereas limits range from Ps.2,000 to Ps.1,000,000. Moreover, the minimum required monthly salary for all new cardholders is Ps.5,000. As of March 31, 2019, the past-due loan ratio on our credit card portfolio was 5.9% and charge-offs as a percentage of average receivables were 14.7%. The annual attrition rate with respect to our credit card customers was 26.6% for the three-month period ended March 31, 2019.

We monitor our credit card accounts with an electronic system called "VISION," which allows us to establish credit limit increases, pricing, credit card loan portfolio collection and overdraft protections on an individual cardholder basis.

Mortgages

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from 1 to 20 years for financing of up to 90% of Loan-to-Value. We offer financings exclusively for residential mortgages. Other products we offer include home improvement, construction and land acquisition. For the three-month period ended March 31, 2019, we provided 4,182 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps. 160,162 million.

The current average of the initial amounts of our mortgage loans (Ps.1.8 million) is 28% higher than the current average for other financial institutions (Ps.1.4 million) reflecting our higher income target segment. We also have the lowest delinquency rate in the mortgage loan portfolio in the industry with 0.97% as of March 31, 2019. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times; offering financings for purchases, refinancings and real estate improvements.

Consumer Loans

We offer two main personal consumer loans: automotive financing and payroll loans. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to 6 years. As of March 31, 2019, the aggregate outstanding balance due from our automotive financings was Ps.25,046 million. *Crédito de Nómina* is a fixed rate loan with automatic payments through payroll deposits. Loan amounts are up to Ps.1.5 million with maximum maturity of five (5) years. As of March 31, 2019, the aggregate outstanding balance due from the *Crédito de Nómina* product was Ps.52,917 million.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from SMEs to large companies that have revenues in excess of Ps.300 million. Of our commercial loans guaranteed by NAFIN, *Banco Nacional de Comercio Exterior, S.N.C.* and the *Fideicomisos Instituidos en Relación con la Agricultura*, 31.5% are secured by collateral.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, school tuition and cellular phone bills, among others, through our branch network and alternative distribution channels. As of December 31, 2018, we handled approximately 31 million transactions, representing a 9% increase compared to the corresponding period in 2017. As of March 31, 2019, we handled approximately 8 million transactions, representing a 10% increase compared to the corresponding period in 2018. Collection services are complemented by invoice distribution through the Internet or mobile phone banking.

Payroll Services

Since 1993, we have offered our corporate, enterprise, SME and government customers *Nómina Banorte*, a service through which they can pay their personnel payrolls via direct deposits. As of March 31, 2019, over 45,897 thousand corporate, enterprise, SME and government customers process payrolls of over 6.0 million employees with us. We believe that *Nómina Banorte* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Nómina Banorte* may obtain a personal loan of up to nine months of salary and preferential conditions on other types of loans.

Cash Management Services

Cash management services include collecting and disbursing funds on behalf of companies and their suppliers, distributors, clients and employees in order to facilitate cash flow, reduce operating costs and improve information management.

Money Transfer and Remittances Services

Through UniTeller, we offer cross-border money transfers and remittance paying services. We continue to be one of the largest payers of remittances from the United States. We operate in more than 30 countries.

UniTeller has multiple long-term processing agreements with institutions like Walmart México, Farmacias Guadalajara, Western Union, Wells Fargo, Xoom-Paypal, Remitly, Moneygram and others, that allowed UniTeller to become one of the largest wire transfers processors in the industry handling currently approximately 16.2% of the

total transactions paid in the US-Mexico corridor as of March 31, 2019. To offer individuals a more convenient mobile remittance service, UniTeller deployed its own digital and mobile remittance platform uLink. With this service, UniTeller improved accessibility and reduced transaction costs, responding to our goal of extending the benefits of low cost and efficient remittances in multiple channels to the largest number of Mexicans utilizing this service.

Banorte Ixe Securities

Our subsidiary in New York, offers a wide range of international investment strategies, mainly targeted to our Private Banking clients from our brokerage business in Mexico, and to our onshore (domestic) clients in the U.S.

Distribution Channels

Branch Networks

We seek to create an outstanding multi-channel experience for our customers. Towards that end, in 2017 we established an operating model which has improved and we believe will continue to improve all direct channels, customer experience and operational efficiency and, eventually, increase our market share. According to the CNBV, as of March 31, 2019, our branch network accounted for 9% of the Mexican market in terms of number of branches as of such date.

As of March 31, 2019, we had 1,149 branches, where 13 corresponded to affluent customer service centers. As of such date, each branch operates with 8 employees. From March 31, 2019 to December 2020, we plan to open a few more branches, with a greater focus on regions where our market share is relatively low. We are also planning to continue strengthening alternative channels such as ATMs, contact centers, online and mobile banking. We believe that many of our customers have taken advantage of the developments in our ATMs and digital channels, given that as of March 31, 2019, the 505 million transactions in ATMs and digital banking representing an increase of 18% compared to the same period of 2018.

ATMs

Our ATM network has grown from 3,384 ATMs as of June 30, 2007 to 8,453 as of March 31, 2019. According to the CNBV, as of March 31, 2019, we had the 4th-largest ATM network in the Mexican market. As of March 31, 2019, our ATMs serve approximately 8.5 million customers monthly, representing a 1% decrease compared to the same period in 2018 and equivalent to approximately 162 million transactions annually. In order to further increase the number of transactions conducted through this channel, we are developing a platform providing personalized offers, functionalities and upgrades for each customer, and we believe that most of our products and services will be available through this channel, which will initially be tested with our corporate and SME customers. In addition, we aim to continue strengthening our debit card initiative, which can be used at all of our ATMs as well as other ATMs worldwide through our participation in the Visa and Plus ATM networks.

Contact Center

Our contact center allows our customers to check balances, transfer funds between their accounts in Banorte and other banks, pay credit card bills and receive account statements. We differentiate affluent and personal customers, to provide the correct assistance and a customized selling strategy for each group.

Currently the system receives nearly 7.9 million calls per month. Approximately 82% of calls are handled through interactive voice recording systems and 18% by telephone banking customer service representatives. In March 31, 2019, our contact center responded to 1.5 million incoming calls and 0.22 million outgoing calls, maintaining favorable levels of efficiency and customer care.

SME Centers

Our specialized SME centers are strategically located in close proximity to our key, as well as potential, customers. We have 12 service centers and 1,149 offices in Mexico, covering all geographic regions in the country. Each SME service center offers our “SME Integral Solutions,” a bundle of products and services aimed at addressing all of our SME customers’ needs under a single contract.

Our SME Integral Solution include:

- Checking Solutions: investment and debit checking accounts.
- Financial Solutions: SME loans and business credit cards.
- Technology Solutions: electronic banking, POS and payroll services.
- Business Insurance Solutions: car, home and employees insurances.

Additionally, we have developed a 21-day credit approval process for new customers, and an expedite 12-day credit approval process for our best customers.

POS Terminals

As of March 31, 2019, our network decreased to 160,701 POS terminals mainly due to a purge of inactive terminals. During the last twelve months, the amount transacted increased to Ps.82,265 million, which represented a 8.9% increase compared to Ps.75,559 million in 2018. Banorte's POS network is the third largest in Mexico. Total transactions increased to 123.4 billion during the first quarter of 2019, representing an increase compared to 88.1 billion in 2018, mainly as a result of our strategy to change our target customer to a higher level customer profile resulting in greater number of transactions and for greater amounts.

Online Banking

Our online banking services allow customers to utilize the Internet to access their credit card and other account balances by means of a 24-hour customer service website with a constant update. Customers are enabled to carry out various operations and transactions, such as checking their accounts, transferring funds domestically and internationally, paying taxes, credit cards and other bills and investing in funds and certificates of deposit. This service is offered to our customers at no additional cost. As of March 31, 2019, more than 1.92 million customers were registered for this service.

As of March 31, 2019, 132 million transactions were carried out through "Banorte by Internet" (*Banorte por Internet*). As of March 31, 2019, over 1.9 of our customers were signed up for paperless banking services and their monthly bank statements were sent to them through e-mail.

"Banorte in your Business" (*Banorte en su Empresa*) is our corporate online banking service focusing on companies and government entities. Through this service, our corporate customers can access many of the banking services offered at one of our branches, such as transfers of funds, payroll services and payments to suppliers. As of March 31, 2019, more than 130,906 customers used this service.

In addition BEP "Banking Electronic Pyme" (*Banca Electronica Pyme*) focusing on PFAEs (individual person with business) and Pymes (medium-size companies). As of March 31, 2019 more than 80,799 customers use this service with 28 million transactions annually.

"Banorte Connection" (*Conexión Banorte*) is host to host direct connection with the enterprise resource planning ("ERP") of our customers. We launched this service in June 2015, with 127 clients, and as of March 31, 2019, 186 clients were using this service.

Mobile Banking

Banking service via mobile phone offers a global, efficient, secure and sustainable solution to a wide segment of our customers. Our platform is compatible with almost any mobile phone, which increases customer's reliance on our services and makes branch visits unnecessary for many transactions. During the three-month period ended March 31, 2019, approximately 1.7 million customers used our mobile banking service, a 47% increase compared to the same period in 2018, with a total of 116 million mobile banking transactions, a 91% increase compared to the same period in 2018.

Banorte Movil through the development of new functionalities, the use of technological development and the transformation of its internal processes has become more than an app, it is a dynamic contact channel between the client and the institution, representing innovation in the customer experience, for example, with its new activation process for mobile banking, it is enough for a client to download the app from the respective store to activate it on their mobile phone, which has contributed to the depressurization of branches, which means that customers no longer lose time to go to a branch to make lines to activate their digital banking, another example is the investment functionality, which allows them to directly manage the different kinds of investment instruments of the bank from the palm of their hands, the need for an integration of different financial services within the channels that customers use every day also has made us move forward to venture into a feature called Banorte Go which allows the interaction of Banorte Móvil through other digital platforms such as social networks like WhatsApp, Facebook, Twitter, etc.

Also through the contact us feature, makes our Contact Center available to the client so that the bank is the one who contacts them and do not have to wait in an online call, finally being a financial institution and knowing that the most important searched value is security Banorte Movil has implemented the use of biometrics as a reliable authentication method. Placing the client as the center of our operations has meant that the mobile channel has been designed to create a unique experience for the client, which allows having all the banks's products and services at their hands, with total security that is required for the correct use of the channel.

Third-party Correspondent Banking

Through third-party correspondents we support the penetration of banking services by offering a service to thousands of Mexicans that cannot access financial services, and we believe we have positioned ourselves as an important player in this segment. As of March 31, 2019, we have more than 28,000 correspondent banking points. We continue to develop strategic points to maintain closeness with every customer and to provide easy access to financial services.

As of March 31, 2019, we had established 28,470 points of contact (18,675 located at OXXO stores, 1,930 located at 7-Eleven stores, 1,788 located at TELECOMM-Telégrafos facilities, 1,188 at Extra convenience stores chain, 2,039 at Farmacias Guadalajara, 1,635 at Farmacias del Ahorro, 697 at Soriana stores, 295 at Chedraui stores, 107 at Grupo DSW, 68 at La Comer stores and 48 at Gasmart gas stations), representing a 8% increase compared to the 26,418 points of contact as of March 31, 2018, which also represented a 16% growth compared to the 24,628 points of contact as of March 31, 2017. During the first three months of 2019, 12.8 million operations were carried out through these points of contact, representing a 18% increase compared to the 10.8 million operations carried out during the same period in 2018.

The GFInter Merger

On October 25, 2017, GFNorte signed a binding merger agreement by which GFInter merged into GFNorte. On December 5, 2017, the shareholders of GFNorte approved the merger of GFNorte, acting as merging entity, with GFInter, acting as merged entity. GFInter's shareholders received a combination of a cash payment of Ps.13,700 million and 109,727,031 shares of GFNorte, representing approximately 4.0% of the then current shares outstanding of GFNorte.

On June 28, 2018, the Mexican Antitrust Commission granted its unconditional approval to carry out the merger. Similarly, on July 10, 2018, GFNorte and GFInter received the necessary authorizations from the SHCP, which considered the opinion of the Mexican Central Bank, the CNBV and the CNSF, to carry out the merger of: (i) GFInter, as the merged company, with GFNorte, as the merging company; (ii) Banco Interacciones, as the merged company, with the Bank, as the merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as the merged company, with Casa de Bolsa Banorte Ixe, S.A. de C.V., as the merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as the merged company, with Seguros Banorte, S.A. de C.V., as the merging company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as the merged company, with Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, as the merging company.

On July 13, 2018, the GFInter Merger became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank.

Banco Interacciones specialized in the financing of basic infrastructure projects through the making of loans to states, municipalities and companies related to the public sector and in the provision of deposit, financing and financial advisory services to all Mexican, federal, state and municipal, government entities, as well as state productive companies. We believe that Banco Interacciones' business and operations complement ours, in particular its government lending business, and we expect that after the full integration of our operations this will contribute to increase our market presence in Mexico and to further diversify our loan portfolio with a higher commission generating power.

Since the Interacciones Merger took place, we have made significant progress in the integration, particularly related to three key aspects: infrastructure business model, IT migration and operating expenses and cost of funding reduction. As a result of the Interacciones Merger, we consolidated our position as the second largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

Anti-Fraud Measures

Our branches have sophisticated tools and procedures to minimize fraud in connection with credit and debit cards, checks, branch transactions and internet banking. We use a central system which remains in improvement. Anti-fraud programs for credit and debit cards examine transactions occurring at the respective POS or ATM, while anti-fraud programs for checks, branch transactions and internet banking are based on an examination of certain parameters and customer profiles. In each case, alerts as to possible fraud are immediately transmitted and evaluated by a team of our specialists. Any confirmed fraud in connection with credit and debit cards is reported to Visa or MasterCard, as applicable, and is subject to our internal procedures to block cards or accounts and reissue cards. Our anti-fraud department operates 24 hours a day, seven days a week, and is linked with other internal departments, such as investigations, audit, legal, security information and human resources, which are available to provide support for anti-fraud activities. In 2019, we expect to invest approximately U.S.\$25 million in our cybersecurity program.

Strategic Alliances

IBM

On March 11, 2013, we entered into a 10-year strategic agreement with IBM to create a new customer-centric banking model, improve our operating efficiency and increase our profitability levels. To reach these objectives, we have developed our business intelligence through multichannel architecture and campaigns based on the analytics of each of our client segments and the use of new generation action tools. Additionally, we designed a new comprehensive risk model to assess our clients' risks through an automated process for account opening. This automated process allows us to enroll clients either at our branches or through seamless digital interactions. This digital platform enhances our ability to cross-sell multiproduct contracts to our clients. To protect our clients' personal data and transactions, we released a new secure online banking website and a new mobile application in 2016. We are currently working to improve our customers' experience by concentrating on multichannel sales, credit simulators, market and operations transformations and automating core processes to increase efficiencies. This agreement seeks to create a sustainable platform to achieve world-class efficiencies as well as high levels of

customer service and segmentation, retention and contact with clients, through the existing channels and others to be developed. As a result of these efforts, we seek to become the bank with the best customer service and experience in Mexico and Latin America, leading the sector and setting an example of innovation through smarter use of advanced technologies.

Phoenix Software

In August 2015, we selected Phoenix, a Diebold company, as the new software provider for our entire ATM network. As a long-standing customer of Diebold's hardware and services, we added Phoenix's VISTA™ and COMMANDER™ software platforms as part of our strategy to expand our omni-channel capabilities and integrate key back-end systems with our growing ATM network. As banking consumers continue to utilize the increasing number of touch points available to conduct their banking transactions, we believe that a comprehensive omni-channel solution is crucial to provide optimal service. We consider that the software suite provides support for both the multi-vendor ATM fleet and in-branch solutions, while allowing us to be more self-sufficient at developing the tools that improve our efficiency and functionality.

Competition

We face strong competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and brokerage firms, as well as from non-Mexican banks and international financial institutions. Given our focus on commercial and retail banking, we compete for both commercial and retail customers with large Mexican banks, including subsidiaries of foreign banks, which, like Banorte, are part of financial groups. We compete with the subsidiaries of foreign banks (principally those based in the United States and Spain). Our main competitors in Mexico are Scotiabank Inverlat, BBVA Bancomer, Banamex, Santander, HSBC and Inbursa. In some areas of Mexico, we also compete with regional banks, such as Banregio and Banco del Bajío.

Competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Mexican banking authorities have recently granted a number of banking licenses for the establishment and operation of several new banking institutions, including:

- ABC Capital, S.A., Institución de Banca Múltiple;
- Banco Base, S.A., Institución de Banca Múltiple;
- Banco Finterra, S.A., Institución de Banca Múltiple;
- Banco Forjadores, S.A., Institución de Banca Múltiple;
- Banco Progreso Chihuahua, S.A., Institución de Banca Múltiple;
- Banco Sabadell, S.A., Institución de Banca Múltiple;
- Banco Shinhan de México, S.A., Institución de Banca Múltiple;
- Bancrea, S.A., Institución de Banca Múltiple;
- Bankaool, S.A., Institución de Banca Múltiple;
- Consubanco, S.A., Institución de Banca Múltiple; and
- Fundación Donde Banco, S.A., Institución de Banca Múltiple.

The CNBV continues granting banking licenses to new participants.

The table below sets forth our rank in, and market share of, the Mexican banking industry in the following categories as of March 31, 2019 and as of December 31, 2018:

	March 31, 2019		December 31, 2018	
	Rank	Market Share	Rank	Market Share
Total Assets	4	12.38%	4	12.46%
Commercial loans ⁽¹⁾	2	14.31%	2	14.93%
Consumer loans ^{(1) (2)}	3	11.16%	3	11.16%
Mortgage loans ⁽¹⁾	2	19.07%	2	19.19%
Total Deposits ⁽³⁾	4	13.59%	3	14.09%
Demand deposits.....	4	11.85%	4	12.30%
Time deposits.....	1	18.48%	1	19.36%
Number of branches.....	6	8.95%	5	8.99%

Source: CNBV.

(1) Commercial, consumer and mortgage loans include only performing loans.

(2) Include credit cards.

(3) Deposits do not include funding through money market, interbank loans or any other sources of wholesale funding.

Mexican law allows for 100% foreign ownership of the equity of Mexican financial groups and commercial banks and any individual or corporation is permitted to acquire control, through one or more transactions, of Mexican financial groups and commercial banks; *provided, however*, that the authorization of the SHCP or the CNBV, for financial services holding companies or banks, respectively, is obtained if the acquired interest exceeds 5% of the total capital stock of such institution.

Commercial banks in Mexico also compete in the retail market Sofoles and Sofomes, both of which focus primarily on offering consumer and mortgage loans to middle- and low-income individuals and limited purpose banks (known as *bancos de nicho*). Until recently, the commercial credit market for middle- and low-income individual customers has been serviced almost exclusively by Sofoles and Sofomes. Currently, Sofoles and Sofomes are licensed to operate in Mexico. Sofoles and Sofomes may engage in certain specific lending activities and may, in certain circumstances, be supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in many banking operations, including foreign trade financing, receiving deposits, offering checking accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously dominated by Sofoles and Sofomes.

Commercial banks also face increasing competition from other financial institutions that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans. To the extent permitted by the Mexican Banking Law, we maintain a competitive position through our investment banking activities.

We acquired three U.S. based banking entities (INB in 2006, UniTeller in 2006 and Motran in 2007). We sold INB in March 2017, however we face strong competition in the United States from U.S.-based financial groups, commercial banks and other financial institutions as a result of these acquisitions. In particular, we expect to face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by UniTeller.

Employees and Labor Relations

As of March 31, 2019, we had 22,782 employees. Approximately 27.5% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees. During each of the years ended December 31, 2018, 2017 and 2016 we had 23,172, 21,875 and 20,960 employees, respectively. In general, we consider labor relations with our employees to be good. Since our privatization in 1992, we have never experienced a work stoppage or strike.

Under Mexican labor law, we are liable for severance payments to employees terminated without cause and are

obliged to pay seniority premiums to employees who have been employed for at least 15 years upon their voluntary departure or upon their dismissal. In addition, we voluntarily provide pension benefits to qualified retired employees and disability and life insurance coverage on behalf of qualified employees. According to Mexican labor law, employees have the right to participate in business profits; in order to accomplish this legal requirement one month of salary is paid to all our employees for profit-sharing, except to our Chief Executive Officer. Furthermore, we have instituted certain other employee benefits and incentive programs to upgrade our workforce.

Properties

As of March 31, 2019, the book value of our real property was Ps.4,649 million. Our principal executive offices are located in Mexico City and Monterrey, Mexico. We also have offices located throughout Mexico on 134 properties, comprising an aggregate of 321,466 square meters, of which we own 51 properties and lease 83 properties.

Our aggregate branch space is 456,852 square meters. As of March 31, 2019, we owned 196 of the properties on which our branches were located and leased 953 of the properties.

Litigation and Regulatory Proceedings

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial position or results of operations. See Note 35 to our Audited Consolidated Financial Statements and Note 23 to our Unaudited Condensed Consolidated Interim Financial Statements.

OUR CAYMAN ISLANDS BRANCH

General

The Cayman Islands branch of the Bank (“Banorte Cayman”) became a part of our branch network as a result of our merger with Bancrecer. Banorte Cayman was initially registered under Part IX of the Companies Law (2018 Revision) of the Cayman Islands on February 22, 1991 as Banco de Crédito y Servicio, S.N.C. By Special Resolution dated February 9, 1993, the name of that entity was changed to Bancrecer. On March 31, 2002, Banco Mercantil del Norte, S.A., which was registered under Part IX of the Companies Law (2018 Revision) on November 23, 1989, was merged into Bancrecer, the surviving entity, subsequent to which the surviving entity was renamed “Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.” The registered office of Banorte Cayman is at CIBC Bank and Trust Company (Cayman) Limited, CIBC Financial Centre, 11 Dr. Roy’s Drive, P.O. Box 694, Grand Cayman KY1-1107, Cayman Islands. Banorte Cayman is the holder of a category “B” Banking License issued by the Cayman Islands Monetary Authority (“CIMA”), under the Banks and Trust Companies Law (2018 Revision) (the “CI Banking Law”) of the Cayman Islands. Holders of a category “B” banking license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do business locally with the public or residents in the Cayman Islands. This license does not allow Banorte Cayman to take deposits from residents of the Cayman Islands, or invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions such as exempted or ordinary non-resident companies and other licensees.

Activities

The main activities of Banorte Cayman are:

- to obtain funding, principally for the purposes of lending to Mexican clients;
- to act as a deposit-taker, offering a range of demand and time deposits facilities to corporate clients and individuals;
- to provide treasury, international banking and corporate finance services to clients; and
- to a lesser extent, to buy and sell securities in the international market and securities issued for funding purposes (such as Eurobonds and certificates of deposit).

Regulation of Banorte Cayman

Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole. Indeed, Banorte Cayman is subject to the regulations issued by the CNBV and the Mexican Central Bank, including liquidity requirements. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.”

CIMA reviews all applications and is solely responsible for the licensing of banks and trust companies under the CI Banking Law.

Under the CI Banking Law, there are two basic categories of bank licenses:

- a category “A” license, which permits unrestricted domestic and offshore business; and
- a category “B” license, which permits only off-shore business. A category “B” license may be restricted to dealings with certain clients.

Banorte Cayman has been granted an unrestricted category “B” License.

Branches of foreign banks, such as Banorte Cayman, are not subject to separate capital adequacy requirements, but must maintain the minimum capital adequacy requirements required by their home jurisdictions.

CIMA's enforcement powers under the CI Banking Law include the imposition of conditions (or further conditions) on a bank's license; revocation of a license; appointing an adviser to advise a bank on the proper conduct of its affairs; appointing a controller to assume control of a bank's affairs; and petitioning for a bank to be wound up by the court. These powers are exercisable if: (i) a bank is or appears likely to become unable to pay its obligations as they fall due; (ii) a bank is carrying on business that is, or is likely to be detrimental to the public interest or the interests of depositors or other creditors; (iii) a bank contravenes the regulatory laws or regulations of the Cayman Islands; (iv) a bank fails to comply with a condition of its license, or any rule imposed by CIMA; (v) the direction and management of a bank's business has not been conducted in a fit and proper manner; (vi) a director, manager or officer of the bank's business is not a fit and proper person to hold his/her respective position; or (vii) a person acquiring control or ownership of the bank in accordance with the law is not a fit and proper person to have such control or ownership.

RISK MANAGEMENT

General

Our risk exposure comprises credit, liquidity, operational (including legal and technological), market and reputational risks.

- Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform an obligation to us. Credit risk can affect the performance of both our loan portfolio and investment portfolio.
- Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal market conditions; and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset.
- Operational risk is the potential loss caused by failures or deficiencies in information systems and internal controls, or errors while processing transactions.
- Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates or equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations.
- Reputational risk is an unquantifiable risk included in our risk management's manual, defined as the potential loss in the development of the institutional brand caused by a deterioration in stakeholders' perception, internal and external, on our solvency and viability.

We consider risk management an essential activity that requires continuous improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV issued a set of requirements regarding risk management practices for all banking institutions in Mexico. Pursuant to the CNBV regulations, the management process must include sound measurement and monitoring methods. We have implemented policies and procedures, approved by our Board of Directors, that our management believes comply with the CNBV requirements.

Risk Management Organizational Structure

To help ensure adequate risk management, in 1997 our Board of Directors created the Risk Policy Committee in order to manage the risks we are exposed to and to ensure that the performance of our operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the Risk Policy Committee provides oversight on the global risk exposure limits approved by the Board of Directors and also approves the specific risk limits for exposure to different types of risk.

