

GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014  
with Report of Independent Auditors

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AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

Contents:

Report of Independent Auditors

Audited Consolidated Financial Statements:

Consolidated Statements of Financial Position  
Consolidated Statements of Income  
Consolidated Statements of Changes in Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders of  
Grupo Financiero Interacciones, S.A.B. de C.V.

We have audited the accompanying consolidated financial statements of Grupo Financiero Interacciones, S.A.B. de C.V. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with the regulatory accounting framework for credit institutions established by the Mexican National Banking and Securities Commission, as described in Note 2, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements of Grupo Financiero Interacciones, S.A.B. de C.V. and subsidiaries for the years ended December 31, 2015 and 2014, have been prepared, in all material respects, in conformity with the regulatory accounting framework for controlling companies of financial groups established by the Mexican National Banking and Securities Commission.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

Mancera, S.C.  
A Member Practice of  
Ernst & Young Global Limited



Jorge Mantio Senties

Mexico City  
28 April 2016

GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2015 and 2014

(Amounts in millions of Mexican pesos)

(Notes 1, 2 and 3)

	2015		2014			2015		2014	
	Ps.		Ps.			Ps.		Ps.	
<b>Assets</b>					<b>Liabilities</b>				
Cash and cash equivalents (Note 3)	6,204		6,167		Core deposits (Note 14a)				
Investments in securities (Note 4)					Demand deposits	34,415		26,909	
Held-for-trading	94,777		53,999		Time deposits (Note 14b)				
Available-for-sale	3,419		4,959		General public:	16,264		14,060	
Held-to-maturity	2,066		2,301		Money market transactions	16,687		15,264	
	<u>100,262</u>		<u>61,259</u>			<u>32,951</u>		<u>29,324</u>	
Assets under security repurchase agreements (Note 5)	667		106		Debt securities issued (Note 14c)	14,309		13,929	
Performing loan portfolio (Note 7)						<u>81,675</u>		<u>70,162</u>	
Commercial loans					Interbank and other borrowings (Note 15)				
Business or commercial activity	23,783		18,127		Demand loans	-		45	
Financial entities	1,920		2,459		Short-term	4,620		4,184	
Government entities	71,190		60,787		Long-term	10,916		11,290	
Consumer loans	39		34			<u>15,536</u>		<u>15,519</u>	
Home mortgage loans	240		235		Technical reserves	2,536		4,228	
Total performing loan portfolio	<u>97,172</u>		<u>81,642</u>		Liabilities under security repurchase agreements (Note 5)	88,065		46,855	
Past-due loans					Derivatives (Note 6)				
Commercial loans					Held-for-trading	49		77	
Business or commercial activity	105		106		Accounts payable to reinsurers and rebonders	110		380	
Home mortgage loans	9		9		Other accounts payable				
Total past-due loan portfolio	<u>114</u>		<u>115</u>		Income tax payable	379		472	
Total loan portfolio	<u>97,286</u>		<u>81,757</u>		Employee profit sharing payable	75		60	
Loan-loss reserve (Note 8)	( 1,620)		( 1,380)		Balance payable under open transactions (Note 16)	1,422		571	
Total loan portfolio, net	<u>95,666</u>		<u>80,377</u>		Sundry creditors and other accounts payable (Note 17)	2,578		2,687	
Accounts receivable from loans, discounts and credits granted by the insurance company, net	45		43			<u>4,454</u>		<u>3,790</u>	
Premium debtors, net	323		622		Outstanding subordinated debentures (Note 18)	3,557		2,556	
Accounts receivable from insurers and rebonders	1,765		3,300		Deferred credits and early settlements	389		280	
Other accounts receivable, net (Note 9)	3,225		2,183		Total liabilities	<u>196,371</u>		<u>143,847</u>	
Foreclosed and repossessed assets, net (Note 10)	359		609		Equity (Note 20)				
Property, furniture and equipment, net (Note 11)	155		413		Contributed capital				
Equity investments (Note 12)	51		50		Share capital	2,346		2,345	
Deferred taxes, net (Note 21)	822		339		Share premium	1,921		1,888	
Other assets (Note 13)						<u>4,267</u>		<u>4,233</u>	
Deferred charges, prepaid expenses and intangibles	754		558		Earned capital				
Other short- and long-term assets	40		28		Capital reserves	557		460	
	<u>794</u>		<u>586</u>		Retained earnings	6,520		5,121	
Total assets	<u>Ps. 210,338</u>		<u>Ps. 156,054</u>		Unrealized gain on available-for-sale securities	336		424	
					Foreign currency translation reserve	4		-	
					Gain from holding non-monetary assets	5		33	
					Net income	2,278		1,936	
						<u>9,700</u>		<u>7,974</u>	
					Total equity	13,967		12,207	
					Total liabilities and equity	<u>Ps. 210,338</u>		<u>Ps. 156,054</u>	
<b>Memorandum accounts</b>									
	2015		2014			2015		2014	
Transactions on behalf of others					Proprietary transactions				
Customers' current accounts					Loan commitments				
Customers' banks	480		227		Property held in trust or under mandate (Note 24a)	2,077		2,358	
Settlement of customers' transactions	1		2		Trusts	69,896		57,459	
	<u>481</u>		<u>229</u>		Mandates	748		89	
Securities held for safekeeping					Property held for safekeeping or managed (Note 24b)	24,043		25,506	
Customers' securities received for safekeeping (Note 24c)	86,610		88,943		Collateral securities received (Note 24d)	9,138		9,399	
Transactions on behalf of customers					Collateral securities received and sold or pledged as collateral (Note 24e)	-		7,521	
Customers' securities loan agreements	43		250		Uncollected accrued interest on past-due loans				
Collateral securities pledged on behalf of customers	1,098		1,046			354		294	
	<u>1,141</u>		<u>1,296</u>		Other memorandum accounts	3,410		2,351	
	<u>Ps. 88,232</u>		<u>Ps. 90,468</u>						
						<u>Ps. 109,666</u>		<u>Ps. 104,977</u>	