Our Risk Policy Committee designs the strategies to be followed in order to accomplish risk-return objectives and to this end it:

- decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits;
- evaluates Banorte's overall risk-return ratio;
- analyzes sensitivities and stress testing scenarios;
- defines and monitors the general strategy for asset and liability management;

- defines our general pricing processes and monitors their effectiveness; and
- analyzes the impact of operational risk events.

Our Board of Directors reviews and approves the risk management strategies and limits set by our Risk Policy Committee. Our Risk Policy Committee includes three members of our Board of Directors (one of whom serves as Chairman), our Chief Executive Officer, Corporate General Director, Risk Management General Director, Business Area Directors (without voting power) and our Audit General Director (without voting power). Our Risk Policy Committee meets on a monthly basis or more frequently, as needed.

Our Risk Policy Committee receives information on a monthly basis with respect to credit risk, market risk, operational risk, reputational risk and liquidity risk. The policies and procedures of our internal operating committees are subject to approval by our Risk Policy Committee. These internal operating committees also report to our chief executive officer and are comprised of:

- Credit Committees and Workout Committees, which review credit risk;
- the Treasury Committee, which reviews market risk;
- the Assets and Liabilities Committee, or the ALCO Committee, which reviews liquidity risk; and
- each of the Technology and Operations Committee, the Communications and Control Committee, the Fiduciary Business Committee, the Security Committee and the Integrity Committee, to review operational risks.

Credit Risk

Credit Policies

Credit risk management is an essential activity for banks. Banorte's credit policies and procedures are designed to centralize credit decisions to increase uniform application of credit criteria and minimize the risks associated with individual decision-making. Banorte's credit policies include quantitative criteria to ensure minimum credit quality standards.

Individual Loan Credit Risk Evaluation

Individual Loan Risk for Consumer Lending

We perform credit analyses of our individual consumer loans through a parametric credit scoring system. This scoring system considers factors such as the borrower's income, expenses, repayment capacity, demographic data, personal assets and credit history. The implemented scoring systems were developed using internal statistical data for each product.

This scoring system is available in each of our branches and is used to evaluate a wide array of consumer credit applications, including applications for residential mortgages, automobile loans, personal loans, credit cards and SME loans. Within each type of credit application, there can be several specially designed risk evaluation models. In addition, the scoring system has online access to credit bureau information and Banorte's internal records.

Loan applications are rejected if, based on the risk level assigned by the scoring system, the applicant is deemed to pose an unacceptable credit risk.

In addition to the scoring system used in origination, we use certain risk evaluation models and behavioral risk models in order to estimate increases in credit limits and assess the probability of non-fulfillment with respect to credit cards.

Individual Loan Risk for Commercial Lending

The evaluation process of a potential commercial borrower focuses primarily on the credit history of the owners and management, quality of production processes and facilities, historical and projected financial statements and collateral provided in connection with the loan. With respect to loans intended to finance a particular project, our evaluation relies primarily on the existence of technological alliances, the analysis of market conditions and the projected financial position of the borrower.

Account officers are responsible for reviewing commercial loan applications. Each commercial loan application is classified according to its industry sector and is then reviewed by a credit officer. In the case of loans exceeding Ps.80 million for Government and Ps.40 million for Retail, Corporate & Wholesale, the account officer must present a proposal to either:

- one of our Territorial Credit Committees,
- our National Credit Committee (“NCC”),
- our Central Credit Committee, or
- our Government Central Credit Committee,

depending on the loan amount approval limits as indicated below:

Credit Committee	Authority (Millions of Pesos)	
	Government	Retail, Corporate & Wholesale
Board of Directors	-	Related Loans Art. 73 L.I.C.
Government Central Credit Committee	80	-
Central Credit Committee	-	Greater than the NCC Authority
National Credit Committee (NCC)	-	685
Territorial Credit Committees	-	185

Loans for less than Ps.80 million for Government and Ps.40 million for Retail, Corporate & Wholesale do not need committee approval, but must be approved by two of Banorte’s officers, one of whom must be a senior credit officer. Loans above 10% of our net capital and loans to a related party must be approved by our Chief Executive Officer and must be presented to our Risk Policy Committee and our Board of Directors. In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see “Supervision and Regulation—Lending Limits.”

Individual Loan Credit Risk Measurement

Individual risk for wholesale loans is identified, measured and controlled through the use of target markets, criteria for risk acceptance, early alerts and Banorte’s internal risk rating system (“CIR”).

The target markets, criteria for risk acceptance and early alerts are tools that, together with the internal risk rating, are part of our loan strategy and support the estimated level of credit risk.

The target markets are categories of economic activity, separated by region, in which we are interested in granting loans based on economic research and loan behavior analysis as well as by expert opinions.

The risk acceptance criteria refer to parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risks observed in the risk acceptance criteria are: financial, operational, market, enterprise's life cycle, legal and regulatory Risks, in addition to credit experience and management quality.

Early alerts are a set of criteria based on borrower information and indicators, as well as their environment, established as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling us to take prompt preventive actions to mitigate credit risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of 4,000,000 UDIs in Mexican pesos equivalent on the qualification date or borrowers with sales or incomes equal or greater than the equivalent of 4,000,000 UDIs in Mexican pesos equivalent on their last annual financial statements.

Internal Advanced Model for Credit Card

On November 15, 2017, GFNorte received the approval from the banking regulator (CNBV) to use Internal Rating Based Models ("IM") to establish the credit card's reserve and the credit risk's regulatory capital requirements with an advanced approach (Document 111-3/706/2017).

The IMs improve credit risk management by estimating risk parameters from the bank's own experience, and have been applied since February 2018. The aforementioned parameters are:

- Probability of Default.
- Severity of Loss.
- Default Exposure.

Basic Internal Model for Corporations

On November 30, 2018, GFNorte received approval from the banking regulator (CNBV) to use Internal Model (IM) for Corporations for reserves constitution and regulatory capital requirements by credit risk with a Basic Approach (Document 111-3/1472/2018) in Banco Mercantil del Norte, and on March 1st, 2019 for Arrendadora y Factor Banorte (Documents 111-1/160/2019) and Sólida Administradora de Portafolios (Documents 111-1/161/2019). Exposures subject to this rating are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales above 14 million UDIs.

The Internal Model (IM) enhances the overall credit risk management practice by estimating risk parameters through the institution's own experience with such customers. These models have been applied since February 2019 (with January figures) at Banco Mercantil del Norte, and starting in March 2019 (with February figures) at Arrendadora y Factor Banorte, and Sólida Administradora de Portafolios. The parameter authorized under the Basic Internal Model for Corporations is probability of default.

Monitoring

We operate a central compliance operations center in Monterrey, Mexico, that monitors compliance with the terms and conditions of loans. This central compliance operations center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures.

The monitoring process also includes verification of the use of proceeds and contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among others.

Collections

The collection and recovery of non-performing loans is performed through a specialized collection unit (referred to as the Recovery Bank) with the established aim of maximizing the recovery of non-performing and problem loans, as well as foreclosures and execution on collateral.

We have been improving our established program to transfer non-performing and problem loans to our collection unit at earlier stages of loan deterioration in order to optimize their recovery and maximize our collection resources, while also allowing business areas to concentrate their efforts on more preventive measures and enhanced monitoring of performing customers in order to avoid credit problems.

Credit Risk of Financial Instruments

Credit risk management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing credit risk of the different types of originators/issuers and counterparties. Credit risk is allocated through a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator/issuer or counterparty, rating and type of operation.

The appropriate credit committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the relevant committee who, if considered appropriate, issues its authorization. Nevertheless, the Unit for the Comprehensive Risk Management (“UAIR” by its acronym in Spanish) is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the Risk Policy Committee (or CPR by its acronym in Spanish).

In the case of derivative contracts, and in line with best practices, we use a methodology for calculating potential exposure of credit lines, which are analyzed and approved within the appropriate credit committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transactions is performed both for clients and financial counterparties.

The National Credit Committee has the authority to approve credit lines for derivatives with clients (except with respect to certain facilities for which the UAIR has the authority). For these transactions, the use of derivatives with margin calls is privileged in order to mitigate the risk of potential exposure to these transactions.

A potential exposure adjustment is considered to determine which lines of credit are adversely correlated (Wrong Way Risk, “WWR”).

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two parameters:

- (i) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential compared to the instrument of an equivalent government bond, the lower the probability of default and vice versa.
- (ii) The loss given default that could be experienced with respect to the total of the operation in the event of default, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate credit risk and to reduce the loss given default in the event of default, the counterparties have signed ISDA contracts and netting agreements, in which credit lines and the use of collateral to mitigate loss in the event of default are implemented.

Portfolio Risk

We developed a portfolio credit risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring risk, has been adapted to function within the context of the Mexican Financial System.

This credit risk methodology provides current value of the entire loan portfolio at Banorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and take action to improve diversification, which will maximize profitability with the lowest risk.

The methodology considers the balance of each of the loans as the exposure of the loan portfolio, while for the financial instruments portfolio the exposure is calculated taking into account the present value of instruments and their future cash flows. This exposure is sensitive to changes in the market, thereby facilitating calculations under different economic scenarios.

The methodology also takes into consideration the probability of default, recovery rate associated to each client and the modeling of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his or her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The modeling of the debtor, based on the Merton model, associates the debtor's future behavior to credit and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the average of the credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for our institution is 99.95% and the expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to our strategy. The individual risk identification tools and the portfolio credit risk methodology are periodically reviewed and updated in order to include new techniques that may support or strengthen them.

Liquidity Risk

Our liquidity risk management objectives are to:

- Comply with the risk appetite, as defined by the Board of Directors.
- Properly monitor our Balance and Liquidity Risk.
- Inform the senior management in a timely manner of the Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Monitor the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of liquid assets eligible to guarantee the institution's liquidity even under stress conditions.

Our liquidity risk policies include:

- Establishment of global and specific limits of our liquidity and interest rate risk management.
- Measurement and monitoring of liquidity risk.
- Information and disclosure of liquidity risk to risk-taking areas, CPR, the Board of Directors, Financial Authorities and to public investors.

Balance and liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the LCR, re-price gaps and liquidity, as well as stress testing. The latter is based on a framework of policies and manuals, including a funding contingency plan and a contingency plan to preserve solvency and liquidity. Similarly, is enhanced with monitoring limits and risk appetite metrics of Balance and Liquidity Risk. The disclosure of metrics and indicators and their compliance with the established limits and the risk appetite are reviewed through monthly reports to the CPR, weekly reports to the capital and liquidity management group and quarterly reports to the Board of Directors.

The LCR measures liquidity risk based on the relationship between liquid assets and net cash outflows in the next 30 days, under a regulatory stress scenario. The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding. During the three-month period ended March 31, 2019 and the year ended December 31, 2018, the average LCR was 116.58% and 112.22%, respectively. The aforementioned levels are above the risk appetite and the regulatory minimum standards. These results show that we can meet all of our short-term obligations in a crisis scenario.

Interest Rate Risk

Interest rate risk entails estimating its impact on the financial margin as well as on equity's economic value. Financial margin is the difference between interest income and costs associated to interest bearing liabilities (interest expense). Depending on the balance's structure, variations in interest rates may have either a positive or negative impact in the rate scenarios. On the other side, economic value measures variations on equity flows due to changes on interest rate structure.

Given that both financial margin and equity's economic value follows the flow structure of assets and liabilities in the balance sheet, the model used to estimate those metrics is a re-pricing model by brackets in which all assets and liabilities are distributed in different bands depending on their re-pricing characteristics and/or tenure. Once categorized by re-pricing structure, the impact that each of these bands have on these metrics can be estimated.

Financial Margin Sensitivity

Financial Margin sensitivity is a metric that takes into consideration a twelve-month period. Only the bands with duration lower than one year are impacted by interest rate simulated fluctuations, and consider a parallel and symmetric shift for both active and passive interest rates. Relevant considerations behind margin sensitivity calculations are:

- All financial assets and liabilities in the balance sheet are considered. The book for trading is monitored separately.
- This metrics takes into consideration all balance sheet behavior models, such as mortgage prepayments and deposit survival.

The balance sheet is regarded as static and constant through time. Neither organic growth nor structural or mix changes are considered.

Operational Risk

Operational risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes technological and legal risk).

The objectives of operational risk management are to:

- Enable and support the organization to reach its institutional objectives through prevention and management of operational risks.
- Ensure that the existing operational risks and the required controls are properly identified, assessed and in line with the risk strategy established by the organization.
- Ensure that operational risks are properly quantified in order to adequately allocate capital taking into account the operational risk.

As part of our institutional regulations, we have documented policies, objectives, guidelines, methodologies and areas that have been designated responsible for managing operating risk.

The operational risk management directors maintain close communication and coordination with the regulatory comptrollership in order to facilitate effective internal control in which proper procedures and controls are established for mitigating operating risk among the processes, and provide monitoring through the internal audit department.

The regulatory comptrollership, as part of the internal control system, carries out the following activities to mitigate risk:

- internal control validations;
- institutional regulations management and control;
- monitoring of operating processes' internal control by means of control indicator reports, which are reported by the process comptrollers in the various areas;
- money laundering prevention process management;
- control and monitoring of the regulatory provisions; and
- analysis and assessment of the operating processes and projects with the participation of the responsible directors of each process in order to ensure adequate internal control.

Market Risk

Our objectives regarding market risk are to:

- Adequately monitor market risk.
- Maintain the senior management adequately informed.
- Quantify our exposure to market risk through the use of various methodologies.
- Define the maximum risk levels we are willing to maintain.

- Measure our vulnerability to extreme market conditions and consider such results when making decisions.

Our market risk policies include the:

- Operation of financial instruments exclusively through authorized markets and approved products.
- Establishment of global and specific limits of market risk.
- Measurement and monitoring of market risk through the Potential Loss commonly known as “expected shortfall” Back Testing, Sensibility Analysis and Stress Testing, among others. Information and disclosure of market risk to risk-taking areas, CPR, the Board of Directors, Financial Authorities and to the investment population.

Market Risk Methodology

Market risk management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as Potential Loss commonly known as “expected shortfall” Back Testing, Sensibility Analysis and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets. Based on Basel requirements referred in the document “Minimum Capital Requirements for Market Risk”, Banorte implemented during January the estimation of expected shortfall, thus substituting the estimation of VaR. In addition, it was implemented the valuation of derivatives by OIS curves and curves adjusted by collateral following international standards. Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set. Key risk ratios are disclosed in monthly reports to the risk policy committee and through a daily report to our top executives, related to the market risk risk-taking.

Market Risk Exposure

Exposure of the Institution’s financial portfolios to Market Risk is quantified using the methodology denominated expected shortfall which is the average of losses once VaR is surpassed.

The expected shortfall model considers a one day horizon base, and considers a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, foreign exchange and derivatives) classified for accounting purposes as trading assets, both on and off the balance sheet. The average expected shortfall of the Bank’s portfolio for 1Q19 was Ps 49.6 million (Ps 0.9 million lower than the average expected shortfall from last quarter). The following table sets forth the average expected shortfall by Risk Factor as of March 31, 2019.

	March 31, 2019	
	Average	1Q2019
	(Ps. millions)	
Interest rate	46.5	72.3
Foreign Exchange	9.1	9.0
Equity	7.9	7.4
Diversification effect	(13.9)	(14.5)
Total	49.6	74.2

Complementary to expected shortfall and for strengthening risk analysis, Banorte tests under extreme conditions, also known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution’s positions of extreme movements in risk factors.

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessary make the required adjustments to the parameter.

MANAGEMENT

Board of Directors

Management of our business is vested in our Board of Directors, which is currently composed of 14 regular members, each elected for a one-year term at our annual ordinary general meeting of shareholders, and is responsible for the management of our business.

The following table sets forth our current directors and their alternates:

<u>Directors</u>	<u>Alternate Directors</u>
Carlos Hank González (Chairman)	Graciela González Moreno
Juan Antonio González Moreno	Juan Antonio González Marcos
David Juan Villarreal Montemayor	Alberto Halabe Hamui (Independent)
José Marcos Ramírez Miguel	Carlos de la Isla Corry
Everardo Elizondo Almaguer (Independent)	Diego Martínez Rueda-Chapital (Independent)
Carmen Patricia Armendáriz Guerra (Independent)	Don Gerardo Salazar Viezca (Independent)
Héctor Federico Reyes Retana y Dahl (Independent)	Clemente Ismael Reyes Retana Valdés (Independent)
Eduardo Livas Cantú (Independent)	Roberto Kelleher Vales (Independent)
Alfredo Elías Ayub (Independent)	Isaac Becker Kabacnik (Independent)
Adrián Sada Cueva (Independent)	José María Garza Treviño (Independent)
David Peñaloza Alanís (Independent)	Carlos Césarman Kolteniuk (Independent)
José Antonio Chedraui Eguía (Independent)	Humberto Tafolla Núñez (Independent)
Alfonso de Angoitia Noriega (Independent)	Guadalupe Phillips Margain (Independent)
Thomas Stanley Heather Rodríguez (Independent)	Ricardo Maldonado Yáñez (Independent)

Members of our Board of Directors receive cash fees per meeting equal to the market value of two Ps.50 gold coins commonly referred to as *centenarios*.

Our bylaws provide that the Board of Directors may designate committees. Our principal committees are the following:

Audit Committee

The purpose, composition, authority and responsibilities of our Audit Committee have been established in a charter approved by the Board of Directors in accordance with Mexican law. The Audit Committee's primary purpose is to assist the Board of Directors in defining, verifying and assessing the effectiveness of our internal control system, overseeing the management and conduct of our business, and fulfilling shareholder resolutions. The Audit Committee is responsible for following up on external and internal audit activities and keeping the Board of Directors informed about their performance. Moreover, the Audit Committee oversees the preparation of financial reports in accordance with regulations and accounting principles applicable to financial institutions. The Audit Committee is also responsible for overseeing cybersecurity. The current members of the Audit Committee, all of whom are independent, are Héctor Federico Reyes Retana y Dahl (Chairman), Carmen Patricia Armendáriz Guerra, Thomas S. Heather Rodríguez, Clemente Ismael Reyes Retana Valdés and Gerardo Salazar Viezca.

Risk Policy Committee

Our Risk Policy Committee is comprised of voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Eduardo Livas Cantú (Chairman), Héctor Federico Reyes Retana y Dahl, Everardo Elizondo Almaguer, Thomas S. Heather Rodríguez, Clemente Ismael Reyes Retana Valdés, Gerardo Salazar Viezca, José Marcos Ramírez Miguel and Carlos de la Isla Corry. The Risk Policy Committee can invite guests that shall not have voting privileges, and will include our internal auditor.

Human Resources Committee

Our Human Resources Committee aims to appropriately compensate our staff, protect our integrity, stability, competitiveness and financial soundness and to support our Board of Directors in its functions relating to our compensation system, through the approval of determinations in connection with its human resources and the establishment of a regulatory framework. Our Human Resources Committee is responsible for the implementation, maintenance and evaluation of activities regarding our compensation system. The current members of our Human Resources Committee are: Everardo Elizondo Almaguer (Chairman), Eduardo Livas Cantú, Carlos de la Isla Corry, Javier Beltrán Cantú, Rafael Arana de la Garza and Isaías Velázquez González (non-voting member).

Alternate Directors

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in cases of permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Statutory Auditors

In addition to the Board of Directors, our bylaws provide for a statutory auditor to be designated at a Board of Directors meeting with previous recommendation from the Audit Committee and, if determined at such meeting, an alternate statutory auditor. Under Mexican law, the duties of statutory auditors include, among other things, the examination of the operations, books, records and any other documents of a company, the determination of whether accounting standards and policies have been followed, and the presentation of a report of such examination at the annual ordinary general meeting of shareholders. Our statutory auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited.

Principal Officers of Banorte

The following persons are our principal officers:

Name	Position	Years with Banorte	Age
Carlos Hank González.....	President and Chairman of the Board	4	47
José Marcos Ramírez Miguel.....	Chief Executive Officer	8	56
Rafael Arana de la Garza	Managing Director, Chief Operation Officer and Chief Financial Officer	7	67
Carlos Eduardo Martínez Gonzalez	Managing Director, Retail Banking	20	55
Jose Armando Rodal Espinoza	Managing Director, Wholesale Banking	26	49
Héctor Avila Flores	Managing Director, Legal	4	52
Jose Francisco Martha González.....	Managing Director, Payment Methods, IT & Digital	5	49
Isaías Velazquez González.....	Managing Director, Audit	20	57
Carlos de la Isla Corry.....	Managing Director, Chief Risk Officer	4	56
Sergio Garcia Robles Gil.....	Managing Director, Corporate Officer	24	58
Fernando Solis Soberón	Managing Director, Long Term Savings	12	57
Javier Beltrán Cantú	Managing Director, Administration and Human Resources	22	51
Carlos Rojo Macedo.....	Managing Director, Chairman's Advisor	1	49

Each of our principal officers has extensive experience in the banking industry. Set forth below is biographical information for each of our principal officers.

Carlos Hank González, 47, Mr. Hank González holds a Bachelor's Degree in Business Management with specialization in Finance from Universidad Iberoamericana. Currently he is Chairman of GFNorte's Board of Directors, a position he has held since January 1, 2015. In Gruma, a global leader in corn flour and tortilla production with operations in more than 100 countries, Mr. Hank González has played a key role since December 2012, when he became Vice President of the Board of Directors and joined the Executive Committee to design a healthy and responsible financial strategy that generated value for the company.

José Marcos Ramírez Miguel, 56, Mr. Ramírez Miguel holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Postgraduate Degree in Finance from Instituto Tecnológico Autónomo de México ("ITAM") and an MBA from E.S.A.D.E. in Barcelona. Mr. Ramírez Miguel is the Chief Executive Officer of GFNorte and the Bank since November 2014.

Rafael Arana de la Garza, 67, Managing Director, Chief Operation Officer and Chief Financial Officer. Mr. Arana joined us in September 2011 and has a bachelor's degree in Electrical Mechanical Engineering. He has previously worked as Grupo Financiero HSBC S.A. de C.V.'s Managing Director, Personal Banking, for Latin America and the Caribbean, as well as Associate Managing Director for HSBC México.

Carlos Eduardo Martínez González, 55, Managing Director, Government Banking. Mr. Martínez joined us in 1996 and has a master's degree in Banking. He previously worked at Grupo Financiero Santander Serfin, S.A. de C.V.

José Armando Rodal Espinosa, 49, Managing Director, Wholesale Banking. Mr. Rodal joined us in April 1993 and has a master's degree in Business Administration. He has previously worked as Managing Director of Executive Corporate and Enterprise Banking in Banorte.

Héctor Ávila Flores, 52, Managing Director, Legal. Mr. Ávila holds a Bachelor's Degree in Law from Universidad La Salle, with a specialization in Finance Law from ITAM. He has been Secretary of GFNorte's Board of Directors since April 2011. Currently, is GFNorte's Managing Director, Legal and has more than 13 years of experience in the Mexican financial system.

José Francisco Martha González, 49, Managing Director, Methods of Payment, IT & Digital. Mr. Martha joined us in 2014, he is a Chemical Engineer in Processes of the Universidad Interamericana, and has a master's in Economics Project Management and Control at the ITESM-México. He previously worked as General Director of IT in Scotiabank from 2008 to 2014.

Isaías Velázquez González, 57, Managing Director, Audit. Mr. Velázquez holds a Bachelor's Degree in Public Accounting from Instituto Politécnico Nacional. He has previously worked as Executive Director - Secretary of GFNorte's Audit & Corporate Practices Committee.

Carlos de la Isla Corry, 56, Managing Director, Chief Risk Officer. Mr. de la Isla holds a Bachelor's Degree in Electronic and Digital Systems Engineer from Universidad Nacional Autónoma de México, as well as a Master's Degree in Business Administration (MBA) from the University of Texas in Austin. He has previously worked as Management and Finance Director in Grupo Hermes from 2003 to 2014 and was also a member of the Board of Directors of the companies of Grupo Financiero Interacciones. Also Chairman of the Credit Committee of Banco Interacciones and member of the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees.

Sergio García Robles Gil, 58, Chief Managing Director, Corporate Officer. Mr. García joined us in October 1994 and has a master's degree in Business Administration. He has previously worked at Fina Consultores.

Fernando Solis Soberón, 57, Managing Director, Long Term Savings. Mr. Solis joined us in July 2007 and has a bachelor's degree and master's degree and a Ph.D. in Economics. Other companies for which he has worked include Grupo Nacional Provincial, the CONSAR, and CNSF.

Javier Beltrán Cantú, 51, Managing Director, Administration and Human Resources. Mr. Beltrán joined us in 1996 and has a master's degree in administration from Instituto Tecnológico EGADE – Graduate School in Business Administration and Management, also has a master's degree in Accounting from the University of Texas. He has previously worked as Deputy Managing Director, Administration and Human Resources in Banorte.

Carlos Rojo Macedo, 49, Managing Director, Chairman's Advisor. Mr. Rojo joined us in July 2018 and has a bachelor's degree in Corporate Finance from UCLA. Other companies for which he has worked include Grupo Financiero Interacciones.

Compensation

For the three-month period ended March 31, 2019, the aggregate compensation paid by us to the members of our Board of Directors was Ps.1.8 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the three-month period ended March 31, 2019, was Ps.63 million.

For the year ended December 31, 2018, the aggregate compensation paid by us to the members of our Board of Directors was Ps.7.8 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the year ended December 31, 2018, was Ps.282 million.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to Mexican rules and regulations, no loans may be made to:

- any bank officer or employee, except in connection with certain employee benefits;
- statutory auditors, including alternate statutory auditors;
- external auditors; and
- certain close relatives of any of the persons mentioned in the bullets above.

In addition, the Mexican Banking Law regulates transactions by a bank with affiliates and other “related party transactions” and limits the aggregate amount of these transactions to 35.0% of our Tier 1 Capital. Related party transactions may only be undertaken by Mexican banks if agreed upon on market terms. The CNBV may, upon request, grant exemptions from these provisions. As permitted by Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulate and limit our loans to related parties, including loans to:

- holders of 2% or more of our shares or the shares of GFNorte or of an affiliate of GFNorte;
- principal and alternate members of our Board of Directors, or of the Board of Directors of GFNorte or of an affiliate of GFNorte;
- relatives of a Board of Directors member or of a 2% or more shareholder mentioned in the above categories;
- any person not an officer or employee who, nevertheless, is empowered to bind us contractually; and
- an entity in which we or any of our directors or officers, or any of the above persons holds, directly or indirectly, 10% or more of the outstanding capital stock, and board members, officers and employees of entities mentioned in any such entity.

A three-fourths majority of non-conflicted members of our Board of Directors present at the relevant Board meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the Credit Committee. Loans for amounts of less than 2,000,000 UDIs, or 1% of our Tier 1 Capital, whichever is greater, do not require approval by the Board of Directors. In addition, certain filings must be made with the CNBV with respect to such loans.

As of March 31, 2019, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 totaled Ps.16,599 million, which comprised 2.2% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on March 31, 2019, 97% were graded “A” and 3% were graded “B or lower” under the Loan Classification and Rating Rules.

See Note 24 to our Audited Consolidated Financial Statements for further information regarding our related party transactions with our parent, subsidiaries and other affiliated companies.

PRINCIPAL SHAREHOLDERS

As of March 31, 2019, 98.26% of our capital stock was owned by GFNorte. Accordingly, GFNorte is in a position to elect all of the members of our Board of Directors and otherwise control the management and affairs of Banorte. The table below sets forth the ownership of our capital stock as of March 31, 2019:

Shareholder	Series O Shares Owned	Percentage
Grupo Financiero Banorte, S.A.B. de C.V. ⁽¹⁾	141,691,146,957	98.26%
Other ⁽²⁾	2,506,268,471	1.74%
Total	144,197,415,428	100.00%

- (1) As of April 30, 2019, 9.87% of the shares of Grupo Financiero Banorte S.A.B. de C.V. were held by investment vehicles of the González Family, 2.16% were held by investment vehicles of the Hank family, 1.69% were held by Don David Villarreal Montemayor and his family, 0.81% were held by other related Directors, Officers and Trusts for the Bank's employees and the remaining 85.47% was held by non-affiliated third parties.
- (2) These shares are held by various third parties.

THE MEXICAN FINANCIAL SYSTEM

General

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, limited purpose banks and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, popular financial entities, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited purpose financial institutions. In 1990, the Mexican government adopted the Financial Groups Law aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The main financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities. This is the model currently prevailing in Mexico.

Nationalization and subsequent privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks have been chartered and regulations regarding investment in the banking sector by foreign investors, including foreign sovereigns, have been made more flexible.

On November 26, 2013, the Senate approved the Report of the Chamber of Deputies (*Cámara de Diputados*) on the bill presented by President Enrique Peña Nieto amending, supplementing and repealing various provisions with respect to financial matters and issuing the Financial Groups Law (the "Financial Reform").

Thirty-four legal statutes were amended in order to foster greater competition in the financial and banking system by creating incentives to increase lending, as well as a new mandate for development banks. Also, the Financial Reform strengthens the scheme for the stability of the financial institutions and the powers of financial authorities in regulatory, monitoring and enforcement matters.

Financial Groups

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as ourselves, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, ancillary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofomes, foreign exchange service providers, retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras populares*). As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two financial subsidiaries, provided that the holding of two Sofomes only will not constitute a financial services group.

The Financial Groups Law allows entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- maintain common files, for anti-money laundering purposes, that may be used by all entities part of the financial group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the banking institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

Under the Financial Reform, the Mexican Congress approved changes to the Financial Groups Law. Relevant changes include the following:

- *Shareholding Structure* - It provides for the possibility of the holding company to maintain the shareholding of the members of the group through sub-holding companies, that are partially regulated and not subject to specific capitalization requirements.
- *Capitalization and Corrective Measures* - A holding company shall maintain net capital that shall not be less than its permanent investments in the subsidiaries of the group. It also authorizes the SHCP to determine corrective measures, such as the potential sale of assets, non-distribution of dividends and suspending payments of bonuses to officers and directors, among other measures.
- *Corporate Governance* - The new law provides for a new corporate governance structure, setting forth specific duties of care and fiduciary duties applicable to Board members, even if the financial services holding company is not publicly traded, similar to the duties provided in the Mexican Securities Market Law (*Ley del Mercado de Valores*) for public corporations.

- Other material changes from the previous law include shareholders' agreements, tied sales, liability agreements, the investment structure of the holding company, accounting and consolidated supervision, among others.
- *Investment Structure of the Holding Company* - In addition to its interest in the financial institutions of the group, a holding company may invest in other instruments, such as securities representing the capital stock of other financial institutions that are not group members, service providers and real estate companies, among others.
- *Investments by Foreign Governments*. Foreign governmental entities to acquire controlling interests and indirect interests in financial services holding companies and banks, and in circumstances such as financial distress.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are the Mexican Central Bank, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a banking institution, are subject to the supervision and regulation of the CNBV and CONDUSEF, particularly as related to retail consumer banking. In addition, our parent company (GFNorte) and its other financial subsidiaries are subject to the supervision and regulation of the mentioned CNBV and other corresponding financial authorities, and are in constant interaction with such authorities during their normal course of business.

Mexican Central Bank

The Mexican Central Bank is an autonomous entity that is not subordinated to any other body in the Mexican federal government. Its primary purpose is to issue the Mexican currency, as well as to maintain the acquisition power of such currency, to establish reference interest rates, to approve fees and commissions charged by banking institutions, to regulate derivatives and to ensure that the banking and payments systems perform under safe and sound principles.

Monetary policy decisions are taken by the members of the Governing Board of the Mexican Central Bank. The Governing Board is composed of a Governor and four Deputy Governors, who are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the Mexican government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and the Mexican Central Bank, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions, by providing opinions in each process.

CNBV

The CNBV is a governmental body subordinate to the SHCP, and has independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system.

The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers, including imposing and supervising capitalization requirements and requirements for the creation of loan-loss reserves. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

CONSAR

The CONSAR is a governmental body under the SHCP, and has independent technical and executive powers. The CONSAR was created in 1994 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of Afores, entities that manage independent retirement accounts, and *Siefores*, specialized pension funds. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body under the SHCP, and has independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

The History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994, average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican Peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the Peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed or intervened in the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with the Mexican Central Bank to help banks with dollar liquidity problems;
- increasing the level of required loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Official Gazette, and are currently in effect, with the following purposes:

Update capital requirements according to Basel III. The amendments to the Mexican Banking Law updated the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions. We currently comply with applicable capitalization requirements.

Enhancing the CNBV supervisory practices. The reforms granted ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, capitalization and loan classification, systems of internal control and risk management among others elements that may affect the financial position of banks.

Increasing requirements for the granting of loans to customers. For the granting of loans, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their creditworthiness and ability of timely payment of the loan. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing supervisory powers for external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to:

- request any information and documentation related to the services rendered;
- practice inspection visits;

- require the attendance of partners, legal representatives and other employees; and
- issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited-purpose banks. The reform introduced limited-purpose banks (*bancos de nicho*), which can only engage in a limited amount of banking activities which are specifically set forth in their bylaws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs. UDIs are *Unidades de Inversión*, a Peso-equivalent unit of account indexed for Mexican inflation.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Participation of Foreign Governments. It clarifies the rules that require prior approval from the CNBV for the investment of foreign governments in commercial banks, in cases where foreign entities receive financial support or are rescued, when indirect investments are made or when control is acquired. Such intervention should be through official entities not exercising authority, and participation should be indirect and without control. The shareholding structure in broker-dealers, retirement fund administrators, insurance companies and mutual insurance companies, bonding companies, financial groups and credit information companies was also amended.

Capitalization Requirements. The concepts of “Minimum Basic Capital,” “Fundamental Capital” and “Capital Supplement” have been incorporated into the law. The law also provides for capital requirements, additions and restrictions, as well as asset disposal in cases where the entities with significant influence on banks are facing liquidity or solvency problems. It also entitles development banks to support banks should they require capitalization.

Limit on Transactions with Related Parties. The limit on the aggregate number of transactions with related parties has changed, which shall not exceed 35 percent of the net capital.

Liquidity Requirements. The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank’s accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and the Mexican Central Bank, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

Risk Control, Banking Resolutions and New Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform provides for new rules in the event that the Mexican Central Bank acts as lender of last resort so that it requires collateral on the bank’s shares. It also introduces the obligation to have a plan of stress scenarios, contingency and resolution plans as well as participation in mock resolutions. It also has amended certain articles regarding the structure of bank resolutions, including new deadlines for exercising the right of audience prior to the revocation of the authorization to operate as a bank and includes a new scheme of judicial liquidation/bank bankruptcy, replacing the provisions of the Bankruptcy Act.

Self-Correcting Programs. The Mexican Banking Law and other financial laws state that the financial institutions may submit to the CNBV self-correcting programs when they detect defaults to the provisions regulating them, taking into consideration that irregularities detected by the CNBV or serious defaults or offenses may not be part of the self-correcting programs.

Transactions with Members of the Same Group or Consortium. New rules and limitations have been established. Transactions with members of the same group shall be agreed to on market terms.

Measures to Encourage Credit and Performance Evaluations. The SHCP is authorized to assess the performance of commercial banks regarding compliance with the support of the country’s productive forces and the growth of the economy; the SHCP shall issue the relevant guidelines for such assessment. It also authorizes the

CNBV to encourage the channeling of more resources to the productive sector by setting parameters on the execution of transactions with securities. The financial authorities shall take into account the results of the assessments to decide on the authorizations it will grant in general.

Administrative Offenses and Penalties. It significantly increases the number and severity of the sanctions, which are to be disclosed to the general public, although none are definitive or final. It also provides for sanctions for officials involved in transactions with related parties in excess of the statutory limits. Amendments to the administrative sanction system were made consistently in all financial laws amended by the Reform.

SHCP Blacklist. With respect to the prevention of transactions with funds from illegal sources and terrorist financing, it provides for the obligation to immediately suspend transactions with the persons included in the blacklist issued by the SHCP and the initiation of criminal proceedings against offenders. This obligation is also set for the other financial institutions in their respective laws.

Asymmetric Regulation. It authorizes the SHCP, the CNBV and the Mexican Central Bank to issue asymmetric regulation, *i.e.*, one that considers the regulatory burden in accordance with the size of each institution.

Exchange of Information with Foreign Financial Authorities. It regulates in more detail the procedure for the exchange of information with foreign authorities and verification visits.

Initiatives to Improve Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

The Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the Bonding Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations; changes to these laws also permit the non-judicial foreclosure of collateral.

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the latest amendments to the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

Foreclosure of Securities Loans

The Mexican Congress also approved changes to the Commerce Code intended to expedite proceedings relating

to the foreclosure of secured loans by financial institutions. These changes grant authority to Mexican courts to issue interim measures, such as ordering persons not to leave Mexico or ordering assets to be frozen.

Bankruptcy Law

The Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*) provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

Only the IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including Banorte and under the Law of Credit Institutions, which includes a special bankruptcy proceeding for Mexican banks, that substantially follows the proceedings regulated under the Mexican Bankruptcy Law. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as corrective measures taken by the CNBV, facilities made available by the IPAB and an intervention led by the CNBV. Upon filing of the application for the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Mexican Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of any of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past due; or (ii) the debtor fails to have certain specifically defined liquid assets and receivables to cover at least 80.0% of its obligations which are due and payable.

Applicable law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the comptroller (*interventor*), conciliator (*conciliador*), who mediates between creditors and the bankrupt debtor, and receiver (*síndico*). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three comptrollers, when the bankruptcy involves a Mexican bank.

On the date the insolvency judgment is entered, all Peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into Pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Mexican Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Mexican Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency (recently modified as set forth below), but which may be extended, at the request of creditors, if the bankruptcy hypotheticals were presented at a prior time. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the comptroller, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Mexican Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in other jurisdictions that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

The Mexican Congress also approved changes to Mexico's Bankruptcy Law, intended to improve the application of such law. Relevant changes include:

- the consolidation of bankruptcy proceedings affecting parent and subsidiary companies;
- the application of liquid assets provided as collateral, in connection with the netting and close out of derivative and similar contracts;

- setting forth an outside limit to bankruptcy restructuring (three years);
- permitting trustees and other creditor representatives, to submit claims on behalf of groups of creditors;
- expressly recognizing subordinated creditors, and deeming related party creditors as subordinated creditors; and
- making members of the Board of Directors liable to the bankrupt debtor if such member acted when affected by a conflict of interest, self-dealing and otherwise against the interests of the bankrupt debtor.

On January 2014, the Mexican Bankruptcy Law was further amended. Relevant changes include the following:

- First, the law introduces the concept of a statutory “subordinated creditor.” “Subordinated creditor” is defined to include an unsecured creditor who has the same board members as the bankrupt debtor, or which is controlled by the debtor or is under common control with the debtor.
- The amendment authorizes the debtor to enter into credit facilities (similar to debtor-in-possession financings), if it is indispensable to continue the operation of the debtor.
- The amendments, provide that the automatic stay is not applicable with respect to collateral consisting of real property collateral, unless such real property is strictly indispensable for the operation of the debtor's business.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the recent global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the Peso, triggering a new regulation issued by the CNBV that seeks to improve disclosure standards as they relate to derivative transactions.

The Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) that protects personal data collected by private individuals or entities was published on July 5, 2010 and is now fully effective along with its Regulations. Under such law, we are required to ensure the confidentiality of information received from clients. We have modified our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder and as a means to obtain the consent of our customers prior to using any personal information provided by them. We may be subject to fines and penalties in the event of violations to the provisions of such law.

On January 9, 2015, the General Rules Applicable to Financial Entities and Other Entities that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y Demás Personas que Proporcionen Servicios de Inversión*) (the “Investment Services Rules”) were published in the Official Gazette. The purpose of the Investment Services Rules, among others, was to have a single body of rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the Investment Services Rules, banks and brokerage firms rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client’s investment profile.

The Investment Services Rules establish an obligation for banks and brokerage firms to create a committee which shall be responsible for the analysis of financial products offered by such entities, and whose members shall be independent from the structuring area of the relevant entity, or an equivalent institution or responsible person.

The Investment Services Rules also require the creation of an Analysis Committee. The Analysis Committee shall maintain minutes for each committee meeting held together with the relevant presentations, which documentation shall be kept by the entity and made available to the CNBV for at least five years.

The Analysis Committee shall approve each financial product offered, compensation of investment portfolios, guidelines in respect of the provision of services, and prior to its delivery, all information given to any client regarding any investment recommendation, which information shall include at least the prospectus or memorandum describing the relevant securities or offering.

The Investment Services Rules also provide that the board of directors of the relevant bank or brokerage firm shall approve the policies and guidelines required for each entity to:

- approve the terms and policies for such financial institutions to make the assessment of the client profile;
- carry out the analysis of the financial products to be offered to the clients; and
- comply with the evaluation of the “reasonableness” of recommendations, required to render advisory investment services.

Such policies and guidelines must be submitted to the CNBV within 10 days from its approval date, and the CNBV may order the relevant entity to incorporate corrections in order to make them consistent with the Investment Services Rules.

The Investment Services Rules provide that each bank and brokerage firm must appoint an officer to verify compliance of each firm with the Investment Services Rules.

Reforms to the Mexican Securities Market Law

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Securities Market Law. Relevant changes include the following:

Offerings of Securities Abroad. The CNBV must be notified of any type of securities’ offerings made outside of Mexico, in the case of securities issued by Mexican entities, even if the offerings are private.

Various Modifications to the Obligations Related to the Information of an Issuer. The CEO of the issuer shall be responsible for the content of the disclosed information, the material events and other information that must be disclosed to the public, based upon guidelines approved by the board of directors.

It also provides for tighter controls on persons having access to material non-public information, the publication of which is deferred. Persons related to the underwriter, persons providing independent or subordinated personal services to the issuer and third parties that have had contact with those who have access to material non-public information must be included in the list of persons who are considered to have access to privileged information, unless proven otherwise.

Finally, with respect to misleading information, disclosure of information that is prohibited by applicable law has been excluded as an omission of disclosure.

Capitalization Rules for Broker-Dealers. The capitalization of broker-dealers has been harmonized to that of the banking institutions.

Liability of Underwriters. The liability structure of broker-dealers, who may be liable for damages and losses

caused by breach of their obligations, has been extended.

Stock Pledge. It provides for modified rules for the application of payments of securities pledged, without any judicial proceeding, and permitting the transfer of title to pledged securities.

SUPERVISION AND REGULATION

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico, and of certain matters related to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act's regulation of derivatives. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico or of U.S. regulations applicable to such financial institutions.

Introduction

Our operations are primarily regulated by the Mexican Banking Law and the rules and regulations issued by the SHCP, the CNBV, the Mexican Central Bank and the IPAB. The authorities that supervise us and our operations are the SHCP, the Mexican Central Bank, CONDUSEF and the CNBV.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings, between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, each bank must publish on its website, among other information:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and including their respective resumes;
- a description and the total compensation and benefits paid to the members of the Board of Directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with the notes thereto;
- any information requested by the CNBV to approve the special accounting criteria, specific measures for loan-loss classifications and special registries;
- a detailed explanation of the main differences in the accounting standards used by the bank to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's bylaws.

The CNBV has the authority to impose fines for failure to comply with the provisions of the Mexican Banking Law, or the regulations issued thereunder. In addition, the Mexican Central Bank has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of the Mexican Central Bank (*Ley del Banco de México*) and its regulations and the Law for the Transparency and Ordering of Financial Services, particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law permits foreign governments to acquire equity securities of Mexican banks, on a temporary basis in connection with rescue or similar packages, which was not possible in the past, and to acquire control of Mexican banks and indirect acquisitions, with the prior approval of the CNBV.

Mexican banks are now required to expense carefully, through their Boards of Directors, compensation payable to officers and, for that purpose, will be required to observe general rules to be issued by the CNBV and to establish and maintain a compensation committee.

Changes approved by the Mexican Congress clarify capitalization requirements, causes for revocation of a license and terms pursuant to which the Mexican government may provide assistance to troubled Mexican banks.

The amended Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the Board of Directors of the applicable Mexican bank and must be supervised by the bank's audit committee. General rules implementing the provisions are expected to be issued by the CNBV.

New provisions have been added to the Mexican Banking Law, in connection with the dissolutions and liquidation of Mexican banks facing liquidity or solvency problems. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems. The Mexican Banking Law now includes a specific procedure for the dissolution and liquidation of Mexican banks, which follows the provisions of the Mexican Bankruptcy Law.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which the IPAB will act as liquidator, will conduct the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and will take all measures conducive to the bank's liquidations. The Mexican Banking Law now reflects provisions that were regulated by the Mexican Bankruptcy Law, as they relate to the dissolutions and liquidation of Mexican banks. Liquidation proceedings may be conducted in-court or out of court, depending upon the circumstances affecting the relevant Mexican bank.

Licensing of Banks

An authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of the Mexican Central Bank, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare the managerial intervention (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (a "CNBV Intervention"). In addition, the Governing Board of the IPAB may also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law, to a banking institution.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when:

- during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios;
- the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law; or
- the banking institution defaults with respect to any of the following payment obligations:
 - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
 - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts or does not pay three or more checks for a total amount of two million UDIs, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers, could occur.

In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The preemptory manager will be appointed by the IPAB, if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The preemptory manager appointed by the IPAB will assume the authority of the Board of Directors and the shareholders. The preemptory manager will have the authority to represent and manage us with the broadest powers under Mexican law, will prepare and submit to the IPAB the bank's budget (for approval), will be authorized the contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, is authorized to hire and fire personnel and may suspend operations. The appointment of the preemptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Revocation of a License; Payment of Guaranteed Obligations

Revocation of Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, the IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be liquidated in accordance with Articles 165 through 220 of the Mexican Banking Law. In such a case, the IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions:

- transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust set up for such purposes;
- constitute, organize and manage a new banking institution owned and operated directly by the IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or
- any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that the IPAB considers as the best and least expensive option to protect the interests of bank depositors.

As described above, amendments to the Mexican Banking Law approved by the Mexican Congress will substitute these provisions.

Causes to Revoke a Banking License. The abovementioned amendments significantly expanded the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- if the bank does not start operations within the term of thirty days as from the notification of such authorization;
- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;
- if the banking institution:
 - does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law;
 - does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or
 - consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capitalization Requirements;
- if the banking institution defaults with respect to any of the following payment obligations:
 - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
 - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers; or
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of all “guaranteed obligations” of the relevant banking institution, in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those “guaranteed obligations” that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered “guaranteed obligations” pursuant to the Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*) (“IPAB Law”), and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);

- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in Pesos or UDIs will cease to accrue interest;
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into Pesos at the prevailing exchange rate determined by the Mexican Central Bank;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repurchase transactions and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico.
- Liabilities owed by the banking institution in liquidation will be paid in the following order of preference:
 - liquid and enforceable labor liabilities;
 - secured liabilities;
 - tax liabilities;
 - liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by the IPAB in accordance with the Mexican Banking Law;
 - bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of the IPAB different from those referred to above;
 - any other liabilities (other than those referred to below);
 - preferred subordinated debentures;
 - non-preferred subordinated debentures (such as the Notes); and
 - the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Banking Stability Committee. The BSC includes representatives of the SHCP, the Mexican Central Bank, the CNBV and the IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put in risk the operation of the payments' systems required for the development of the economic activity, then the BSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not

considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the Board of Directors and certain senior officers, and certain illegal transactions) or the liabilities resulting from the issuance of subordinated debentures, be covered or paid by the IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the BSC makes the determination referred to in the prior paragraph, then the IPAB’s Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, which may be through either of the options described below:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (a) capital contributions granted by the IPAB in accordance with Articles 151 through 155 of the Mexican Banking Law, or (b) credit support granted by the IPAB also in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- If the BSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law, or transferring the assets and liabilities of such bank to a third party, as set forth in Articles 194 or 197 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Bank Liquidation Process

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors’ identification process. The IPAB must also comply with the following preference for the payment of the banking institution’s debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Mexican Banking Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules in effect on the date of this offering memorandum, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs (approximately Ps.14.4 million as of March 31, 2019).

The Mexican Capitalization Requirements set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements. The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee which includes the supervisory authorities of twelve major industrial countries.

Adoption of Basel III Standards in Mexico

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, reached a broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

On November 28, 2012, the CNBV published an amendment to the Mexican Banking Regulations anticipating the adoption of Basel III guidelines. Most aspects of the new set of rules became effective on January 1, 2013, while others will be phased until the year 2022. The new regulation aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to have the ability to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions.

Among other changes, the amendments to the General Rules Applicable to Mexican Banks implementing the Basel III rules include the following:

Quality and level of capital. Greater focus on common equity and Fundamental Capital. The minimum Fundamental Capital was raised to 4.5% of risk-weighted assets, after deductions.

Capital loss absorption at the point of non-viability. Contractual terms of capital instruments include a clause that allows – at the discretion of the relevant authority – write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises.

Capital conservation buffer. Banks shall constitute a Capital Supplement of 2.5% of the risk-weighted assets, bringing the total minimum Fundamental Capital standard to 7%. Constraint on a bank's discretionary distributions will be imposed when banks fall into the buffer range.

Countercyclical buffer. This buffer is imposed within a range of 0-2% comprising Fundamental Capital, when the CNBV judges that a credit growth is resulting from an unacceptable build-up of systemic risk, and is based on the credit activities carried by the financial institution in foreign markets.

Pursuant to the General Rules Applicable to Mexican Banks, this capital supplement is calculated taking into consideration the financing activities performed by banks in different jurisdictions.

Systemically Important Domestic Banks. D-SIBs must have higher loss absorbency capacity to reflect the greater risks that they pose to the domestic financial system. The additional loss absorbency requirements are to be met with a progressive Fundamental Capital requirement ranging from 0.60% to 2.25%, depending on a bank's systemic importance.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Total Net Capital ratio, Tier 1 Capital and Fundamental Capital. The relevant corrective measures applicable to us are determined based on the following classifications.

		Net Capital Ratio (ICAP)				
Fundamental Capital or CET1 (CCF)	Tier 1 Capital (CCB)	$\geq 10.5\% + \text{CBF}$	$\geq 8.0\%$	$\geq 7.0\% + \text{CBF}$	$\geq 4.5\%$	$< 4.5\%$
$\geq 7\% + \text{CBF}$	$\geq 8.5\% + \text{CBF}$	I	II			
	$\geq 7\% + \text{CBF}$	II	II	III		
$\geq 4.5\%$	$\geq 8.5\% + \text{CBF}$	II	II			
	$\geq 6\%$	II	II	III	IV	
	$\geq 4.5\%$	III	III	IV	IV	
$< 4.5\%$						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coeficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coeficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

This table is based upon the tables set forth in Article 220 of the General Rules Applicable to Mexican Banks, which should be consulted for a complete understanding of the applicable requirements, including in relation to the applicable Capital Supplements to be constituted by the Bank.

Furthermore, the General Rules Applicable to Mexican Banks provide that:

- The Total Net Capital will include a Tier 1 Capital (*capital básico*) and a Tier 2 Capital (*capital complementario*). The minimum Total Net Capital ratio required for each bank shall be equal to 10.5%, including the Capital Conservation Buffer (or 8%, but subject to certain corrective measures);
- The Tier 1 Capital shall include:
 - a Tier 1 Capital ratio of at least 6%;
 - a Fundamental Capital coefficient of at least 4.5%; and
 - (a) a capital conservation buffer equivalent to 2.5% of the Risk-Weighted Assets, (b) in case of D-SIBs, the Systemically Important Bank Capital Supplement, and (c) the Countercyclical Capital Supplement.
- The Tier 1 Capital of the Total Net Capital will be divided into a Fundamental Capital (*capital básico fundamental*) and a Non-Core Tier 1 Capital (*capital básico no fundamental*).

For clarification purposes, Tier 1 Capital refers to the basic portion (*parte básica*) of Total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks. Tier 1 Capital is comprised of the two components of basic capital (*capital básico fundamental* and *capital básico no fundamental*) as such terms are defined in the General Rules Applicable to Mexican Banks. Fundamental Capital (*capital básico fundamental*) means only the amount of the fundamental capital as such term is defined in the General Rules Applicable to Mexican Banks. Non-Fundamental Capital (*capital básico no fundamental*) means the non-fundamental basic capital as such term is defined in the General Rules Applicable to Mexican Banks. Tier 2 Capital refers to the additional portion (*parte complementaria*) of Total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks.

The General Rules Applicable to Mexican Banks require banks to maintain a Total Net Capital ratio of at least 10.5%, including the Capital Conservation Buffer, to avoid the imposition of corrective measures notwithstanding that the minimum required Total Net Capital ratio is 8%.

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Fundamental Capital and Non-Fundamental Capital) and Tier 2 Capital. The Mexican Capitalization Requirements include among the Core Equity Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Fundamental Capital, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Non-Fundamental Capital is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

Tier 2 Capital comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and may be convertible into shares at their maturity date or are subject of write-down procedures. These instruments shall be included as capital based on their maturity date: 100% of the

outstanding amount of the instruments if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 Capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve.

In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. In July 2018, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and also ratified the requirement to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.001%. These Capital Supplements are required to be constituted by the Bank in four equal parts in December of each year, on a cumulative basis, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank during the four-year period commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	2017	2018	2019
Minimum Capital Ratios				
Total Net Capital (<i>capital neto</i>)	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (<i>capital básico</i>)	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (<i>capital básico fundamental</i>)	7.23%	7.45%	7.68%	7.90%

As of March 31, 2019, the Bank's Capital Ratios were (i) 18.11% in the case of Total Net Capital, (ii) 16.27% in the case of Tier 1 Capital and (iii) 13.81% in the case of Fundamental Capital. As of December 31, 2018, the Bank's Capital Ratios were (i) 17.17% in the case of Total Net Capital, (ii) 15.23% in the case of Tier 1 Capital, and (iii) 12.71% in the case of Fundamental Capital, which in both cases exceed the current regulatory requirements.

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Corrective Measures

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after Mexican Central Bank has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed. Class I is exempted from any corrective measure, but for the remainder of the categories such corrective measures include:

For Class II:

- requiring the bank to:
 - inform the Board of Directors about the bank's classification, as well as the causes for the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the

bank has received the CNBV notification of the corrective measure;

- include in such report the causes of the weakening of their Capitalization Ratio and the Tier 1 Capital and Tier 2 Capital;
- include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank;
- report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group;
- abstain from entering transactions that will cause its Capitalization Ratio to be lower than required under the Capitalization Requirements;
- abstain from increasing the current amounts of the financings granted to relevant related parties; and
- submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capitalization Ratio in order for the institution to be placed in Class I.

Such plan shall be presented to the CNBV no later than 20 business days after the date the bank receives the CNBV notification of the corrective measure.

In addition to the corrective measures applicable to Class II, for Class III and above:

- requiring the bank's Board of Directors to:
 - within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capitalization Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their bylaws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and
 - comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;
- requiring the bank to:
 - suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to the holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on

the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;

- requiring the bank to suspend any capital stock repurchase programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
- requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;
- requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV;
- requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party; and

In addition to the corrective measures applicable to Class II and III, for Class IV and above:

- refraining from making new investments on non-financial assets, opening branches or performing activities other than those made in the ordinary course of business.

In addition to the minimum corrective measures, the CNBV may order the implementation of additional and special corrective measures for banks with a classification from II to V. The additional and special corrective measures that, if applicable, the banks must comply with are:

- define the concrete actions that it will carry out in order not to deteriorate its Capitalization Ratio;
- inform the chief executive officer of the foreign holding company about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure, only in case of banks owned by foreign financial groups;
- hire the services of external auditors or any other specialized third party for special audits on specific issues;
- refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights;
- substitute officers, members of the board or external auditors with appointed persons occupying the respective positions;
- undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices; or
- refrain from entering into new agreements that may cause an increase on the Risk -Weighted Assets or may cause a higher deterioration on the Capitalization Ratio.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of the Mexican Central Bank's monetary policy is to maintain the stability of the purchasing power of the Mexican Peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of the Mexican Central Bank have been directed towards a restrictive monetary policy.

Under this policy, the Mexican Central Bank has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, market commenced operations with a liquidity deficit which is then compensated by the Mexican Central Bank through daily operations in the money market to provide adequate liquidity and stability to those markets. The Mexican Central Bank's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, the Mexican Central Bank has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (*Brems*). At the same time, the Mexican Central Bank has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

The Mexican Central Bank imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.280.0 billion, which had to be deposited in eight installments by eight deposits of Ps.35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008. Likewise, in addition to the compulsory reserve abovementioned, the Mexican Central Bank imposed an additional reserve and compulsory deposit requirement on Mexican commercial banks. Bulletin 11/2014 published on June 27, 2014, stated an additional compulsory reserve deposit of Ps.41.5 billion, which had to be deposited in four installments by four deposits of Ps.10.4 billion each on August 14; September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2014.

The compulsory deposit reserves required under the terms of the Bulletins 36/2008 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with the Mexican Central Bank, each banking institution receives interest on such deposits every 28 days. The Mexican Central Bank will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

Non-performing loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.

- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio. The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item. The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

We regularly evaluate whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.
- Consumer loans – 180 days or more overdue.
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the CNBV. Our internal methodology authorized by such CNBV may also be used. In the case of consumer mortgage and commercial loans, we apply the General Rules Applicable to Mexican Banks for rating the loan portfolio as issued by the CNBV and published in the Official Gazette on June 24, 2013.

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

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

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

General Description of Rules Established by the CNBV

The rules for grading consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve-month period.

Such methodologies stipulate that estimate of such loss evaluates the probability of breach of contract, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the hedges that need to be created in order to face the loan risk.

Depending on the type of loan, the probability of default, loss given default and exposure to default are determined by considering the following:

Probability of Default

- For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
- For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
- For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.

- For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Loss Given Default

- For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
- For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
- For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.

Exposure at Default

- For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
- For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

The CNBV's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of the Mexican Central Bank, the total amount of maturity-adjusted (by applying a factor, depending upon the maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), is limited to 1.83 times the amount of their Tier 1 Capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short-term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (i.e., to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;

- deposits with the Mexican Central Bank;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the U.S. government, which have the unconditional guarantee of the U.S. government;
- demand deposits or one-day deposits or one- to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's, or A-2 by S&P;
- investments in mutual or similar funds or companies approved by the Mexican Central Bank, that satisfy certain requirements; and
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

We comply with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- a Capitalization Ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 Capital; and
- a Capitalization Ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 Capital.

These lending limits are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank is inadequate.

The following financings are exempt from these lending limits:

- financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability);

- securities issued by the Mexican government and financings made to the Mexican government, Mexican local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government; and
- cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender).

However, such financings may not exceed 100% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned limits, but such financings may not exceed 100% of a bank's Tier 1 Capital. In turn, the controlled Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk; such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 Capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings granted to the Mexican federal government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements for Mexican Banking GAAP purposes, (i) the number and amount of financings that exceed 10.0% of Tier 1 Capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of such bank's Tier 1 Capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 Capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

The General Rules Applicable to Mexican Banks establish that the aggregate amount of operations subject to credit risk relating to relevant related parties shall not exceed 25% of the bank's Tier 1 Capital corresponding to the immediately preceding month. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

The Mexican Central Bank regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e., transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a

bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by the Mexican Central Bank, in connection with maturities of obligations denominated in foreign currencies (see "—Liquidity Requirements for Foreign Currency-Denominated Liabilities").

Derivative Transactions

The Mexican Central Bank has issued rules that apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- pork bellies, pork and cattle;
- wheat, corn, soybean and sugar,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances; and
- futures, forwards, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by the Mexican Central Bank to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval would require a specific approval from the Mexican Central Bank to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may enter into credit derivatives, if expressly approved by the Mexican Central Bank; only Mexican banks, and no other financial institutions, may enter into credit derivatives (such as total return swaps and credit default swaps). Mexican banks may, however, enter into derivatives without the authorization of the Mexican Central Bank, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding limits set forth in the Mexican Banking Law in respect of related party transactions.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. Derivative transactions that are entered into in over-the-counter (OTC) markets, may be collateralized

only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, pension fund managers, Sofomes, and any other counterpart authorized by the Mexican Central Bank. Mexican banks are required to periodically inform their Board of Directors with respect to the derivative transactions entered into, and whether or not the Mexican bank is in compliance with limits imposed by the Board of Directors and any applicable committee. Mexican banks must also inform the Mexican Central Bank periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, or Mexican financial entities authorized to enter into such derivatives by the Mexican Central Bank or foreign financial institutions or recognized markets. Derivatives must be entered into pursuant to master agreements that must include terms and guidelines, similar to international standards such as ISDA master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from the Mexican Central Bank to engage in swaps, forwards and options related to stocks, indices, currencies and interest rates.

Repurchase Operations and Securities Lending

Under a circular issued by the Mexican Central Bank, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

Mexican Central Bank has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of the Mexican Central Bank and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time;
- more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank's board of directors; and
- for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV.

The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from, among others: (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with the Mexican Central Bank, development banks, public federal trust and IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities, lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances. Other exceptions include derivative transactions and repurchase transactions, subject to specific requirements.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than:

- the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact;
- judicial authorities in trial proceedings in which the accountholder is a party or defendant;
- the Mexican federal tax authorities for tax purposes;
- the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering;
- the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority (including information on accounts or agreements involving federal public resources);
- the supervisory unit of the federal electoral agency (*Unidad de Fiscalización de los Recursos de los Partidos Políticos*);
- the Federal Attorney General's office (*Procuraduría General de la República*) for purposes of criminal proceedings;
- the Treasurer of the Federation (*Tesorería de la Federación*), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and
- the Secretary and undersecretaries of the Ministry of Interior (*Secretaría de la Función Pública*) when investigating or auditing the estates and assets of federal public officers, among others.

In most cases, the information needs to be requested through the CNBV. The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the set of rules applicable to banking institutions have been in effect since April 21, 2009 and have subsequently been amended (the "Money Laundering Rules").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));

- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an “Identification File”).

An individual’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) full name, (ii) sex, (iii) date of birth, (iv) nationality and country of birth, (v) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (vi) occupation, profession, main activity or line of business, (vii) complete domicile (including telephone number), (viii) e-mail address, if any, and (ix) advanced electronic signature series number, when applicable.

An entity’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, and (viii) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

The Mexican Banking Law requires banks to have a manual for anti-money laundering procedures that is approved by the board of directors and certified by the CNBV. Identification Files may be shared with other financial entities part of the same financial group.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV:

- quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.\$10,000;
- monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.\$10,000;
- reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems; and
- periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010, the SHCP issued regulations, as amended in September and December 2010 and August 2011, restricting cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.\$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in

excess of U.S.\$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

In October, 2012, the Federal Law to Prevent and Identify Transactions with Illegal Proceeds (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Official Gazette of the Federation (the “New Money Laundering Law”). The New Money Laundering Law became effective on July 17, 2013. Under such law, the SHCP is given broad authority to obtain information about unlawful activities, coordinate activities with foreign authorities and present claims related to unlawful activities. This law also grants authority to the Federal Attorney General to investigate and prosecute illegal activities, in coordination with the SHCP. Pursuant to the law, we are required to satisfy the following requirements:

- the establishment and implementation of policies and procedures, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities;
- the reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the maintenance of information and documentation regarding the client identification, as well as of relevant, unusual and suspicious transactions, for at least 10 years.

Additionally, pursuant to the Mexican Banking Law reforms published on the Official Gazette on January 10, 2014, the following sanctions were included, with the purpose of preventing and detecting operations that might encourage acts of terrorism:

- A fine of 10% to 100% of the amount of the activity, operation or service performed by an entity for a client or user the entity knows to be on the blocked persons list prepared by the SHCP;
- A fine of 10% to 100% of the amount of any unreported unusual transaction and, if applicable, any additional transactions related to same client or user involved in the unreported transaction;
- A fine of 30,000 to 100,000 days’ worth of the minimum wage applicable in Mexico for significant transactions or, if applicable, a series of related transactions involving international transfers and unreported transactions in cash undertaken in a foreign currency;
- A fine of 5,000 to 50,000 days’ worth of the minimum wage applicable in Mexico for other failures to comply with applicable law.

The amendments to the General Provisions on Money Laundering and Terrorist Financing published on the Official Gazette on April 25, 2014, September 12, 2014 and December 31, 2014, added the following obligations to the prevention of money laundering and terrorist financing:

- Provide the CNBV, through the Financial Intelligence Unit (*Unidad de Inteligencia Financiera*), within the first ten business days of January, April, July and October of each year, a report for each issuance or payment of cashier’s checks carried out with its clients or users in the previous three months in an amount equal to or exceeding U.S.\$10,000.
- Inform the CNBV prior to, or simultaneously with, the sharing of information regarding money laundering and terrorist financing activities.

- Immediate cancellation of any transaction or service related to a client or user identified to be on the SHCP's blocked persons list and notification to the client that it has been included on such list.

Amendments to the regulation on money laundering prevention and financing of terrorism applicable to financial institutions

In March 2017, amendments to the General Provisions on Money Laundering Terrorism Financing were published in the Official Gazette. The following are the principal changes resulting from such amendments:

1. Implementation of a Risk-Based Approach

Banks must incorporate and implement methodology to carry out a risk assessment arising from their products, services, practices and information technologies. Such methodology must establish the processes for the identification, measurement and mitigation of risks, for which the identified risk factors must be taken into account, together with the national risk assessment and its respective updates conducted by SHCP, and communicated to the CNBV.

In the case of entities that are part of a financial group, like the Bank, the results of the methodology that, if applicable, has been implemented by the other entities that are part of the same financial group should be taken into account.

2. Identification of the shareholdings and corporate structure of clients that are legal entities

In respect of clients that are legal entities, information that identifies the following must be gathered in the identification file of the client: (i) shareholding structure and (ii) in the event that the client has a degree of risk other than "low," its internal corporate structure, which refers to the organizational chart of the client as a legal entity, taking into account at least the full name and position of those individuals who occupy the positions of CEO and the immediate lower positions, as well as the full name and corresponding position of each of the members of its board of directors or equivalent. Likewise, the beneficiaries (i.e., the individuals who benefit from an account, contract or transaction and are ultimately the owners) who have the control of the clients that are legal entities must be identified.

3. Threshold of Relevant Transactions

The threshold is modified in the definition of "relevant transaction" to include in such definition a transaction carried out with the bills and coins of legal tender in the United Mexican States or in any other country, as well as with traveler's checks, and coins minted in platinum, gold and silver for an amount equal to or greater than the equivalent in national currency at US \$7,500. Previously, this threshold was US \$10,000.

4. Terms for the submission of Unusual Transactions and Alarming Internal Transactions

For each unusual transaction identified by a bank, a corresponding report must be submitted to the SHCP through the CNBV within three business days from the conclusion of the determination that establishes such transaction as unusual. For purposes of carrying out such resolution, the bank, through the communication and control committee, will have a term that will not exceed 60 calendar days from the generation of the alert through the respective system, model, process, or by the employee of the bank, whichever occurs first.

5. Internal appointment of a Compliance Officer for a specific period

To be able to comply with the applicable provisions regarding the obligation to have, at all times, an officer who acts as a representative with authorities, it is possible to appoint an internal compliance officer in case the current officer in charge is revoked from his position or is unable to carry out his duties. The period for which the internal compliance officer may occupy the position shall be up to ninety calendar days in a calendar year.

6. Agreement for the exchange of information between Entities that belong to the same financial group

Financial entities that belong to the same financial group in accordance with the Financial Groups Law may exchange information with regard to the prevention of transactions with resources of illicit origin and financing of terrorism at a group level.

Financial entities have a maximum term of 45 calendar days counted from the implementation of the applicable resolution, in order to, at the latest within 270 calendar days, make the necessary adjustments to their systems and start to collect the client information according to the stated terms, submit their internal policies to the CNBV and comply with the rest of the imposed obligations.

Rules on Interest Rates

The Mexican Central Bank regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, the THIE, *Cetes* rate, CCP (*costo de captación promedio a plazo*), the rate determined by the Mexican Central Bank as applied to loans funded by or discounted with NAFIN, the rate agreed upon with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo interbancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by the Mexican Central Bank.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate, or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, the Mexican Central Bank published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and canceling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards.

In June 2014, the Mexican Supreme Court of Justice issued jurisprudential guidance, of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed on a promissory note is evidently excessive, violating an individual's human rights and, consequently, establish a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the extension of credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of NCPI during the term of the loan; (i) market conditions; and (j) other issues that the judge may deem relevant.

Fees

Under the Mexican Central Bank regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others:

- charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*):
- charge alternative fees, except if the fee charged is the lower fee; and
- charge fees for the cancellation of credit cards issued.
- In addition, among other things, Mexican banks may not:
 - charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts;
 - charge fees for returned checks received for deposit in a deposit account or as payment for loans granted;
 - charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services; or
 - charge different fees depending upon the amount of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes operating or permitting customers to use ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or (ii) permit credit card or debit card issuers to charge a fee to clients, in which case, banks and Sofomes may not charge additional fees to clients.

The Mexican Central Bank, on its own initiative or as per request from the CONDUSEF, banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks or Sofomes in performing financial operations. The Mexican Central Bank must obtain the opinion of the Mexican Antitrust Commission in carrying out this assessment. The Mexican Central Bank may take measures to address these issues.

On October 3, 2014, the Mexican Central Bank published a bulletin that modified the rules on ATM user fees which limited our ability to charge fees for the use of ATMs by customers and the amount of such fees for services including:

- cash withdrawals;
- checking account balances;
- account deposits; and
- credit payments, both in bank windows and ATMs operated by the clients' bank.

The bulletin also specifies that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

An initiative has been introduced to Congress seeking to further limit fees that may be charged by Mexican banks to consumers. No assurance may be given as to whether such initiative and commissions may be approved or the terms of such approval.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits. Only in exceptional cases may the IPAB grant financial support to banking institutions.

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

The IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. The IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members:

- the Minister of Finance and Public Credit;
- the Governor of the Mexican Central Bank;
- the President of the CNBV; and
- four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. The IPAB will not guarantee:

- deposits and loans constituting negotiable instruments and bearer promissory notes;
- liabilities for financial institutions or subsidiaries of the bank;
- liabilities not incurred in the ordinary course of business and related party transactions; or
- liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of the IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to the IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less:

- holdings of term bonds issued by other commercial banks;
- financing granted to other commercial banks;
- financing granted by the IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain forward- operations.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to the IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Limitations on Investments in Other Entities

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and
- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 Capital.

A Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that render ancillary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity taking into consideration the opinion of the Mexican Antitrust Commission and the favorable opinion of the Mexican Central Bank.

At the end of 2014, pursuant to the new Mexican Financial Groups Law, the SHCP issued the General Rules for Financial Groups. These rules repealed the previous General Rules for the Incorporation and Operation of Financial Groups and provide the requirements for the operation of financial groups.

Law for the Protection and Defense of Financial Services Users

A Law for the Protection and Defense of Financial Services Users is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks, such as us, to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. As of the date of this offering memorandum, we are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform being undertaken in Mexico in 2013, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things:

- CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;
- CONDUSEF shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;
- CONDUSEF is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers provisions thereof as detrimental to users;
- CONDUSEF is permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings; and
- CONDUSEF is given broader authority to fine financial institutions, if any such financial institution does not comply with an order issued by CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Law for the Transparency and Ordering of Financial Services regulates:

- the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds;
- the fees that financial institutions charge to each other for the use of any payment system;
- interest rates that may be charged to clients; and
- other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services.

This law grants Mexican Central Bank the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see “—Rules on Interest Rates” and “—Fees” above). The Mexican Central Bank has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform the Mexican Central Bank of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which the Mexican Central Bank may issue temporary regulations applicable to interest rates and fees, if it or the Mexican Federal Economic Competitive Commission determine that no reasonable competitive conditions exist among financial institutions. Also, the Mexican Central Bank and the CNBV are given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

Law on Transparency and Development of Competition for Secured Credit

The Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*) (“Secured Credit Law”) provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following:

- the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable;
- the compliance by credit institutions and borrowers with certain requirements in the application process;
- the binding effect of offers made by credit institutions granting secured loans;
- the inclusion of mandatory provisions in loan agreements; and
- the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries. GFNorte has entered into such an agreement with its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations.

In the event of a financial services holding company's statutory responsibility with respect to a bank, the IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to collateralize the payment of the bank's losses that are paid by the IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which the IPAB determines the bank's losses, up to the date on which the financial services holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except:

- pursuant to preventive temporary measures, such as financial support or rescue programs;
- when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government; and
- when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company.

Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law. In accordance with applicable law:

- the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or

Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors;

- any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV;
- the CNBV has been granted broader discretion to authorize the acquisition of more than 5% or 20% of the outstanding shares of a Mexican bank; and
- the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, Member States of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

Other Regulation Applicable to our Business

Bill on Financial Discipline for States and Municipalities

On February 5 2015, a positive opinion was published on the draft bill aiming to amend and add several provisions of the Mexican Constitution regarding Financial Discipline for States and Municipalities for the purposes of legislative programming.

The bill considers the following:

- Financial stability is considered the foundation for development and it should be observed when preparing and implementing the National Development Plan, and the states' and municipalities' plans.
- The Mexican Congress has the faculty to set the guidelines on how subnational governments should resort to financial debt and to issue laws on fiscal accountability aiming to manage finance adequately. Such guidelines will include the following concepts:
 - Limits and procedures for subnational governments to modify their contributions in order to secure their loans and meet their payment obligations;
 - The obligation to register and publish the total amount of loans and payment obligations in a single public register, indicating, for each loan or obligation: debtor, creditor, amount, interest rate, maturity date, type of guaranty or source of payment, and any other information deemed necessary to enhance transparency and access to information;
 - The creation of a warning system on debt management;
 - Sanctions to government officials for improper management of public resources and public debt; and

- Limits and requirements for contracting short-term liabilities which should be settled, at the latest, three months before the end of the government term.
- A bicameral committee will be created, through which, the Congress will analyze the adjustment strategy made by the federal government in order to strengthen public finance for those states and municipalities with high indebtedness. Such states will be able to celebrate agreements with the federal government to obtain guarantees. The committee should be informed in the case such an agreement has been celebrated.
- Greater Tax Audit. The Superior Audit Office of Mexico will be in charge of auditing revenues, expenditures, debt and guarantees that the Federal Government grants in the form of states and municipalities loans. In the case of those states that have a guaranty from the Federation, the SAO will audit the fiscal year and the destination of the corresponding resources of the local governments. At the local level, the audit bodies from the state legislatures will be responsible for auditing the states and municipalities actions regarding funds, local resources and public debt.
- Accountability of government officers. State and municipality officers in office will be accountable for improper management of public resources and public debt.
- Destination of the loan and negotiation of agreements under the best market conditions. Subnational governments can only take on obligations or loans destined for productive public investment, refinancing or restructure; and these should be negotiated under the best market conditions. The Regulatory Act will establish the arrangements and conditions of the public debt that should be selected through a bidding process, as well as the mechanisms to ensure the market conditions or even better ones. Under no circumstances loans should be destined to cover current expenditure.
- Local congresses will authorize the debt under the following conditions:
 - By the vote of two thirds of its members.
 - Establishing a debt ceiling and ensuring negotiation of agreements under the best market conditions.
 - Previous analysis of the loan destination, ability to pay, the grant of guaranty and the source of payment.

The purpose of this law is to support government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to a Financial Discipline for States and Municipalities.

Dodd-Frank Act and Regulation of Derivatives

Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act) (“Dodd-Frank”) establishes a new U.S. regulatory regime for derivatives contracts, including swaps, security-based swaps and mixed swaps (generically referred to in this paragraph as “swaps”). Among other things, Title VII provides the Commodity Futures Exchange Commission) (the “CFTC”) and the SEC with jurisdiction and regulatory authority over swaps, establishes a comprehensive registration and regulatory framework applicable to swap dealers and other major market participants in swaps (referred to as “major swap participants”), imposes clearing and execution requirements on many types of swaps, requires higher-margin requirements for uncleared swaps, and requires swap market participants to report all swaps transactions to swap data repositories. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants will be required to register with the SEC or the CFTC, or both, and will become subject to requirements as to capital, business conduct, recordkeeping, collateral segregation, and other requirements. The specific parameters of these requirements are being developed through CFTC, SEC and bank regulator rulemakings. While some of these requirements are already final and effective, others are subject to further rulemaking or deferred compliance dates.

DESCRIPTION OF THE NC5 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank”), will issue its 6.750% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC5 Notes, the “Notes”) through its Cayman Islands branch (the “Branch”). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of June 27, 2019, executed by the Bank and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent (the “Trustee”), and acknowledged by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*; the “CNBV”), which may be amended or supplemented from time to time (for purposes of this Description of the NC5 Notes, the “Indenture”), pursuant to Article 64 of the Law of Credit Institutions (*Ley de Instituciones de Crédito*) and Circular 3/2012 issued by the Mexican Central Bank (the “Circular 3/2012”), with the prior approval of the stockholders’ meeting of the Bank and the Mexican Central Bank.

This summary description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions of certain terms included therein. The Bank urges you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the relevant Mexican law will prevail. Capitalized terms not otherwise defined in this “*Description of the NC5 Notes*” have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on September 27, 2024 and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.\$ 600,000,000 in registered form, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank’s general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness (as defined below) and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future Senior Indebtedness (as defined below) and Subordinated Preferred Indebtedness (as defined below), (ii) *pari passu* without preference among themselves and with all the Bank’s present and future other unsecured Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of the Bank’s equity or capital stock, as described in this offering memorandum. See “—*Subordination*.” The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of March 31, 2019, the Bank had approximately Ps.12,487 million (U.S.\$644 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps.20,453 million (U.S.\$1,056 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO* (THE “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. (“GRUPO FINANCIERO BANORTE”) OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES (INCLUDING THE BANK OR ANY OTHER THIRD PARTY). THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK’S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER “—REDEMPTION—OPTIONAL REDEMPTION,” “—REDEMPTION—WITHHOLDING TAX REDEMPTION” AND “—REDEMPTION—SPECIAL EVENT REDEMPTION”, IN EACH CASE WITH THE PRIOR APPROVAL OF *BANCO DE MÉXICO*. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under “—Book-Entry System.”

The Bank will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank’s credit quality resulting from a takeover, recapitalization or restructuring or any other event involving the Bank that may adversely affect the Bank’s credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including June 27, 2019 (the “Issue Date”), to (but excluding) September 27, 2024 (for purposes of this Description of the NC5 Notes, the “First Call Date”), at an initial fixed rate *per annum* equal to 6.750%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every fifth anniversary thereafter shall each be a “Reset Date” (for purposes of this Description of the NC5 Notes). Subject to a prior redemption and/or one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 496.7 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

“*Treasury Yield*” means, as of any Reset Determination Date (as defined below), an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the *per annum* rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

“*H.15 (519)*” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

“*Reset Determination Date*” means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

“*Current Principal Amount*” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes as permitted herein, as the case may be.

“*Original Principal Amount*” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

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

Subject to the provisions under “*Interest Cancellation*” and “*Trigger Event and Write-Down—Write-Down*,” from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears on June 27, September 27, December 27 and March 27 of each year (each an “*Interest Payment Date*”), commencing on September 27, 2019. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, the First Call Date or an earlier redemption date, as the case may be, is called an “*Interest Period*.” If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by the Paying Agent by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the fifteenth day preceding the respective Interest Payment Date (such date, a “*Record Date*,” whether or not a Business Day).

For purposes hereof, the term Business Day is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

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

IF THE BANK ELECTS NOT TO MAKE AN INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, OR IF THE BANK ELECTS TO MAKE A PAYMENT OF A PORTION, BUT NOT ALL, OF SUCH INTEREST PAYMENT, SUCH NON-PAYMENT SHALL EVIDENCE ITS EXERCISE OF DISCRETION TO CANCEL SUCH INTEREST PAYMENT, OR THE PORTION OF SUCH INTEREST PAYMENT NOT PAID, AND ACCORDINGLY SUCH INTEREST PAYMENT, OR PORTION THEREOF, SHALL BE CANCELED AND SHALL NOT BE OR BECOME DUE AND PAYABLE. FOR THE AVOIDANCE OF DOUBT, IF THE BANK PROVIDES NOTICE TO CANCEL A PORTION, BUT NOT ALL, OF AN INTEREST PAYMENT IN RESPECT OF THE NOTES, AND THE BANK SUBSEQUENTLY DOES NOT MAKE A PAYMENT OF THE REMAINING PORTION OF SUCH INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, SUCH NON-PAYMENT WILL EVIDENCE THE BANK'S EXERCISE OF ITS DISCRETION TO CANCEL SUCH REMAINING PORTION OF SUCH INTEREST PAYMENT, AND ACCORDINGLY SUCH REMAINING PORTION OF THE INTEREST PAYMENT WILL ALSO NOT BE DUE AND PAYABLE.

SUCH CANCELED INTEREST SHALL NOT ACCUMULATE OR BE DUE AND PAYABLE AT ANY TIME THEREAFTER AND THE HOLDERS AND THE BENEFICIAL OWNERS OF THE NOTES SHALL NOT HAVE ANY RIGHT TO OR CLAIM AGAINST THE BANK WITH RESPECT TO SUCH UNPAID INTEREST AMOUNT. ANY SUCH CANCELLATION OF ANY INTEREST PAYMENT SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES SHALL HAVE NO RIGHTS THERETO OR TO RECEIVE ANY ADDITIONAL INTEREST OR AMOUNTS, PENALTY OR COMPENSATION AS A RESULT OF SUCH CANCELLATION.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under "*Redemption*," unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs of the Notes upon the occurrence of a Trigger Event (as defined below), as described under "*Trigger Event and Write-Down—Write-Down*" below, any accrued but unpaid interest on the Notes shall be canceled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time.

See also "*Agreement to Interest Cancellation*" and "*Notice of Interest Cancellation*" below.

Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) payable in connection therewith have been paid, the Bank shall not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or

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

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (AS DEFINED BELOW) AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW), INCLUDING THE CAPITAL CONSERVATION BUFFER, ARE (I) 10.5% IN RESPECT OF TOTAL NET CAPITAL (*CAPITAL NETO*), (II) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) AND (III) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS IN EACH CASE, ANY OTHER APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE II DOMESTIC SYSTEMICALLY IMPORTANT BANKS OF 0.90% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT (AS DEFINED BELOW, AND TOGETHER WITH THE SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, A “CAPITAL SUPPLEMENT”) APPLICABLE TO THE BANK. THESE CAPITAL SUPPLEMENTS ARE BEING IMPLEMENTED BY THE BANK IN FOUR ANNUAL STEPS, ONE FOURTH EACH DECEMBER, STARTING DECEMBER 31, 2016).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES THE APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON THE DATE OF ANY WRITE-DOWN OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL PREVIOUSLY CANCELED INTEREST WILL CONTINUE TO BE CANCELED.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

- (a) interest is payable solely at the Bank's discretion, and no amount of interest shall become due and payable in respect of the relevant Interest Period to the extent that it has been canceled by the Bank (in whole or in part) at its sole discretion and/or has been canceled as a result of the occurrence and continuation of an Interest Cancellation Event; and
- (b) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event, under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not canceled (in whole or in part) in accordance with the provisions described under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*.” Any interest canceled (in whole or in part) under the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

ARTICLE 122 OF THE MEXICAN BANKING LAW PROVIDES THAT IF A MEXICAN BANK DOES NOT COMPLY WITH THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, SUCH BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV, WHICH MAY INCLUDE:

(1) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF, AND SUBMIT A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS; THE BANK SHALL PROVIDE WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF;

(2) WITHIN A PERIOD NOT TO EXCEED SEVEN (7) BUSINESS DAYS, FILING WITH THE CNBV, FOR ITS APPROVAL, A CAPITAL RECOVERY PLAN TO INCREASE THE BANK'S CAPITAL RATIOS; THE BANK'S CAPITAL RECOVERY PLAN SHALL BE APPROVED BY SUCH BANK'S BOARD OF DIRECTORS BEFORE IT IS SUBMITTED TO THE CNBV;

(3) SUSPENDING ANY PAYMENT OF DIVIDENDS TO ITS SHAREHOLDERS, AS WELL AS ANY MECHANISM OR ACT FOR THE MAKING OF ANY DISTRIBUTIONS OR THE GRANTING OF ANY ECONOMIC BENEFITS TO SHAREHOLDERS;

(4) SUSPENDING ANY SHARE REPURCHASE PROGRAMS;

(5) DEFERRING OR CANCELING PAYMENT OF INTEREST AND DEFERRING OR CANCELING THE PAYMENT OF PRINCIPAL ON OUTSTANDING SUBORDINATED DEBT, AS THE CASE MAY BE, OR, IF APPLICABLE, EXCHANGING OUTSTANDING CONVERTIBLE SUBORDINATED DEBT INTO SHARES OF THE BANK IN THE AMOUNT NECESSARY TO COVER THE CAPITAL DEFICIENCY IF ORDERED BY THE CNBV; THESE CORRECTIVE MEASURES SHALL BE APPLICABLE TO SUBORDINATED DEBT CONSIDERED PART OF THE BANK'S TIER 1 CAPITAL (*CAPITAL BÁSICO*) OR TIER 2 CAPITAL (*CAPITAL COMPLEMENTARIO*); IN THE EVENT THAT THE BANK ISSUES SUBORDINATED DEBT, THE BANK IS OBLIGATED TO INCLUDE IN THE DOCUMENTATION EVIDENCING SUCH DEBT, IN THE APPLICABLE INDENTURE AND IN THE APPLICABLE OFFERING DOCUMENT, THAT SUCH DEFERRAL OR CANCELLATION OF PAYMENT OF PRINCIPAL OR DEFERRAL AND CANCELLATION OF PAYMENTS OF INTEREST, AS THE CASE MAY BE, SHALL APPLY UPON THE OCCURRENCE OF CERTAIN EVENTS AS PROVIDED IN THE GENERAL RULES APPLICABLE TO MEXICAN BANKS AND THAT THE IMPLEMENTATION OF SUCH MEASURES SHALL NOT BE CONSIDERED A DEFAULT UNDER THE RELEVANT DEBT DOCUMENTATION;

(6) SUSPENDING PAYMENT OF ANY EXTRAORDINARY BENEFITS AND BONUSES THAT ARE NOT A COMPONENT OF THE ORDINARY SALARY OF THE GENERAL DIRECTOR OR ANY OFFICER WITHIN THE NEXT TWO LEVELS OF SENIORITY, AND SUSPENDING THE GRANTING OF NEW BENEFITS TO THE GENERAL DIRECTOR AND THE OFFICERS MENTIONED ABOVE UNTIL THE BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS SET FORTH UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS;

(7) ABSTAINING FROM INCREASING OUTSTANDING AMOUNTS OF ANY LOANS GRANTED TO ANY PERSON WHO IS A RELATED PARTY OF THE BANK PURSUANT TO ARTICLE 73 AND RELATED PROVISIONS OF THE MEXICAN BANKING LAW; AND

(8) ANY OTHER CORRECTIVE MEASURES THAT, IN EACH CASE, ARE PROVIDED BY THE GENERAL RULES APPLICABLE TO MEXICAN BANKS.

ARTICLE 122 OF THE MEXICAN BANKING LAW FURTHER PROVIDES THAT:

(1) IF A MEXICAN BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS REQUIRED PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS BUT ANY OF ITS CAPITAL RATIOS IS BELOW THE CAPITAL RATIOS REQUIRED TO BE SATISFIED FOR A BANK NOT TO BE SUBJECT TO ANY CORRECTIVE MEASURES, SUCH BANK MUST IMPLEMENT CERTAIN CORRECTIVE MEASURES ORDERED BY THE CNBV, INCLUDING, AMONG OTHERS, (A) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF AND SUBMITTING A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS INCLUDING THE PRINCIPAL REGULATORY RATIOS, THAT REFLECT THE BANK'S DEGREE OF STABILITY AND SOLVENCY (TOGETHER WITH ANY DETERMINATIONS OR INDICATIONS MADE BY ANY OF THE CNBV OR *BANCO DE MÉXICO*) AND PROVIDING WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE

STATUS THEREOF; (B) ABSTAINING FROM ENTERING INTO ANY TRANSACTION THAT MAY DECREASE THE BANK'S CAPITAL RATIOS BELOW THE MEXICAN CAPITALIZATION REQUIREMENTS; AND (C) ANY OTHER CORRECTIVE MEASURES ORDERED BY THE CNBV.

(2) REGARDLESS OF THE CAPITALIZATION LEVEL, THE CNBV MAY ORDER THE IMPLEMENTATION OF ADDITIONAL SPECIAL CORRECTIVE MEASURES, INCLUDING, AMONG OTHERS: (1) REQUIRING COMPLIANCE WITH ADDITIONAL CORRECTIVE MEASURES THAT THE BANK WILL BE REQUIRED TO CARRY OUT TO AVOID A DECREASE OF ITS CAPITAL RATIOS; (2) SPECIAL AUDITS TO BE PERFORMED BY SPECIAL AUDITORS IN CONNECTION WITH SPECIFIC MATTERS; (3) ABSTAINING FROM INCREASING THE SALARIES AND BENEFITS OF ALL OFFICERS AND EMPLOYEES OF THE BANK, EXCEPT FOR ANY CHANGE IN SALARY PREVIOUSLY AGREED ON AND SUBJECT TO THE OFFICERS' AND EMPLOYEES' LABOR RIGHTS; (4) REMOVING OFFICERS, DIRECTORS, STATUTORY AUDITORS OR EXTERNAL AUDITORS OR APPOINTING ANY PERSONS TO SUCH POSITIONS; OR (5) ANY OTHER MEASURES ORDERED BY THE CNBV, BASED ON ITS INSPECTION AND SUPERVISION AUTHORITIES.

(3) IF A MEXICAN BANK DOES NOT COMPLY WITH ANY CAPITAL SUPPLEMENT REQUIREMENTS PURSUANT TO THE MEXICAN BANKING LAW AND THE MEXICAN CAPITALIZATION REQUIREMENTS, THE CNBV MAY ORDER THE BANK TO SUSPEND ANY PAYMENT OF DIVIDENDS OR OTHER DISTRIBUTIONS TO ITS SHAREHOLDERS.

(4) CORRECTIVE MEASURES WILL NOT BE APPLICABLE TO MEXICAN BANKS WITH A CAPITAL RATIO EQUAL TO OR GREATER THAN THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

ARTICLE 122 OF THE MEXICAN BANKING LAW SPECIFIES THAT IF A BANK DOES NOT SATISFY THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, THE BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV. CURRENTLY, THE MINIMUM CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I ARE, INCLUDING THE CAPITAL CONSERVATION BUFFER, (I) 10.5% IN THE CASE OF THE TOTAL NET CAPITAL (*CAPITAL NETO*), (II) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) AND (III) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY APPLICABLE CAPITAL SUPPLEMENT.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, which as of the date hereof are, including the Capital Conservation Buffer: (a) 10.5% in the case of Total Net Capital (*capital neto*), (b) 8.5% in the case of Tier 1 Capital (*capital básico*), or (c) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus, in each case, any applicable Capital Supplement thereof required under the Mexican Capitalization Requirements.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital

deficiency; in the event that a bank issues subordinated debt, such bank must include in the relevant debt documentation, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that such bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “Systemically Important Bank Capital Supplement”). The CNBV also has the authority to require a countercyclical capital supplement (the “Countercyclical Capital Supplement”) on any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

In May 2016, as a grade II domestic systemically important bank, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. In July 2018, the CNBV ratified this requirement and confirmed the Bank as a grade II domestic systemically important bank. Also, an additional Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements were required to be implemented by the Bank in four annual steps, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank in four annual steps, commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	2017	2018	2019
Minimum Capital Ratios				
Total Net Capital (<i>capital neto</i>).....	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (<i>capital básico</i>).....	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (<i>capital básico fundamental</i>).....	7.23%	7.45%	7.68%	7.90%

As of March 31, 2019, the Bank’s Capital Ratios were (i) 18.11% in the case of Total Net Capital, (ii) 16.27% in the case of Tier 1 Capital and (iii) 13.81% in the case of Fundamental Capital. As of December 31, 2018, the Bank’s Capital Ratios were (i) 17.17% in the case of Total Net Capital, (ii) 15.23% in the case of Tier 1 Capital, and (iii) 12.71% in the case of Fundamental Capital, which in both cases exceed the current regulatory requirements.

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee acting on behalf of the holders of the Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee acting on behalf of the holders of the Notes, shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an

amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

Unclaimed Money, Prescription

If money deposited with the Trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to the Bank, upon its written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured, preferred, subordinated, or any other additional indebtedness, nor does the Indenture require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (the term "holders" only refers to the registered holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder, beneficial owner or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, *provided* that (x) the Bank or an agent acting for the Bank has provided the Trustee with at least 60 days' prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder's obligation to satisfy such a requirement or to make such a claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such

holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Note are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code and the Treasury regulations thereunder (“FATCA”), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitations, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

The Bank will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

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

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto,

including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

Trigger Event and Write-Down

Trigger Event

A “TRIGGER EVENT” WILL BE DEEMED TO HAVE OCCURRED IF:

(I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT THE BANK’S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT); OR

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK’S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK’S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK’S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK’S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS NOT CURED SUCH CAUSE FOR REVOCATION, BY (a) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (b)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF ITS SHARES TO AN IRREVOCABLE TRUST, OR (c) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD (IN THE CASE OF (A) (X)) OR SEVENTH (IN THE CASE OF (A)(Y) AND (A)(Z)) BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES THE BANK OF SUCH DETERMINATION.

Write-Down

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

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

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

THE BANK SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A “WRITE-DOWN NOTICE”) THAT

A TRIGGER EVENT HAS OCCURRED, NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY AN OFFICER OF THE BANK STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

“WRITE-DOWN AMOUNT” MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE LEVEL OF THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 iii) OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 7% (SEVEN PERCENT) (WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER) PLUS THE AMOUNT REQUIRED TO RESTORE ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT AND ANY SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE; OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

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

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

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

Subordination

THE INDENTURE FOR THE NOTES WILL PROVIDE THAT THE NOTES CONSTITUTE SUBORDINATED NON-PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS NO PREFERENTES*) AND (I) WILL RANK SUBORDINATE AND JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO ALL PRESENT AND FUTURE SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS PREFERENTES*) OF THE BANK, (II) WILL RANK *PARI PASSU* WITHOUT PREFERENCE AMONG THEMSELVES AND WITH ALL OTHER PRESENT OR FUTURE UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS OF THE BANK AND (III) WILL RANK SENIOR ONLY TO ALL OUR PRESENT AND FUTURE CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

IN THE EVENT OF THE BANK’S INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION, AND UPON

ANY DISTRIBUTION OF ASSETS TO CREDITORS UPON ANY LIQUIDATION, DISSOLUTION, WINDING UP, REORGANIZATION, ASSIGNMENT FOR THE BENEFIT OF CREDITORS, MARSHALING OF ASSETS OR ANY BANKRUPTCY, INSOLVENCY, *LIQUIDACIÓN* OR *RESOLUCIÓN* OR SIMILAR PROCEEDINGS IN CONNECTION WITH THE INSOLVENCY OR BANKRUPTCY OF THE BANK, (1) ALL PRINCIPAL, PREMIUM, IF ANY, AND INTEREST DUE OR TO BECOME DUE ON ALL SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS MUST BE PAID IN FULL BEFORE THE HOLDERS OF SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) ARE ENTITLED TO RECEIVE OR RETAIN ANY PAYMENT IN RESPECT THEREOF, AND (2) THE HOLDERS OF UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) WILL BE ENTITLED TO RECEIVE *PARI PASSU* AMONG THEMSELVES ANY PAYMENT IN RESPECT THEREOF. THE NOTES AND ALL OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS WILL BE SENIOR TO ALL CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

Definitions

For the purposes of the Notes:

(1) The term “*Senior Indebtedness*” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “*Subordinated Preferred Indebtedness*” refers to *obligaciones subordinadas preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “*Subordinated Non-Preferred Indebtedness*” (including the Notes) refers to *obligaciones subordinadas no preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term “*Indebtedness for Money Borrowed*” is defined in the Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of the Bank’s employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above; and

(5) The term “*Mexican Capitalization Requirements*” is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN “OPTIONAL REDEMPTION”).

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5 % IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5 % IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0 % IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

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

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “WITHHOLDING TAX REDEMPTION”); *PROVIDED, HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE

CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER'S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

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

FOR THE PURPOSES OF THE FOREGOING, THE TERM "WITHHOLDING TAX EVENT" IS DEFINED IN THE INDENTURE TO MEAN (I) THE RECEIPT BY THE BANK AND THE DELIVERY TO THE TRUSTEE OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO OR THE CAYMAN ISLANDS (OR IN THE RELEVANT JURISDICTION, IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A RELEVANT JURISDICTION OTHER THAN MEXICO OR THE CAYMAN ISLANDS) EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF (A) ANY AMENDMENT TO OR CHANGE (INCLUDING ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN "ADMINISTRATIVE ACTION"), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A "CHANGE IN TAX LAW"), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER'S CERTIFICATE STATING THAT THE REQUIREMENT TO PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “SPECIAL EVENT REDEMPTION”); *PROVIDED, HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

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

FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM “SPECIAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM “CAPITAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY THE BANK THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK WILL NOT BE ENTITLED TO TREAT THE NOTES AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND

APPLICABLE TO THE BANK;

(3) THE TERM “TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT INTEREST PAYABLE BY THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE GIVEN TO THE HOLDERS IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN “—NOTICES.” WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELED, INTEREST PAYABLE ON OR PRIOR TO THE REDEMPTION DATE SHALL BE PAYABLE TO THE HOLDERS OF THE NOTES ON THE RELEVANT RECORD DATES. IF NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN AND FUNDS DEPOSITED WITH THE TRUSTEE TO PAY THE APPLICABLE REDEMPTION PRICE FOR THE NOTES BEING REDEEMED, THEN UPON THE DATE OF SUCH DEPOSIT, ALL RIGHTS OF THE HOLDERS OF THE NOTES WILL CEASE WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, EXCEPT THE RIGHT OF THE HOLDERS OF THE NOTES TO RECEIVE THE APPLICABLE REDEMPTION PRICE, BUT WITHOUT INTEREST ON SUCH REDEMPTION PRICE, AND THE NOTES SO REDEEMED WILL CEASE TO BE OUTSTANDING. IN THE EVENT THAT ANY REDEMPTION DATE IN RESPECT OF THE NOTES IS NOT A BUSINESS DAY, THEN THE APPLICABLE REDEMPTION PRICE PAYABLE ON SUCH DATE WILL BE PAID ON THE NEXT SUCCEEDING DAY THAT IS A BUSINESS DAY (WITHOUT ANY INTEREST OR OTHER PAYMENT IN RESPECT OF ANY SUCH DELAY) WITH THE SAME FORCE AND EFFECT AS IF MADE ON SUCH REDEMPTION DATE. IN THE EVENT THAT PAYMENT OF THE APPLICABLE REDEMPTION PRICE IS IMPROPERLY WITHHELD OR REFUSED AND NOT PAID BY THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK TO THE DATE SUCH APPLICABLE REDEMPTION PRICE IS ACTUALLY PAID, AND (2) THE ACTUAL PAYMENT DATE WILL BE THE REDEMPTION DATE FOR PURPOSES OF CALCULATING THE APPLICABLE REDEMPTION PRICE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT

PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS AUTHORIZATION FOR SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED, HOWEVER,* THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, GIVE NOTICE OF ANY SUCH REDEMPTION AT LEAST 30 DAYS BUT NOT MORE THAN 60 DAYS PRIOR TO THE REDEMPTION DATE TO EACH HOLDER OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. UNLESS THE BANK DEFAULTS IN PAYMENT OF THE APPLICABLE AMOUNTS DUE ON, OR IN THE REPAYMENT OF, THE NOTES, ON AND AFTER THE APPLICABLE REDEMPTION DATE, INTEREST DUE WILL CEASE TO ACCRUE ON THE NOTES CALLED FOR REDEMPTION.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL SHALL BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be canceled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x)(a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its

Capital Ratios equal to, or exceeding, the then-applicable Capital Ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum are, including the Capital Conservation Buffer, (i) 10.5% in the case of Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus, in each case, the then-applicable Countercyclical Capital Supplement and Systemically Important Bank Capital Supplement, or (b) the Bank issues securities that replace the amount of Notes so canceled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided, however*, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder and (iii) to the Trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as the Notes are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes:

(a) Within 120 days following the end of each of the Bank’s fiscal years, an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP (“GAAP”), together with an audit report thereon by the Bank’s independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank’s fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank shall furnish to the holders of the Notes, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

Enforcement Events and Remedies

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

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an “Enforcement Event”:

- (i) certain events involving the insolvency (*resolución*) or liquidation of the Bank;
- (ii) a Principal Non-Payment Event (as defined below); or

- (iii) breach of a Performance Obligation (as defined below).

Remedies

- (i) *The occurrence of an insolvency (resolución) or liquidation of the Bank.* If an insolvency (*resolución*) or liquidation of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to an insolvency (*resolución*) or liquidation may affect the timing or amount paid to holders of the Notes. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”
- (ii) *Principal Non-Payment Event.* In the event of any redemption of the Notes described under “—Redemption” above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a “Principal Non-Payment Event”), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes, subject to any applicable laws, institute proceedings for the Bank’s declaration of insolvency (*resolución*) or liquidation. In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.
- (iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank’s payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. For the avoidance of doubt, such limitations shall not apply to the Bank’s obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee’s rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in this offering memorandum.

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

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from an insolvency (*resolución*) or liquidation of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (a) must not be in conflict with any rule of law or the Indenture and (b) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction, in the case of either (a) or (b) as determined by the Trustee in its sole discretion. The Trustee may also take any other action, consistent with the direction of the holders, that it deems proper.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this “*Description of the NC5 Notes*” and to make any other change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México*, the Bank and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México*, the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note, including any provision relating to the obligation of the Bank to pay Additional Amounts, in any manner adverse to the holders of the Notes;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with insolvency (*resolución*) or liquidation of the Bank and the governing law of the Notes, in each case in any manner adverse to the holders of the Notes.

The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a provision that cannot be modified without the consent of each holder of a Note that would be affected. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

(1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:

(x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and

(y) perform and observe all of the other obligations of the Bank under the Indenture;

(2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and

(3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and the Indenture.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under “—*Open Market Purchases and Other Repurchase of Notes*”) or by any person controlled by the Bank, or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments as part of their investment assets, (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves and for securities fluctuations, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Law to Regulate Financial Groups, and (5) the Bank, in the event set forth in section II of the first paragraph of article 28 of the Circular 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing more than 50 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);

(d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; and

(e) related parties to the Bank, as defined in article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:

(i) public offer; or

(ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of article 27 of the Circular 3/2012.

Any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group or corporate group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

Notices

Notice to holders of the Notes, if they are global Notes, will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes, notice to holders will be given by mail to the addresses of such holders as they appear in the security register. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Book-Entry System

The Notes will be initially represented by one or more Global Notes (as defined below).

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and

- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “*Transfer Restrictions.*”

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the “*Rule 144A Global Notes.*” Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the “*Regulation S Global Notes*” and, together with the Rule 144A Global Notes, the “*Global Notes.*”

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream).

Exchanges among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the Trustee of a certification from the transferor of the beneficial interest in the form provided in the Indenture that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, the Bank, the Trustee, any paying agents, transfer agents or registrars will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC

DTC has advised the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies the Bank that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by the Bank within 90 calendar days; or
- the Bank, in its sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "*Transfer Restrictions*."

Registrar, Transfer Agent and Paying Agents

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. The Bank has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting

principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders' Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in “—*Enforcement Events and Remedies*” above.

The Trustee

The Bank of New York Mellon will act as Trustee under the Indenture. Notices to the Trustee should be directed to the Trustee at its Corporate Trust Office, located at 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank may appoint a successor Trustee to act in connection with the Indenture. Any action described in this offering memorandum to be taken by the Trustee may then be taken by the successor trustee. The Trustee has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest for the Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the Trustee's resignation, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event under the Indenture has occurred and is continuing. No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth herein and in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event

the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (I) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (II) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY THE BANK; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY THE BANK, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE BANK, EACH PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF THE INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS AND REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY RIGHT TO WHICH THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS REVENUES, ASSETS OR PROPERTIES SHALL BE ENTITLED TO ANY IMMUNITY FROM SUIT, FROM THE JURISDICTION OF ANY SUCH COURT, FROM ATTACHMENT PRIOR TO JUDGMENT, FROM ATTACHMENT IN AID OF EXECUTION OF JUDGMENT, FROM EXECUTION OF A JUDGMENT OR FROM ANY OTHER LEGAL OR JUDICIAL PROCESS REMEDY, THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE BANK WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS

IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS OR REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUIT, ACTION OR PROCEEDING TO ENFORCE OR EXECUTE ANY JUDGMENT BROUGHT AGAINST THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 28 LIBERTY STREET, FLOOR 42, NEW YORK, NEW YORK 10005, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify, to the fullest extent permitted by applicable law, the relevant recipient against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Replacement of Notes

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

DESCRIPTION OF THE NC10 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank”), will issue its 7.500% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC10 Notes, the “Notes”) through its Cayman Islands branch (the “Branch”). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of June 27, 2019, executed by the Bank and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent (the “Trustee”), and acknowledged by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*; the “CNBV”), which may be amended or supplemented from time to time (for purposes of this Description of the NC10 Notes, the “Indenture”), pursuant to Article 64 of the Law of Credit Institutions (*Ley de Instituciones de Crédito*) and Circular 3/2012 issued by the Mexican Central Bank (the “Circular 3/2012”), with the prior approval of the stockholders’ meeting of the Bank and the Mexican Central Bank.

This summary description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions of certain terms included therein. The Bank urges you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the relevant Mexican law will prevail. Capitalized terms not otherwise defined in this “*Description of the NC5 Notes*” have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on June 27, 2029 and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.\$ 500,000,000 in registered form, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank’s general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness (as defined below) and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future Senior Indebtedness (as defined below) and Subordinated Preferred Indebtedness (as defined below), (ii) *pari passu* without preference among themselves and with all the Bank’s present and future other unsecured Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of the Bank’s equity or capital stock, as described in this offering memorandum. See “—*Subordination*.” The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of March 31, 2019, the Bank had approximately Ps.12,487 million (U.S.\$644 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps.20,453 million (U.S.\$1,056 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO* (THE “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. (“GRUPO FINANCIERO BANORTE”) OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES (INCLUDING THE BANK OR ANY OTHER THIRD PARTY). THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK’S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER “—REDEMPTION—OPTIONAL REDEMPTION,” “—REDEMPTION—WITHHOLDING TAX REDEMPTION” AND “—REDEMPTION—SPECIAL EVENT REDEMPTION”, IN EACH CASE WITH THE PRIOR APPROVAL OF *BANCO DE MÉXICO*. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under “—*Book-Entry System*.”

The Bank will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank’s credit quality resulting from a takeover, recapitalization or restructuring or any other event involving the Bank that may adversely affect the Bank’s credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including June 27, 2019 (the “Issue Date”), to (but excluding) June 27, 2029 (for purposes of this Description of the NC10 Notes, the “First Call Date”), at an initial fixed rate *per annum* equal to 7.500%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every tenth anniversary thereafter shall each be a “Reset Date” (for purposes of this Description of the NC10 Notes). Subject to a prior redemption and/or one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 547 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

“*Treasury Yield*” means, as of any Reset Determination Date (as defined below), an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the *per annum* rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

“*H.15 (519)*” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

“*Reset Determination Date*” means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

“*Current Principal Amount*” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes as permitted herein, as the case may be.

“*Original Principal Amount*” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

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

Subject to the provisions under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*,” from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears on June 27, September 27, December 27 and March 27 of each year (each an “Interest Payment Date”), commencing on September 27, 2019. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, the First Call Date or an earlier redemption date, as the case may be, is called an “Interest Period.” If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by the Paying Agent by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the fifteenth day preceding the respective Interest Payment Date (such date, a “Record Date,” whether or not a Business Day).

For purposes hereof, the term Business Day is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

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

IF THE BANK ELECTS NOT TO MAKE AN INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, OR IF THE BANK ELECTS TO MAKE A PAYMENT OF A PORTION, BUT NOT ALL, OF SUCH INTEREST PAYMENT, SUCH NON-PAYMENT SHALL EVIDENCE ITS EXERCISE OF DISCRETION TO CANCEL SUCH INTEREST PAYMENT, OR THE PORTION OF SUCH INTEREST PAYMENT NOT PAID, AND ACCORDINGLY SUCH INTEREST PAYMENT, OR PORTION THEREOF, SHALL BE CANCELED AND SHALL NOT BE OR BECOME DUE AND PAYABLE. FOR THE AVOIDANCE OF DOUBT, IF THE BANK PROVIDES NOTICE TO CANCEL A PORTION, BUT NOT ALL, OF AN INTEREST PAYMENT IN RESPECT OF THE NOTES, AND THE BANK SUBSEQUENTLY DOES NOT MAKE A PAYMENT OF THE REMAINING PORTION OF SUCH INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, SUCH NON-PAYMENT WILL EVIDENCE THE BANK'S EXERCISE OF ITS DISCRETION TO CANCEL SUCH REMAINING PORTION OF SUCH INTEREST PAYMENT, AND ACCORDINGLY SUCH REMAINING PORTION OF THE INTEREST PAYMENT WILL ALSO NOT BE DUE AND PAYABLE.

SUCH CANCELED INTEREST SHALL NOT ACCUMULATE OR BE DUE AND PAYABLE AT ANY TIME THEREAFTER AND THE HOLDERS AND THE BENEFICIAL OWNERS OF THE NOTES SHALL NOT HAVE ANY RIGHT TO OR CLAIM AGAINST THE BANK WITH RESPECT TO SUCH UNPAID INTEREST AMOUNT. ANY SUCH CANCELLATION OF ANY INTEREST PAYMENT SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES SHALL HAVE NO RIGHTS THERETO OR TO RECEIVE ANY ADDITIONAL INTEREST OR AMOUNTS, PENALTY OR COMPENSATION AS A RESULT OF SUCH CANCELLATION.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under "*Redemption*," unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs of the Notes upon the occurrence of a Trigger Event (as defined below), as described under "*Trigger Event and Write-Down—Write-Down*" below, any accrued but unpaid interest on the Notes shall be canceled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time.

See also "*Agreement to Interest Cancellation*" and "*Notice of Interest Cancellation*" below.

Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) payable in connection therewith have been paid, the Bank shall not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or

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

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (AS DEFINED BELOW) AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW), INCLUDING THE CAPITAL CONSERVATION BUFFER, ARE (I) 10.5% IN RESPECT OF TOTAL NET CAPITAL (*CAPITAL NETO*), (II) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) AND (III) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS IN EACH CASE, ANY OTHER APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE II DOMESTIC SYSTEMICALLY IMPORTANT BANKS OF 0.90% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT (AS DEFINED BELOW, AND TOGETHER WITH THE SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, A “CAPITAL SUPPLEMENT”) APPLICABLE TO THE BANK. THESE CAPITAL SUPPLEMENTS ARE BEING IMPLEMENTED BY THE BANK IN FOUR ANNUAL STEPS, ONE FOURTH EACH DECEMBER, STARTING DECEMBER 31, 2016).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES THE APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON THE DATE OF ANY WRITE-DOWN OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL PREVIOUSLY CANCELED INTEREST WILL CONTINUE TO BE CANCELED.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

- (c) interest is payable solely at the Bank's discretion, and no amount of interest shall become due and payable in respect of the relevant Interest Period to the extent that it has been canceled by the Bank (in whole or in part) at its sole discretion and/or has been canceled as a result of the occurrence and continuation of an Interest Cancellation Event; and
- (d) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event, under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not canceled (in whole or in part) in accordance with the provisions described under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*.” Any interest canceled (in whole or in part) under the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

ARTICLE 122 OF THE MEXICAN BANKING LAW PROVIDES THAT IF A MEXICAN BANK DOES NOT COMPLY WITH THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, SUCH BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV, WHICH MAY INCLUDE:

(1) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF, AND SUBMIT A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS; THE BANK SHALL PROVIDE WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF;

(2) WITHIN A PERIOD NOT TO EXCEED SEVEN (7) BUSINESS DAYS, FILING WITH THE CNBV, FOR ITS APPROVAL, A CAPITAL RECOVERY PLAN TO INCREASE THE BANK'S CAPITAL RATIOS; THE BANK'S CAPITAL RECOVERY PLAN SHALL BE APPROVED BY SUCH BANK'S BOARD OF DIRECTORS BEFORE IT IS SUBMITTED TO THE CNBV;

(3) SUSPENDING ANY PAYMENT OF DIVIDENDS TO ITS SHAREHOLDERS, AS WELL AS ANY MECHANISM OR ACT FOR THE MAKING OF ANY DISTRIBUTIONS OR THE GRANTING OF ANY ECONOMIC BENEFITS TO SHAREHOLDERS;

(4) SUSPENDING ANY SHARE REPURCHASE PROGRAMS;

(5) DEFERRING OR CANCELING PAYMENT OF INTEREST AND DEFERRING OR CANCELING THE PAYMENT OF PRINCIPAL ON OUTSTANDING SUBORDINATED DEBT, AS THE CASE MAY BE, OR, IF APPLICABLE, EXCHANGING OUTSTANDING CONVERTIBLE SUBORDINATED DEBT INTO SHARES OF THE BANK IN THE AMOUNT NECESSARY TO COVER THE CAPITAL DEFICIENCY IF ORDERED BY THE CNBV; THESE CORRECTIVE MEASURES SHALL BE APPLICABLE TO SUBORDINATED DEBT CONSIDERED PART OF THE BANK'S TIER 1 CAPITAL (*CAPITAL BÁSICO*) OR TIER 2 CAPITAL (*CAPITAL COMPLEMENTARIO*); IN THE EVENT THAT THE BANK ISSUES SUBORDINATED DEBT, THE BANK IS OBLIGATED TO INCLUDE IN THE DOCUMENTATION EVIDENCING SUCH DEBT, IN THE APPLICABLE INDENTURE AND IN THE APPLICABLE OFFERING DOCUMENT, THAT SUCH DEFERRAL OR CANCELLATION OF PAYMENT OF PRINCIPAL OR DEFERRAL AND CANCELLATION OF PAYMENTS OF INTEREST, AS THE CASE MAY BE, SHALL APPLY UPON THE OCCURRENCE OF CERTAIN EVENTS AS PROVIDED IN THE GENERAL RULES APPLICABLE TO MEXICAN BANKS AND THAT THE IMPLEMENTATION OF SUCH MEASURES SHALL NOT BE CONSIDERED A DEFAULT UNDER THE RELEVANT DEBT DOCUMENTATION;

(6) SUSPENDING PAYMENT OF ANY EXTRAORDINARY BENEFITS AND BONUSES THAT ARE NOT A COMPONENT OF THE ORDINARY SALARY OF THE GENERAL DIRECTOR OR ANY OFFICER WITHIN THE NEXT TWO LEVELS OF SENIORITY, AND SUSPENDING THE GRANTING OF NEW BENEFITS TO THE GENERAL DIRECTOR AND THE OFFICERS MENTIONED ABOVE UNTIL THE BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS SET FORTH UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS;

(7) ABSTAINING FROM INCREASING OUTSTANDING AMOUNTS OF ANY LOANS GRANTED TO ANY PERSON WHO IS A RELATED PARTY OF THE BANK PURSUANT TO ARTICLE 73 AND RELATED PROVISIONS OF THE MEXICAN BANKING LAW; AND

(8) ANY OTHER CORRECTIVE MEASURES THAT, IN EACH CASE, ARE PROVIDED BY THE GENERAL RULES APPLICABLE TO MEXICAN BANKS.

ARTICLE 122 OF THE MEXICAN BANKING LAW FURTHER PROVIDES THAT:

(1) IF A MEXICAN BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS REQUIRED PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS BUT ANY OF ITS CAPITAL RATIOS IS BELOW THE CAPITAL RATIOS REQUIRED TO BE SATISFIED FOR A BANK NOT TO BE SUBJECT TO ANY CORRECTIVE MEASURES, SUCH BANK MUST IMPLEMENT CERTAIN CORRECTIVE MEASURES ORDERED BY THE CNBV, INCLUDING, AMONG OTHERS, (A) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF AND SUBMITTING A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS INCLUDING THE PRINCIPAL REGULATORY RATIOS, THAT REFLECT THE BANK'S DEGREE OF STABILITY AND SOLVENCY (TOGETHER WITH ANY DETERMINATIONS OR INDICATIONS MADE BY ANY OF THE CNBV OR *BANCO DE MÉXICO*) AND PROVIDING WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE

STATUS THEREOF; (B) ABSTAINING FROM ENTERING INTO ANY TRANSACTION THAT MAY DECREASE THE BANK'S CAPITAL RATIOS BELOW THE MEXICAN CAPITALIZATION REQUIREMENTS; AND (C) ANY OTHER CORRECTIVE MEASURES ORDERED BY THE CNBV.

(2) REGARDLESS OF THE CAPITALIZATION LEVEL, THE CNBV MAY ORDER THE IMPLEMENTATION OF ADDITIONAL SPECIAL CORRECTIVE MEASURES, INCLUDING, AMONG OTHERS: (1) REQUIRING COMPLIANCE WITH ADDITIONAL CORRECTIVE MEASURES THAT THE BANK WILL BE REQUIRED TO CARRY OUT TO AVOID A DECREASE OF ITS CAPITAL RATIOS; (2) SPECIAL AUDITS TO BE PERFORMED BY SPECIAL AUDITORS IN CONNECTION WITH SPECIFIC MATTERS; (3) ABSTAINING FROM INCREASING THE SALARIES AND BENEFITS OF ALL OFFICERS AND EMPLOYEES OF THE BANK, EXCEPT FOR ANY CHANGE IN SALARY PREVIOUSLY AGREED ON AND SUBJECT TO THE OFFICERS' AND EMPLOYEES' LABOR RIGHTS; (4) REMOVING OFFICERS, DIRECTORS, STATUTORY AUDITORS OR EXTERNAL AUDITORS OR APPOINTING ANY PERSONS TO SUCH POSITIONS; OR (5) ANY OTHER MEASURES ORDERED BY THE CNBV, BASED ON ITS INSPECTION AND SUPERVISION AUTHORITIES.

(3) IF A MEXICAN BANK DOES NOT COMPLY WITH ANY CAPITAL SUPPLEMENT REQUIREMENTS PURSUANT TO THE MEXICAN BANKING LAW AND THE MEXICAN CAPITALIZATION REQUIREMENTS, THE CNBV MAY ORDER THE BANK TO SUSPEND ANY PAYMENT OF DIVIDENDS OR OTHER DISTRIBUTIONS TO ITS SHAREHOLDERS.

(4) CORRECTIVE MEASURES WILL NOT BE APPLICABLE TO MEXICAN BANKS WITH A CAPITAL RATIO EQUAL TO OR GREATER THAN THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

ARTICLE 122 OF THE MEXICAN BANKING LAW SPECIFIES THAT IF A BANK DOES NOT SATISFY THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, THE BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV. CURRENTLY, THE MINIMUM CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I ARE, INCLUDING THE CAPITAL CONSERVATION BUFFER, (I) 10.5% IN THE CASE OF THE TOTAL NET CAPITAL (*CAPITAL NETO*), (II) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) AND (III) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY APPLICABLE CAPITAL SUPPLEMENT.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, which as of the date hereof are, including the Capital Conservation Buffer: (a) 10.5% in the case of Total Net Capital (*capital neto*), (b) 8.5% in the case of Tier 1 Capital (*capital básico*), or (c) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus, in each case, any applicable Capital Supplement thereof required under the Mexican Capitalization Requirements.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital

deficiency; in the event that a bank issues subordinated debt, such bank must include in the relevant debt documentation, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that such bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “Systemically Important Bank Capital Supplement”). The CNBV also has the authority to require a countercyclical capital supplement (the “Countercyclical Capital Supplement”) on any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

In May 2016, as a grade II domestic systemically important bank, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. In July 2018, the CNBV ratified this requirement and confirmed the Bank as a grade II domestic systemically important bank. Also, an additional Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements were required to be implemented by the Bank in four annual steps, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by the Bank in four annual steps, commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Commencing December 31,			
	2016	2017	2018	2019
Minimum Capital Ratios				
Total Net Capital (<i>capital neto</i>).....	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (<i>capital básico</i>).....	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (<i>capital básico fundamental</i>).....	7.23%	7.45%	7.68%	7.90%

As of March 31, 2019, the Bank’s Capital Ratios were (i) 18.11% in the case of Total Net Capital, (ii) 16.27% in the case of Tier 1 Capital and (iii) 13.81% in the case of Fundamental Capital. As of December 31, 2018, the Bank’s Capital Ratios were (i) 17.17% in the case of Total Net Capital, (ii) 15.23% in the case of Tier 1 Capital, and (iii) 12.71% in the case of Fundamental Capital, which in both cases exceed the current regulatory requirements.

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee acting on behalf of the holders of the Notes may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee acting on behalf of the holders of the Notes, shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an

amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

Unclaimed Money, Prescription

If money deposited with the Trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to the Bank, upon its written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured, preferred, subordinated, or any other additional indebtedness, nor does the Indenture require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (the term "holders" only refers to the registered holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder, beneficial owner or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, *provided* that (x) the Bank or an agent acting for the Bank has provided the Trustee with at least 60 days' prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder's obligation to satisfy such a requirement or to make such a claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such

holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Note are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code and the Treasury regulations thereunder (“FATCA”), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitations, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

The Bank will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

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

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto,

including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

Trigger Event and Write-Down

Trigger Event

A “TRIGGER EVENT” WILL BE DEEMED TO HAVE OCCURRED IF:

(I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT THE BANK’S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT); OR

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK’S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK’S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK’S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK’S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS NOT CURED SUCH CAUSE FOR REVOCATION, BY (a) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (b)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF ITS SHARES TO AN IRREVOCABLE TRUST, OR (c) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD (IN THE CASE OF (A) (X)) OR SEVENTH (IN THE CASE OF (A)(Y) AND (A)(Z)) BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES THE BANK OF SUCH DETERMINATION.

Write-Down

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

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

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

THE BANK SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A “WRITE-DOWN NOTICE”) THAT

A TRIGGER EVENT HAS OCCURRED, NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY AN OFFICER OF THE BANK STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

“WRITE-DOWN AMOUNT” MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE LEVEL OF THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 iii) OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 7% (SEVEN PERCENT) (WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER) PLUS THE AMOUNT REQUIRED TO RESTORE ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT AND ANY SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE; OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

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

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

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

Subordination

THE INDENTURE FOR THE NOTES WILL PROVIDE THAT THE NOTES CONSTITUTE SUBORDINATED NON-PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS NO PREFERENTES*) AND (I) WILL RANK SUBORDINATE AND JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO ALL PRESENT AND FUTURE SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS PREFERENTES*) OF THE BANK, (II) WILL RANK *PARI PASSU* WITHOUT PREFERENCE AMONG THEMSELVES AND WITH ALL OTHER PRESENT OR FUTURE UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS OF THE BANK AND (III) WILL RANK SENIOR ONLY TO ALL OUR PRESENT AND FUTURE CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

IN THE EVENT OF THE BANK’S INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION, AND UPON

ANY DISTRIBUTION OF ASSETS TO CREDITORS UPON ANY LIQUIDATION, DISSOLUTION, WINDING UP, REORGANIZATION, ASSIGNMENT FOR THE BENEFIT OF CREDITORS, MARSHALING OF ASSETS OR ANY BANKRUPTCY, INSOLVENCY, *LIQUIDACIÓN* OR *RESOLUCIÓN* OR SIMILAR PROCEEDINGS IN CONNECTION WITH THE INSOLVENCY OR BANKRUPTCY OF THE BANK, (1) ALL PRINCIPAL, PREMIUM, IF ANY, AND INTEREST DUE OR TO BECOME DUE ON ALL SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS MUST BE PAID IN FULL BEFORE THE HOLDERS OF SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) ARE ENTITLED TO RECEIVE OR RETAIN ANY PAYMENT IN RESPECT THEREOF, AND (2) THE HOLDERS OF UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) WILL BE ENTITLED TO RECEIVE *PARI PASSU* AMONG THEMSELVES ANY PAYMENT IN RESPECT THEREOF. THE NOTES AND ALL OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS WILL BE SENIOR TO ALL CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

Definitions

For the purposes of the Notes:

(1) The term “*Senior Indebtedness*” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “*Subordinated Preferred Indebtedness*” refers to *obligaciones subordinadas preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “*Subordinated Non-Preferred Indebtedness*” (including the Notes) refers to *obligaciones subordinadas no preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term “*Indebtedness for Money Borrowed*” is defined in the Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of the Bank’s employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above; and

(5) The term “*Mexican Capitalization Requirements*” is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN “OPTIONAL REDEMPTION”).

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5 % IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5 % IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0 % IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

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

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “WITHHOLDING TAX REDEMPTION”); *PROVIDED, HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE

CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER'S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

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

FOR THE PURPOSES OF THE FOREGOING, THE TERM "WITHHOLDING TAX EVENT" IS DEFINED IN THE INDENTURE TO MEAN (I) THE RECEIPT BY THE BANK AND THE DELIVERY TO THE TRUSTEE OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO OR THE CAYMAN ISLANDS (OR IN THE RELEVANT JURISDICTION, IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A RELEVANT JURISDICTION OTHER THAN MEXICO OR THE CAYMAN ISLANDS) EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF (A) ANY AMENDMENT TO OR CHANGE (INCLUDING ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN "ADMINISTRATIVE ACTION"), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A "CHANGE IN TAX LAW"), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER'S CERTIFICATE STATING THAT THE REQUIREMENT TO PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “SPECIAL EVENT REDEMPTION”); *PROVIDED, HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, AND (Z) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER, PLUS, IN EACH CASE, THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

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

FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM “SPECIAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM “CAPITAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY THE BANK THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK WILL NOT BE ENTITLED TO TREAT THE NOTES AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND

APPLICABLE TO THE BANK;

(3) THE TERM “TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT INTEREST PAYABLE BY THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE GIVEN TO THE HOLDERS IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN “—NOTICES.” WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELED, INTEREST PAYABLE ON OR PRIOR TO THE REDEMPTION DATE SHALL BE PAYABLE TO THE HOLDERS OF THE NOTES ON THE RELEVANT RECORD DATES. IF NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN AND FUNDS DEPOSITED WITH THE TRUSTEE TO PAY THE APPLICABLE REDEMPTION PRICE FOR THE NOTES BEING REDEEMED, THEN UPON THE DATE OF SUCH DEPOSIT, ALL RIGHTS OF THE HOLDERS OF THE NOTES WILL CEASE WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, EXCEPT THE RIGHT OF THE HOLDERS OF THE NOTES TO RECEIVE THE APPLICABLE REDEMPTION PRICE, BUT WITHOUT INTEREST ON SUCH REDEMPTION PRICE, AND THE NOTES SO REDEEMED WILL CEASE TO BE OUTSTANDING. IN THE EVENT THAT ANY REDEMPTION DATE IN RESPECT OF THE NOTES IS NOT A BUSINESS DAY, THEN THE APPLICABLE REDEMPTION PRICE PAYABLE ON SUCH DATE WILL BE PAID ON THE NEXT SUCCEEDING DAY THAT IS A BUSINESS DAY (WITHOUT ANY INTEREST OR OTHER PAYMENT IN RESPECT OF ANY SUCH DELAY) WITH THE SAME FORCE AND EFFECT AS IF MADE ON SUCH REDEMPTION DATE. IN THE EVENT THAT PAYMENT OF THE APPLICABLE REDEMPTION PRICE IS IMPROPERLY WITHHELD OR REFUSED AND NOT PAID BY THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK TO THE DATE SUCH APPLICABLE REDEMPTION PRICE IS ACTUALLY PAID, AND (2) THE ACTUAL PAYMENT DATE WILL BE THE REDEMPTION DATE FOR PURPOSES OF CALCULATING THE APPLICABLE REDEMPTION PRICE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT

PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS AUTHORIZATION FOR SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED, HOWEVER,* THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, GIVE NOTICE OF ANY SUCH REDEMPTION AT LEAST 30 DAYS BUT NOT MORE THAN 60 DAYS PRIOR TO THE REDEMPTION DATE TO EACH HOLDER OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. UNLESS THE BANK DEFAULTS IN PAYMENT OF THE APPLICABLE AMOUNTS DUE ON, OR IN THE REPAYMENT OF, THE NOTES, ON AND AFTER THE APPLICABLE REDEMPTION DATE, INTEREST DUE WILL CEASE TO ACCRUE ON THE NOTES CALLED FOR REDEMPTION.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL SHALL BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be canceled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x)(a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its

Capital Ratios equal to, or exceeding, the then-applicable Capital Ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum are, including the Capital Conservation Buffer, (i) 10.5% in the case of Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus, in each case, the then-applicable Countercyclical Capital Supplement and Systemically Important Bank Capital Supplement, or (b) the Bank issues securities that replace the amount of Notes so canceled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided, however*, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder and (iii) to the Trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as the Notes are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes:

(a) Within 120 days following the end of each of the Bank’s fiscal years, an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP (“GAAP”), together with an audit report thereon by the Bank’s independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank’s fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank shall furnish to the holders of the Notes, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

Enforcement Events and Remedies

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

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an “Enforcement Event”:

- (i) certain events involving the insolvency (*resolución*) or liquidation of the Bank;
- (ii) a Principal Non-Payment Event (as defined below); or

- (iii) breach of a Performance Obligation (as defined below).

Remedies

- (i) *The occurrence of an insolvency (resolución) or liquidation of the Bank.* If an insolvency (*resolución*) or liquidation of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to an insolvency (*resolución*) or liquidation may affect the timing or amount paid to holders of the Notes. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”
- (ii) *Principal Non-Payment Event.* In the event of any redemption of the Notes described under “—Redemption” above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a “Principal Non-Payment Event”), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes, subject to any applicable laws, institute proceedings for the Bank’s declaration of insolvency (*resolución*) or liquidation. In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.
- (iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank’s payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. For the avoidance of doubt, such limitations shall not apply to the Bank’s obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee’s rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in this offering memorandum.

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

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from an insolvency (*resolución*) or liquidation of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (a) must not be in conflict with any rule of law or the Indenture and (b) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction, in the case of either (a) or (b) as determined by the Trustee in its sole discretion. The Trustee may also take any other action, consistent with the direction of the holders, that it deems proper.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this “*Description of the NC10 Notes*” and to make any other change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México*, the Bank and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México*, the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note, including any provision relating to the obligation of the Bank to pay Additional Amounts, in any manner adverse to the holders of the Notes;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with insolvency (*resolución*) or liquidation of the Bank and the governing law of the Notes, in each case in any manner adverse to the holders of the Notes.

The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a provision that cannot be modified without the consent of each holder of a Note that would be affected. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

(1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:

(x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and

(y) perform and observe all of the other obligations of the Bank under the Indenture;

(2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and

(3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and the Indenture.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under “—*Open Market Purchases and Other Repurchase of Notes*”) or by any person controlled by the Bank, or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments as part of their investment assets, (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves and for securities fluctuations, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Law to Regulate Financial Groups, and (5) the Bank, in the event set forth in section II of the first paragraph of article 28 of the Circular 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing more than 50 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);

(d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; and

(e) related parties to the Bank, as defined in article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:

(i) public offer; or

(ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of article 27 of the Circular 3/2012.

Any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group or corporate group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

Notices

Notice to holders of the Notes, if they are global Notes, will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes, notice to holders will be given by mail to the addresses of such holders as they appear in the security register. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Book-Entry System

The Notes will be initially represented by one or more Global Notes (as defined below).

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and

- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “*Transfer Restrictions*.”

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the “*Rule 144A Global Notes*.” Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the “*Regulation S Global Notes*” and, together with the Rule 144A Global Notes, the “*Global Notes*.”

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream).

Exchanges among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the Trustee of a certification from the transferor of the beneficial interest in the form provided in the Indenture that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, the Bank, the Trustee, any paying agents, transfer agents or registrars will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC

DTC has advised the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies the Bank that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by the Bank within 90 calendar days; or
- the Bank, in its sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "*Transfer Restrictions*."

Registrar, Transfer Agent and Paying Agents

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. The Bank has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting

principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders' Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in “—*Enforcement Events and Remedies*” above.

The Trustee

The Bank of New York Mellon will act as Trustee under the Indenture. Notices to the Trustee should be directed to the Trustee at its Corporate Trust Office, located at 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank may appoint a successor Trustee to act in connection with the Indenture. Any action described in this offering memorandum to be taken by the Trustee may then be taken by the successor trustee. The Trustee has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest for the Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the Trustee's resignation, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event under the Indenture has occurred and is continuing. No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth herein and in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event

the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (I) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (II) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY THE BANK; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY THE BANK, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE BANK, EACH PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF THE INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS AND REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY RIGHT TO WHICH THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS REVENUES, ASSETS OR PROPERTIES SHALL BE ENTITLED TO ANY IMMUNITY FROM SUIT, FROM THE JURISDICTION OF ANY SUCH COURT, FROM ATTACHMENT PRIOR TO JUDGMENT, FROM ATTACHMENT IN AID OF EXECUTION OF JUDGMENT, FROM EXECUTION OF A JUDGMENT OR FROM ANY OTHER LEGAL OR JUDICIAL PROCESS REMEDY, THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE BANK WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS

IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS OR REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUIT, ACTION OR PROCEEDING TO ENFORCE OR EXECUTE ANY JUDGMENT BROUGHT AGAINST THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 28 LIBERTY STREET, FLOOR 42, NEW YORK, NEW YORK 10005, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify, to the fullest extent permitted by applicable law, the relevant recipient against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Replacement of Notes

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

TRANSFER RESTRICTIONS

The Notes of each series are subject to restrictions on transfer as summarized below. By purchasing Notes of either or both series you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:
 - The offering is being made in accordance with Rule 144A and Regulation S;
 - the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance on Rule 144A; or
 - you are not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum.
4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:
 - (a) under a registration statement that has been declared effective under the Securities Act;
 - (b) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
 - (c) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S; or

(d) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

5. You understand that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise determined by us:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR CNBV), AND, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL OR ACCREDITED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND THE REGULATIONS THEREUNDER. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THIS OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND FOR INFORMATIONAL PURPOSES ONLY. THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM. THE ACQUISITION OF THE NOTES BY INVESTORS WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1)

REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE COMPANY RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

6. If you are a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, you acknowledge and agree that, until the expiration of the 40-day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE,

BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR CNBV), AND, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL OR ACCREDITED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THIS OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND FOR INFORMATIONAL PURPOSES ONLY. THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT, THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

7. You represent that either (i) you are not, and for so long as you hold the Notes or any interest therein will not be, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA or any other plan, individual retirement account or arrangement that is subject Section 4975 of the Code (each, a "Plan"), (2) any governmental, church or non-U.S. plan or other arrangement (a "Non-ERISA Arrangement") that is subject to any applicable federal, state, local, non U.S. or Similar Laws, or (3) any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.
8. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion

with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

FORM OF NOTES, CLEARING AND SETTLEMENT

Global Notes

The notes of each series will be issued in the form of one or more registered notes in global form, without interest coupons (the “Global Notes”), as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by a Restricted Global Note; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by a Regulation S Global Note.

Upon issuance, each of the Global Notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC (“DTC participants”), including Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”), or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC’s custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Regulation S Global Note will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests. Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below. Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

Exchanges Between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note of the same series. Depending on whether the transfer is being made during or after the 40-day period commencing on the original issue date of the notes, and to which Global Note the transfer is being made, the trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may

be changed at any time. None of us, the trustee nor the initial purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the New York State Banking Law;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and certain other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or its nominee will be considered the sole owner or holder of the notes represented by that Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the registered owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium, if any, and interest with respect to the notes represented by a global note will be made by the trustee to DTC’s nominee as the registered holder of the Global Note. Neither we nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices and will be the responsibility of those participants or indirect participants and not of DTC, its nominee or us.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream account, an investor must send transfer instructions to Euroclear or Clearstream, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream immediately following the DTC settlement date. Cash received in Euroclear or Clearstream from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC, Euroclear and Clearstream have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form unless:

- DTC notifies us at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Securities Exchange Act of 1934, as amended, and a successor depositary is not appointed within 90 days;
- we, at our option, notify the trustee that we elect to cause the issuance of certificated notes; or
- certain other events provided in the indenture occur, including the occurrence and continuance of an event of default with respect to the notes.

In all cases, certificated notes delivered in exchange for any Global Note will be registered in the names, and issued in any approved denominations, requested by the depositary and will bear a legend indicating the transfer restrictions of that particular Global Note.

For information concerning paying agents and transfer agents for any notes in certificated form, see “Description of the NC5 Notes—General,” “Description of the NC5 Notes—Interest,” “Description of the NC10 Notes—General,” “Description of the NC10 Notes—Interest,” “Description of the NC5 Notes—Registrar, Transfer Agent and Paying Agents” and “Description of the NC10 Notes—Registrar, Transfer Agent and Paying Agents.”

TAXATION

The following discussion summarizes certain federal Mexican and U.S. income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the Notes. The summary does not purport to be a comprehensive description of all potential Mexican federal income tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, and is not intended as tax advice to any particular investor. This discussion is for general information purposes only and is based upon the federal tax laws of Mexico (including the Mexican Income Tax Law –Ley del Impuesto sobre la Renta- and the Mexican Federal Tax Code – Código Fiscal de la Federación) and the United States as in effect on the date of this offering memorandum, which are subject to change, and such changes may have retroactive effect. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Mexico and the United States.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican, United States or other tax consequences (including tax consequences arising under double-taxation treaties that are in full force and effect) of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, municipal, foreign or other tax laws.

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of the Notes that is a U.S. Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering and will hold them as capital assets. It does not address the tax treatment of holders that may be subject to special tax rules, such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. expatriates and former citizens or long-term residents of the United States;
- persons that are resident or ordinarily resident in or have permanent establishment in a jurisdiction outside the United States;
- U.S. Holders who own or are deemed to own 10% or more (by vote or value) of the Bank's stock;
- persons who hold their Notes as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;

- persons who purchase or sell their Notes as part of a wash sale for tax purposes; and
- “S corporations,” partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein).

Moreover, this discussion does not address any tax consequences relating to the alternative minimum tax or the Medicare tax on investment income or any tax consequences other than U.S. federal income tax consequences (such as the estate or gift tax).

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein, possibly with retroactive effect. Each holder should consult its own tax advisors about the tax consequences of the purchase, ownership and disposition of the Notes in light of such holder’s particular circumstances, including the tax consequences under state, local, foreign and other tax laws and the possible effects of any changes in applicable tax laws.

For purposes of this discussion, a “U.S. Holder” means a beneficial owner of Notes that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds Notes the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership for U.S. federal income tax purposes and the partners in such partnership are urged to consult their tax advisors about the U.S. federal income tax consequences of the acquisition of Notes.

Characterization of the Notes

The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Despite the fact that the Notes are denominated as debt, the Notes should be treated as an equity interest in the Bank for U.S. federal income tax purposes. The Notes have several equity-like features, including (1) the absence of a fixed maturity date, (2) provisions for the cancellation of interest payments and the Write-Down of principal, and (3) the subordination of the Notes to Senior Indebtedness and Subordinated Preferred Indebtedness of the Bank. By purchasing a Note, each holder agrees to treat the Note as an equity interest in the Bank for U.S. federal income tax purposes. Accordingly, each “interest” payment should be treated as a distribution by the Bank with respect to such equity interest, and any reference in this discussion to “dividends” or “distributions” refers to the “interest” payments on the Notes. However, the Bank’s characterization of the Notes is not binding on the Internal Revenue Service (the “IRS”). The remainder of this discussion assumes that the Notes will be characterized as equity in the Bank for U.S. federal income tax purposes.

Tax Treatment of Payments on the Notes

Subject to the discussion below under “—PFIC Rules,” payments of stated interest on the Notes will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions paid to a U.S. Holder generally will be reported as dividends.

Subject to the discussion below under “—PFIC Rules,” dividends received by an individual generally will be subject to taxation at the maximum rate applicable to long-term capital gains if the dividends are “qualified dividends.” Generally, dividends will be treated as qualified dividends if: (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision; and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC. We expect that dividends received or accrued on the Notes will be of the type of dividend that is eligible to be a qualified dividend, although there is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for U.S. federal income tax purposes but have the legal form of debt. U.S. Holders should consult their own tax advisors regarding the availability of this reduced dividend tax rate for interest payments on the Notes.

Sale, Exchange, Redemption or Write-Down of the Notes

Subject to the discussion below under “—PFIC Rules,” a U.S. Holder will recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Notes or a total Write-Down of Notes in an amount equal to the difference between the amount realized on such disposition (or zero in the case of a total Write-Down) and the holder’s adjusted tax basis in such Notes. A U.S. Holder’s tax basis in a Note generally will be the price such holder paid for the Note. Any capital gain or loss will be long-term if the Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition or Write-Down. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations. U.S. Holders should also consult their own tax advisors regarding potential tax consequences to them in case of a partial Write-Down of the Notes.

PFIC Rules

Special U.S. federal income tax rules would apply to us if we were classified as a PFIC. We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable “look-through rules”) either (i) 75% or more of our gross income consists of certain types of “passive income” or (ii) 50% or more of the average quarterly value of our assets is attributable to “passive assets” (assets that produce or are held for the production of passive income). For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets and gains from commodities transactions. The application of the PFIC rules to banks is unclear under present U.S. federal income tax law. Banks generally derive a substantial part of their income from assets that are interest-bearing or that otherwise could be considered passive under the PFIC rules. The IRS has issued a Notice and has proposed Treasury regulations that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the “Active Bank Exception”). The IRS Notice and proposed Treasury regulations have different requirements for qualifying as a foreign bank and for determining the banking income that may be excluded from passive income under the Active Bank Exception. The proposed Treasury regulations have been outstanding since 1995 and will not be effective unless finalized. Accordingly, the application of these rules to us is subject to substantial uncertainty.

Based on our Audited Consolidated Financial Statements, our Unaudited Condensed Consolidated Interim Financial Statements and certain administrative pronouncements by the IRS and proposed Treasury regulations which are not yet in effect and assuming our financial results (including our gross income and gross assets) as of March 31, 2019 are representative of our financial results (including our gross income and gross assets), we believe

that we were not classified as a PFIC for the taxable year that ended December 31, 2018 and we do not anticipate becoming a PFIC for our current taxable year; however, given the substantial uncertainty regarding the application of the PFIC rules to us, it is possible that we could be classified as a PFIC for our previous or current taxable year, and that we could be classified as a PFIC for future taxable years. In addition, because the determination of whether we are a PFIC is factual in nature, is made annually and is based upon the composition of our income and assets (including a proportionate amount of the income and assets of certain entities in which we hold at least a 25% interest by value), and will depend on the nature of our activities (including our ability to qualify for the Active Bank Exception), there is additional uncertainty regarding our classification as a PFIC for any taxable year. Accordingly, U.S. Holders could be subject to U.S. federal income tax under the rules described below. U.S. Holders should consult their own independent tax advisors regarding the application of the PFIC rules under their particular circumstances.

If we are treated as a PFIC for any taxable years, unless a U.S. Holder is eligible to, and elects to be taxed annually on a mark-to-market basis with respect to our Notes, as described below, any gain realized on a sale or other taxable disposition of our Notes and certain “excess distributions” will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over the U.S. Holder’s holding period for our Notes, (b) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current period of any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, payments on the Notes would not be eligible for treatment as “qualified dividend income.” If we are treated as a PFIC and, at any time, we invest in non-U.S. corporations that are classified as PFICs (“Subsidiary PFICs”), U.S. Holders generally will be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interest in that Subsidiary PFIC. If we are treated as a PFIC, a U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, the Subsidiary PFIC or (2) the U.S. Holder disposes of all or part of our Notes. Further, a U.S. Holder of our Notes would be subject to additional U.S. tax form filing requirements, including reporting on IRS Form 8621 any payments received and gains realized with respect to each PFIC in which the U.S. Holder holds a direct or indirect interest, and the statute of limitations for collections may be suspended for a U.S. Holder that does not file the appropriate form.

In some cases, a U.S. Holder of a PFIC can avoid the interest charge and the other adverse PFIC consequences described above by making a “qualified electing fund” (“QEF”) election to be taxed currently on its share of the PFIC’s undistributed income. We, however, do not intend to provide information that would allow U.S. Holders to avoid the foregoing consequences by making a QEF election.

A U.S. Holder of stock in a PFIC (but not a Subsidiary PFIC, as discussed below) may make a “mark-to-market” election, provided the PFIC stock is “marketable stock” as defined under applicable Treasury regulations (*i.e.*, “regularly traded” on a “qualified exchange” or “other market”). It is unclear whether instruments such as the Notes, which we are treating as equity for U.S. federal income tax purposes, will be treated as stock for purposes of the mark-to-market election. Under applicable Treasury regulations, a “qualified exchange” includes a national securities exchange that is registered with the SEC or the national market system established under the Exchange Act, or a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, volume, listing, financial disclosure and other requirements. Under applicable Treasury regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure U.S. Holders that our Notes will be treated as “marketable stock” for any taxable year.

If an effective mark-to-market election is made with respect to the Notes, an electing U.S. Holder generally would (i) include in gross income, entirely as ordinary income, an amount equal to the excess, if any, of the fair market value of the Notes as of the close of such taxable year and such holder’s adjusted tax basis in the Notes, (ii) deduct as an ordinary loss the excess, if any, of such holder’s adjusted tax basis of the Notes over the fair market

value of the Notes at the end of the taxable year, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election and (iii) upon the sale or other taxable disposition of a U.S. Holder's Notes, include any gain recognized as ordinary gain and any loss as ordinary loss, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election. A U.S. Holder's adjusted tax basis in our Notes would increase or decrease by the amount of the gain or loss taken into account under the mark-to-market regime. Although a U.S. Holder may be eligible to make a mark-to-market election with respect to our Notes, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Holder is treated as owning, because such Subsidiary PFIC stock is not marketable. The mark-to-market election is made with respect to marketable stock in a PFIC on a shareholder-by-shareholder basis and, once made, is effective for all subsequent tax years unless the Notes are no longer regularly traded on a qualified exchange or other market or the election is revoked with the consent of the IRS. Special rules would apply if the mark-to-market election is not made for the first taxable year in which a U.S. person owns stock of a PFIC.

U.S. Holders should consult with their own independent tax advisors regarding the application of the PFIC rules to our Notes and the availability and advisability of making an election with respect to the Notes to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year.

Information Reporting and Backup Withholding

Payments on the Notes and proceeds from the sale or other disposition of the Notes, by a U.S. paying agent or other U.S. intermediary, or made into the United States, generally will be reported to the IRS unless the U.S. Holder establishes a basis for exemption. In addition, certain U.S. Holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers or certification of exempt status. Any amounts withheld under the backup withholding rules will be allowed as a credit against a U.S. Holder's United States federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

Specified Foreign Financial Assets

Individual U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican federal income tax consequences of the purchase, holding and disposition of the Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In addition, it does not describe any tax consequences (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under laws other than the federal tax laws of Mexico (it excludes the laws of any state or municipality within Mexico), or (3) that are applicable to a resident of Mexico for tax purposes that may purchase, hold or dispose of the Notes.

For purposes of this summary, the term "Non-Mexican Holder" shall mean a holder that is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Tax Code (*Código Fiscal de la Federación*), or that does

not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico, to which income is attributable.

Pursuant to the Mexican Federal Tax Code:

- an individual is a resident of Mexico for tax purposes, if such individual has established his or her home in Mexico. In the event such individual also has a home available to him/her in another country then, the individual will be deemed a resident of Mexico for tax purposes when his or her “center of vital interests” (*centro de intereses vitales*) is located within Mexican territory. This will be deemed to occur if, among other considerations (1) at least 50% of his or her aggregate annual income derives from Mexican sources, or (2) the main center of his or her professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered residents of Mexico for tax purposes during the year of filing of the notice of such residence change and during the following three years;
- unless otherwise evidenced, Mexican nationals are deemed residents of Mexico for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual’s center of vital interests; and
- a legal entity is a resident of Mexico for tax purposes if the principal administration of its business or its place of effective management is established in Mexico.

This summary is based upon Mexican Income Tax Law and Mexican Federal Tax Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences of the purchase, holding and disposition of Notes, including, in particular, the effect of any state or municipal tax laws in effect in Mexico. Residents of Mexico who become holders of Notes are urged to analyze the tax consequences, under Mexican and other laws, of the purchase, holding or disposition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisors as to the tax consequences, if any, of such treaties in respect of the purchase, holding or disposition of the Notes.

Payment of Interest

Under the Mexican Income Tax Law and regulations thereunder, payments of interest made by our Cayman Islands branch, in respect of the Notes (including payments of principal in excess of the issue price for the Notes, if any, which under Mexican law are deemed to be interest), to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Payment of Principal

Under the Mexican Income Tax Law and regulations thereunder, payments of principal made by our Cayman Islands branch, in respect of the Notes, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Taxation of Dispositions and Acquisitions of the Notes

Under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder, will not be subject to Mexican income tax withholding. Also, amounts deemed to be interest deriving from Notes acquired at a discount by a Non-Mexican Holder from another Non-Mexican Holder will not be subject to income tax withholding in Mexico.

Taxation of Make-Whole Amounts

Under the Mexican Income Tax Law and regulations thereunder, the payment of make-whole amounts, made by our Cayman Islands branch, as a result of the optional redemption of the Notes as provided in “Description of the NC5 Notes—Redemption—Optional Redemption” and “Description of the NC10 Notes—Redemption—Optional Redemption,” if applicable, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Other Mexican Taxes

Under current Mexican laws, a Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance, succession or similar taxes with respect to the acquisition, ownership or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain Cayman Islands Income Tax Consequences

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor’s particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- No stamp duties or other similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution or delivery of the Notes or the performance or enforcement of them, unless they are executed in or thereafter brought within the jurisdiction of the Cayman Islands (e.g. for the purposes of enforcement) in which case stamp duty of 0.25% of the principal amount specified on the face of each Note up to a maximum of CI\$250.00 (U.S.\$304.88) unless CI\$500.00 (U.S.\$609.76) has been paid in respect of the entire issue of Notes, will be payable. An instrument of transfer in respect of a Note if executed in or brought within the jurisdiction of the Cayman Islands will be subject to a Cayman Islands stamp duty of CI\$100.00 (U.S.\$121.95). Subject as aforesaid, a holder of a Note will not incur or become liable for any transfer or other similar taxes or charges under the laws of the Cayman Islands by reason of the acquisition, ownership or disposal of the Notes.

The Cayman Islands – Automatic Exchange of Financial Account Information

The Cayman Islands has entered into two intergovernmental agreements to improve international tax compliance and the exchange of information - one with the United States and one with the United Kingdom (the “US IGA” and the “UK IGA,” respectively). The Cayman Islands has also signed, along with over 80 other countries, a multilateral competent authority agreement to implement the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the “CRS”).

Regulations were issued pursuant to the Cayman Islands Tax Information Authority Law (2017 Revision) on 4 July 2014 to give effect to the US IGA (and the UK IGA), and on 16 October 2015 to give effect to the CRS (together, the “AEOI Regulations”). Pursuant to the AEOI Regulations, the Cayman Islands Tax Information

Authority (the “CITIA”) has published guidance notes on the application of the AEOI Regulations. All Cayman Islands “Financial Institutions” (including the Issuer) are required to comply with the reporting requirements of the AEOI Regulations, unless the Issuer can rely on an exemption that permits it to be treated as a “Non-Reporting Cayman Islands Financial Institution” (as defined in the relevant AEOI Regulations), in which case only the registration requirement would apply under the CRS. The Issuer does not propose to rely on any reporting exemption and will therefore comply with all of the requirements of the AEOI Regulations as a “Reporting Financial Institution.” As such, the Issuer is required to (i) register with the IRS to obtain a Global Intermediary Identification Number (for the purposes of the US IGA only), (ii) register with the CITIA, and thereby notify the CITIA of its status as a “Reporting Financial Institution,” (iii) adapt and implement written policies and procedures setting out how it will address its obligations under the CRS, (iv) conduct due diligence on its accounts to identify whether any such accounts are considered “Reportable Accounts,” and (v) report information on such Reportable Accounts to the CITIA. The CITIA will transmit such information to the applicable overseas fiscal authorities as the case may be. Under the terms of the US IGA, withholding will not be imposed on payments made to the Issuer unless the IRS has specifically listed the Issuer as a non-participating financial institution, or on payments made by the Issuer to the holders of the Notes unless the Issuer has otherwise assumed responsibility for withholding under United States tax law.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated June 20, 2019 we have agreed to sell to the initial purchasers and the initial purchasers have agreed, severally and not jointly, to purchase the principal amount of Notes of each series opposite their name on the table below.

Initial Purchasers of the Notes	Principal Amount of the NC5 Notes	Principal Amount of the NC10 Notes
Goldman Sachs & Co. LLC.....	U.S.\$ 266,666,000.00	U.S.\$ 222,222,000.00
BofA Securities, Inc.	U.S.\$ 66,667,000.00	U.S.\$ 55,556,000.00
Morgan Stanley & Co. LLC.....	U.S.\$ 200,000,000.00	U.S.\$ 166,666,000.00
MUFG Securities Americas Inc.	U.S.\$ 66,667,000.00	U.S.\$ 55,556,000.00
Total	U.S.\$ 600,000,000.00	U.S.\$ 500,000,000.00

The purchase agreement provides that the initial purchasers are required to purchase all of the Notes of each series, if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the Notes of each series initially at the offering price on the cover page of this offering memorandum and may also offer the Notes of each series to selling group members at the offering price less a selling concession. After the initial offering, the offering prices may be changed. The offering of the Notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part. The initial purchasers may offer and sell the notes through their affiliates.

We have agreed that, for a period of 30 days from the date of the initial offering of the Notes of each series, other than with respect to the Notes, we will not, without the prior consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or announce the offering of, or file a registration statement for, any U.S. dollar-denominated debt similar to either series of Notes that is issued or guaranteed by us or any of our direct or indirect subsidiaries or enter into any agreement to do any of the foregoing.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes of any series (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes of any series in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Notes of each series are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

We expect that delivery of the Notes will be made to investors on or about June 27, 2019, which will be the fifth business day in the United States following the date of this offering memorandum. Under Rule 15c6-1 of the Securities Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of the pricing or the next two succeeding business days will be required, by virtue of the fact that the Notes initially will settle in "T+5," to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next two succeeding business days should consult their own advisor.

General

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The initial purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and other financial and non-financial activities and services. The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investment and securities activities may involve assets, securities and/or instruments of the issuer directly, as collateral securing other obligations or otherwise and/or persons and entities with relationships with the issuer. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the several initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

Application will be made to have the Notes of each series listed on the Singapore Stock Exchange. The initial purchasers have advised us that they intend to make a market in the Notes of each series as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchasers may engage in over-allotment, stabilizing transactions and covering transactions.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.

These stabilizing transactions and covering transactions may cause the price of the Notes of each series to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

United Kingdom

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

Each of the initial purchasers have advised that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each of the initial purchasers has represented and agreed that it has not offered, sold or otherwise made available, and will not offer, sell or otherwise make available, any Notes to any retail investor in the EEA. For the purposes of this provision:

- a) the expression “retail investor” means a person who is one (or more) of the following:
 - i. a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - ii. a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - iii. not a qualified investor as defined in the Prospectus Directive and

the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

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

The Notes discussed in this offering memorandum are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. In particular, in June 2015, the U.K. Financial Conduct Authority (the “FCA”) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the “PI Instrument”). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) on key information documents for packaged and retail and insurance-based investment products became directly applicable in all EEA member states and (ii) Directive 2014/65/EU (as amended, “MiFID II”) was required to be implemented in EEA member states by January 3, 2018. Together, the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the “Regulations”.

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations.

The Issuer and each of the initial purchasers is required to comply with some or all of the Regulations. In addition, by purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

(i) it is not a retail client as defined in MiFID II or the PI Instrument (as applicable);

(ii) whether or not it is subject to the Regulation, it will not:

(A) sell or offer the Notes (or any beneficial interests therein) to retail clients (as defined in MiFID II or the PI Instrument (as applicable)); or

(B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II or the PI Instrument (as applicable)). In selling or offering Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and

(iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

The Notes, are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed in the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, The Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, The Laws of Hong Kong), or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Notes to the public in Singapore.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “FIEL”) and each initial purchaser has agreed that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Mexico

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and therefore may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico; the notes may be sold to Mexican investors that satisfy the requirements to be considered institutional or accredited investors under Mexican law, pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the terms and conditions of this offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with Article 7, second paragraph, of the Mexican Securities Market Law, and regulations thereunder, and for informational purposes. The delivery to, and the receipt by, the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum.

Chile

The offer of the Notes will begin on June 11, 2019 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*) (“SVS”). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the Notes is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 11 de junio de 2019 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la “SVS”). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Colombia

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the notes to their Colombian clients.

Peru

This offering memorandum and the Notes have not been, and will not be, registered with or approved by the *Superintendencia del Mercado de Valores*, the Lima Stock Exchange or the *Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones*. Accordingly, the Notes cannot be offered or sold in Peru, except in compliance with the applicable securities laws and regulations of Peru. This notice is for information purposes only and it does not constitute a public offering of any kind in Peru.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to Section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchaser is not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering of the Notes.

Cayman Islands

No invitation, whether directly or indirectly, may be made to members of the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange. The Notes may, however, be offered and sold to ordinary non-resident and exempted companies in the Cayman Islands.

Brazil

The Notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM. The Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or unauthorized distribution under Brazilian laws and regulations. The Notes are not being offered into Brazil. Documents relating to the offering of the Notes, as well as information contained therein,

may not be supplied to the public in Brazil, nor be used in connection with any public offer for subscription or sale of the Notes to the public in Brazil.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to a “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Governmental, church or non-U.S. plans or other arrangements (each, a “Non-ERISA Arrangement”), while not subject to the fiduciary responsibility provisions of Title I of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Bank or any of its subsidiaries is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. Those exemptions include, without limitation:

- PTCE 96-23 (for certain transactions determined by in-house asset managers);
- PTCE 91-38 (for certain transactions involving bank collective investment funds);
- PTCE 95-60 (for certain transactions involving insurance company general accounts);
- PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts);
- PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers); and
- Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code (for certain transactions with service providers).

There can be no assurance that any class exemption, statutory exemption or other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan, or Non-ERISA Arrangement that is subject to Similar Laws or (ii) its purchase, holding and any subsequent disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws. Similarly, each transferee of any Notes, by virtue of the

transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan or a Non-ERISA Arrangement that is subject to any Similar Laws or (ii) its purchase, holding and any subsequent disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.

The foregoing summary is general in nature and not intended to be all encompassing. This summary does not purport to be complete, and future legislation, court decisions, administrative regulations, rulings or administrative pronouncements could significantly modify the requirements summarized above. Any of these changes may be retroactive and may thereby apply to transactions entered into prior to the date of their enactment or release. Any Plan fiduciary or other persons who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code or Similar Laws to such an investment, and the availability of an applicable exemption.

The sale of Notes to a Plan is in no respect a representation by the Bank that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

LEGAL MATTERS

Certain matters relating to the validity of the Notes will be passed upon for us by White & Case, S.C., Mexico, White & Case LLP, New York, New York, and Maples and Calder, Cayman Islands. Certain legal matters will be passed upon for the initial purchasers by Ritch, Mueller, Heather y Nicolau, S.C., Mexico, and Cleary Gottlieb Steen & Hamilton LLP, New York, New York.

INDEPENDENT AUDITOR

Our audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their report. Our Unaudited Condensed Consolidated Interim Financial Statements for the Three-Month Period Ended March 31, 2019 and 2018 included in this offering memorandum have been subject to a review of interim financial information by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their review report.

GENERAL INFORMATION

Clearing Systems

Application has been made to have the Notes of each series accepted for clearance through The Depository Trust Company. For the Rule 144A Global NC5 Note, the ISIN number is US05971PAA66 and the CUSIP number is 05971P AA6. For the Regulation S Global NC5 Note, the ISIN number is USP1400MAA64 and the CUSIP number is P1400M AA6. For the Rule 144A Global NC10 Note, the ISIN number is US05971PAB40 and the CUSIP number is 05971P AB4. For the Regulation S Global NC10 Note, the ISIN number is USP1400MAB48 and the CUSIP number is P1400M AB4.

Listing

Application is expected to be made to list the Notes of each series on the SGX, and the Bank will use commercially reasonable efforts to obtain and maintain listing of the Notes on the SGX-ST; however, the Notes are not yet listed and the Bank cannot assure the holders of the Notes that they will be accepted for listing. Copies of our bylaws, the respective indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, registrar, paying agent and transfer agent, and at the offices of the Singapore listing agent, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Singapore for so long as any of the Notes of either series are listed on the SGX-ST. For so long as the Notes of either series are listed on the SGX-ST and the rules of the SGX-ST so require, the Bank shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the global notes are exchanged for notes in definitive form. In addition, an announcement of such exchange shall be made by or on behalf of the Bank through the SGX-ST and such announcement will include all material information with respect to the delivery of the notes in definitive form, including details of the paying agent in Singapore. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of SGD\$200,000 (or its equivalent in foreign currencies) for so long as such series of Notes are listed on the SGX-ST.

The Notes will not be registered with RNV maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to investors that qualify as institutional or accredited investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for information purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this offering memorandum.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of each series of Notes.

ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for banks as issued by the CNBV and MFRS prescribed by the CINIF to the extent that the aforementioned accounting criteria do not address or supersede the accounting to be followed. Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering memorandum. A summary of the significant differences that relate to balances or transactions maintained by Banorte is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan Loss Reserve

On December 2, 2005, the General Rules Applicable to Mexican Banks became effective (amended through December 24, 2009) which include the accounting criteria applicable to banks. These accounting criteria also include the methodology for bank loan portfolio ratings. These provisions require the rating and creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (*i.e.*, country, financial and industry), payment records and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remainder is classified parametrically based on the number of months elapsed as of the first default. This rating is used, among other things, to estimate a potential loan loss provision. However, as in our case, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV. Also, the CNBV allows the creation of additional reserves based on preventive criteria.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past due, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

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

- when there is evidence that the customer has declared bankruptcy;
- loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity;
- loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due;
- loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due;
- in the case where a revolving line of credit is granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity; and
- customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

The U.S. GAAP methodology for recognition of loan losses is provided by the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 450 *Contingencies* (previously Statement of Financial Accounting Standard (“SFAS”) No. 5, “Accounting for Contingencies”) and ASC 310 *Receivables* (previously SFAS No. 114, “Accounting by Creditors for Impairment of a Loan”), which establish that an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated. For larger non-homogeneous loans, all individual loans should be assessed for impairment under ASC 310 (except for large groups of smaller-balance homogeneous loans which are collectively evaluated for impairment). Specific provisions are calculated when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms.

Under U.S. GAAP, estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan’s effective rate, the loan’s observable market price or at the fair value of the collateral if the loan is collateral dependent. To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and non-impaired loans.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-Accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Foreclosed Assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in-kind and (2) those that are repossessed by judicial order. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by ASC 470 *Debt* (previously SFAS No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings”), foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with ASC 360 *Property, Plant and Equipment* (previously SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”), such asset is thereafter carried at the lower of its carrying amount or fair value less estimated sale costs. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful lives and are subject to impairment tests under ASC 360.

Investment Valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of equity securities, net of deferred taxes, is recognized in stockholders’ equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost. Furthermore, on November 9, 2009, the CNBV issued a ruling to amend the General Rules Applicable to Mexican Banks, which allows securities to be reclassified to the category of securities held to maturity or from the category of trading securities to that of securities available for sale, albeit with the prior express authorization of the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price quotes or in certain cases based on internal valuation methods. The fair value adjustment for for-sale equity securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position (if determined). All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

For U.S. GAAP, under ASC 320 Investments—Debt and Equity Securities (previously SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”):

- Debt securities must be classified, according to management’s intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income (“OCI”), a separate component of shareholders’ equity until realized, at which time the realized gain or loss is recorded in the income statement. Non-marketable equity securities are valued at cost, less a provision for other-than temporary impairment in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per ASC 310-10-35 (*Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities* paragraphs 36-37) (formerly EITF 96-15 “Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities”), the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders’ equity. This fair value serves as the basis under which other-than temporary impairment is considered.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Listed prices for identical instruments in active markets.
- Level 2—Listed prices for similar instruments in active markets; listed prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Repurchase Agreements

Under Mexican Banking GAAP, at the contracting date of the repurchase transaction, when the financial institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, is recorded and represents the obligation to reconstitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year. In relation to the collateral granted, the credit institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When an entity acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the agreed-upon price, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year. Similarly, if the repurchasing party becomes a reselling party based on the performance of another repurchase transaction with the collateral received in guarantee for the initial transaction, the interest generated by the second repurchase transaction must be recognized in the results of the year when accrued, according to the effective interest method, and also affects the valued account payable according to the applied cost.

Under U.S. GAAP, repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP, the assets and/or liabilities arising from transactions with derivative financial instruments are recognized or canceled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset. Financial institutions initially recognize all derivatives as assets or liabilities in the balance sheet at fair value, taking into consideration the execution price. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results. All derivatives are valued at fair value without deducting any estimated sale costs or other types of disposal. The period net valuation effects are recognized in the results of the period as trading gain/loss.

Under Mexican Banking GAAP, a financial institution should consider the following the CNBV requirements for the purposes of classifying a derivative financial instrument:

- Hedging of an open risk position - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of

the period. If they are cash flow hedges, the hedge derivative instrument is valued at market and the valuation for the effective portion of the hedge is recorded within OCI account in stockholders' equity. Any ineffective portion is recorded in results.

- Trading positions - Consist of the positions assumed by the financial institution as market participant for purposes other than hedging risk positions. In forward and futures contracts, the balances represent the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; however, if negative, it is considered as a shortfall and presented under liabilities. In options, their balance represents the fair value of the premium and they are valued at fair value, recognizing the valuation effects in the results for the year. In swaps, the balance represents the difference between the fair value of the swap asset and liability.

Under U.S. GAAP, ASC 815 *Derivatives and Hedging* (previously SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.
- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.
- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded in OCI in stockholders' equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.
- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. Under Mexican Banking GAAP, the recognition of embedded derivative instruments is required beginning in 2009.

Securitized Transactions and the Consolidation of Special-Purpose Entities

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and derecognition of financial assets" in order to be considered a sale and transfer of assets. If this is not the case, these assets must remain on the balance sheet, together with the respective debt issuances and the effects on results based on this criterion. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, ASC 860 *Transfers and Servicing* (previously SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125”) provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The guidance focuses on control. Under that approach, after a transfer of financial assets (*e.g.* a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy;
- Each transferee (or, if the transferee is a qualifying special-purpose entity (“QSPE”) (for more information on control that eliminates the QSPE exemption under U.S. GAAP beginning in 2016, see “— Consolidation”), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call, or (3) an agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Insurance and postretirement activities

According to the accounting practices prescribed by the Mexican National Insurance and Surety Commission (Mexican Insurance GAAP), commissions and costs at the origination of each policy are charged to income as incurred. In addition, for life insurance policies, any amount received from individuals is considered as premium income. As required by U.S. GAAP, commissions and costs at origination are capitalized and amortized over the life of the policy using the effective interest method (deferred acquisition costs). Furthermore, premiums received in excess for life insurance policies are recorded as premium income.

Also, under the accounting practices prescribed by the National System of Saving for the Retirement Commission, the direct costs associated with the reception of new clients for the administration of the bills of retirement is recognized in income as incurred. Under U.S. GAAP the costs are capitalized and amortized over the time in which the borrowed service is yielded, which the time is based on average in which the clients remain active in the company.

Under Mexican Insurance GAAP, certain reserves (disaster) are calculated using internal models previously approved by the Mexican National Insurance and Surety Commission. Generally pension reserves are based on the present value of benefits to be paid together with fees suggested by this Commission. U.S. GAAP establishes the use of a fee that allows policy benefits to be covered through premiums collected for pension reserves. Under U.S. GAAP, provisions for disaster reserves are based on actuarial calculations for losses incurred using the experience of the Financial Group.

The Financial Group records a reserve for catastrophic events under Mexican Banking GAAP as a liability which is not allowed by U.S. GAAP.

Business Combinations

Through December 31, 2004, under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of NIF B-7, “Business Acquisitions,” which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

Under U.S. GAAP, prior to January 1, 2009, SFAS No. 141, “Business Combinations” required the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired.

Under U.S. GAAP, beginning in January 1, 2009, ASC 805-10 (SFAS No. 141(R), “Business Combinations – a replacement of FASB No. 141”), now requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 (SFAS No. 141(R)), also amends ASC 740-10 (SFAS No. 109, “Accounting for Income Taxes”) to require that any reductions to an acquired entity’s valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense.

Employee Retirement Obligations

Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 *Compensation—Nonretirement Postemployment Benefits* (previously SFAS No. 112, “Employers’ Accounting for Post-employment Benefits”), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. Under U.S. GAAP, such costs are accounted for in accordance with ASC 715 *Compensation—Retirement Benefits* (previously SFAS No. 87, “Employers’ Accounting for Pensions”), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at either corporate or government bonds based discount rates. The U.S. GAAP standard became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 (previously SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions”), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees’ service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by NIF D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas NIF D-3 became effective on January 1, 1993.

In addition, under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, recognizing changes in that funded status in the year in which the changes occur through OCI. Accordingly, unrecognized items may exist in Mexican FRS which are included as part of the employee benefit liability under U.S. GAAP.

Starting January 1, 2016, amendments to NIF D-3 became effective, in which unrecognized actuarial items, should be treated as follows:

- a) the whole balance of the modifications to the plan (past service) not yet recorded, should be recorded affecting the retained earnings of the oldest period presented;
- b) the accumulated unrecorded Profit or Losses of the Plan (GPP) (for entities that used the projected unit credit method), should be recorded affecting the initial balance of OCI for remedies of the oldest period presented.

Therefore, a difference arises since U.S. GAAP has not amended the recognition of actuarial remeasurements.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, guarantees are accounted for under ASC 460 *Guarantees* (previously FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34”), which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Equity Method Investees

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset.

Consolidation

Under Mexican Banking GAAP, an entity is required to consolidate subsidiaries over which it has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity’s financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent. In addition to the traditional concept of consolidation, on January 17, 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities- an Interpretation of ARB No. 51,” replaced in December 2003, by Interpretation ASC 810 Consolidation (previously No. 46(R) “Consolidation of Variable Interest Entities- an interpretation of APB 51” (“FIN 46R”)), which contained certain clarifications to address accounting for variable interest entities. The primary purpose of ASC 810 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities (“VIEs”). Generally, VIEs are to be consolidated by the primary beneficiary which represents the enterprise that will absorb the majority of the VIEs’ expected losses if they occur, receive a majority of the VIEs’ residual returns if they occur, or both. Through 2009, QSPEs and certain other entities are exempt for the consolidation provisions of FIN 46R. As described in ASC 840-40 Transfers to Qualifying Special Purpose Entities (previously SFAS No. 140, par. 35), a QSPE is a trust or other legal vehicle that meets certain conditions. Under U.S. GAAP, a QSPE is not consolidated in the financial statements of a transferor or its affiliates.

Effective beginning January 1, 2019, Accounting Standards Update No. 2009-16, seeks to improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment”, in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements. However, specific rules and regulations established by the SEC allow for the presentation of inflation in a company’s reconciliation from local GAAP to U.S. GAAP for companies registering securities with

the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet. Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, NIF B-15, “Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations” allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of NIF B-15 do not meet the SEC’s Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

Recent Mexican Banking GAAP Accounting Standards

As part of its efforts to converge Mexican standards with international standards, in 2009, CINIF issued the following Mexican Financial Reporting Standards (NIF), Interpretations to Financial Information Standards (INIF) and improvements to NIF applicable to profitable entities which became effective for fiscal years that begin on January 1, 2017. The improvements consist in specifying the scope and definitions of these NIF to indicate more clearly their application and accounting treatment.

- NIF B-7, Business acquisitions - A modification was made to the prospective adoption of the improvements to NIF 2016, which establishes that acquisitions under common control should not form part of the scope of such NIF.
- NIF B-13, Events after the reporting period - If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.
- NIF C-11, Stockholders' equity - Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already owned by investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.
- NIF D-3, Employee benefits - Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term defined benefit obligation should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market. Early application is allowed.

Recent U.S. GAAP Accounting Standards

In October 2009, FASB ASC 105-10 (SFAS No. 168), the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles was issued. FASB ASC 105-10 (SFAS No. 168)

establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with U.S. GAAP. FASB ASC 105-10 (SFAS No. 168) is effective for interim and annual periods ending after September 15, 2009. On the effective date, all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain items listed in FASB ASC 105-10 (SFAS No. 168). The purpose of the Codification is not to create new accounting and reporting guidance, but rather to simplify user access to all authoritative U.S. GAAP.

The disclosure requirements of ASC 820-10 (SFAS No. 157, Fair Value Measurements) in relation to nonfinancial assets and liabilities became effective in 2009.

In January 2009, ASC 810-10 (SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51), which establishes the accounting and reporting standards for the noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary, and also amends certain consolidation guidance for consistency with revised standards regarding business combinations was issued. The accounting provisions of ASC 810-10 (SFAS No. 160) must be applied prospectively starting at the beginning of the fiscal year in which the provisions are initially adopted, while the presentation and disclosure requirements must be applied retrospectively, to provide comparability in the financial statements. ASC 810-10 (SFAS No. 160) was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

In January 2009, ASC 805-10 (SFAS No. 141(R), Business Combinations – a replacement of SFAS No. 141 (R)) was issued and, which among other changes, requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 also amends ASC 740-10 (SFAS No. 109, Accounting for Income Taxes) to require that any reductions to an acquired entity’s valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense. FASB ASC 805-10 (SFAS No. 141(R)) must be applied prospectively to all business combinations for which the acquisition date occurs during fiscal years beginning on or after December 15, 2008, with the exception to the amendments to ASC 740-10, which will also be applied to business combinations with acquisition dates prior to the effective date of this standard.

In July 2009, the ASC 855-10 (SFAS 165, Subsequent Events). ASC 855-10 (SFAS 165) was issued and establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. ASC 855-10 was effective for fiscal years and interim periods ending after June 15, 2009.

In June 2009, ASC 860-10 (SFAS No. 166, Accounting for Transfer of Financial Assets – an amendment of FASB Statement No. 140), was issued, which eliminates the concept of a QSPE and modifies the derecognition provisions of a previously issued accounting standard. ASC 860-10 (SFAS No. 166) also required additional disclosures which focus on the transferor’s continuing involvement with the transferred assets and the related risks retained. ASC 860-10 (SFAS No. 166) is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. Early adoption is prohibited.

In June 2009, ASC 810-10 (SFAS No. 167, Amendments to FASB Interpretation No. 46 (R)) was issued, which amends the consolidation guidance that applies to variable interest entities. The new guidance requires an entity to carefully reconsider its previous consolidation conclusions, including (1) whether an entity is a variable interest entity (VIE), (2) whether the enterprise is the VIE’s primary beneficiary, and (3) what type of financial statement disclosures are required. ASC 810-10 (SFAS No. 167) is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The amendments to the consolidation guidance affect all entities and enterprises currently within the scope of ASC 810-10 (SFAS No. 167), as well as qualifying special-purpose entities that are currently outside the scope of ASC 810-10 (FIN 46(R)). Early adoption is prohibited.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, which contains new guidance on accounting for revenue arrangements with multiple deliverables. When vendor specific objective evidence or

third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The guidance in the ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2016. Early adoption is permitted.

In January 2016, the FASB issued ASU 2016-06. The ASU amends ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715, Compensation – Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this ASU eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This ASU is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those of ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The ASU also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2019 with early application permitted.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 with early adoption permitted.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU eliminates the probable initial recognition threshold in current guidance and, instead, requires an entity to reflect its current estimate of all expected credit losses. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance

receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU are effective for annual periods beginning after December 15, 2020.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted.

Benchmark de Precios de Transferencia

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries as of December 31, 2018 and 2017 and for the Years Ended December 31, 2018, 2017 and 2016

Independent Auditors' Report.....	F-4
Consolidated Balance Sheets as of December 31, 2018 and 2017	F-8
Consolidated Income Statements for the Years Ended December 31, 2018, 2017 and 2016	F-10
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016	F-11
Consolidated Cash Flow Statements for the Years Ended December 31, 2018, 2017 and 2016.....	F-13
Notes to the Consolidated Financial Statements	F-14

Unaudited Condensed Consolidated Interim Financial Statements of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries as of March 31, 2019 and December 31, 2018 and for the Three-Month Periods Ended March 31, 2019 and 2018

Independent Accountant's Report.....	F-114
Unaudited Condensed Consolidated Statements of Financial Position as of March 31, 2019 (Unaudited) and December 31, 2018.....	F-116
Unaudited Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2019 and 2018.....	F-118
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31 2019 and 2018	F-119

ISSUER

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U.S.\$600,000,000 6.750% NC5 Notes
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Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple, Grupo Financiero Banorte,
acting through its Cayman Islands Branch

6.750% Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes
7.500% Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

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BofA Merrill Lynch

Morgan Stanley

MUFG

June 20, 2019