The accompanying notes are an integral part of these financial statements.

The Group's historical share capital as at December 31, 2015 and 2014 is Ps. 762.

GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Consolidated Statements of Income

For the Period from January 1 to December 31, 2015 and 2014

(Amounts in millions of Mexican pesos)

(Notes 1, 2 and 3)

	2015	2014
Interest income (Note 25a)	Ps. 9,222	Ps. 7,851
Premium income, net	563	607
Interest expense (Note 25b)	6,679	5,541
Net increase in technical reserves	( 16)	( 13)
Losses, claims and other contractual obligations, net	( 438)	( 416)
Net interest income	<u>2,652</u>	<u>2,488</u>
Loan-loss reserve (Note 8)	1,176	961
Net interest income adjusted for credit risks	<u>1,476</u>	<u>1,527</u>
Commissions and fees earned (Note 25c)	5,209	3,521
Commissions and fees paid (Note 25d)	2,069	1,642
Net trading income (Note 25e)	375	751
Other operating income (Note 26)	769	1,228
Administrative and promotional expenses	2,675	2,745
Operating income	<u>3,085</u>	<u>2,640</u>
Share of profit of associates	5	1
Income before income tax	<u>3,090</u>	<u>2,641</u>
Current income tax (Note 21)	1,237	924
Deferred income tax, net (Note 21)	( 425)	( 219)
	<u>812</u>	<u>705</u>
Net income	<u>Ps. 2,278</u>	<u>Ps. 1,936</u>

The accompanying notes are an integral part of these financial statements.

GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the Period from January 1 to December 31, 2015 and 2014

(Amounts in millions of Mexican pesos)

(Notes 1, 2, 3 and 20)

	Contributed capital				Earned capital				Total
	Share capital	Share premium	Capital reserves	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation reserve	Gain from holding non-monetary assets	Net income	
Balance as at December 31, 2013	Ps. 2,231	Ps. 1,849	Ps. 379	Ps. 3,968	Ps. 415	Ps. -	Ps. 30	Ps. 1,638	Ps. 10,510
Resolutions adopted by shareholders									
Creation of reserves			81	( 81)					-
Appropriation of net income of 2013 to retained earnings				1,638				( 1,638)	-
Dividends paid to shareholders				( 400)					( 400)
	-	-	81	1,157	-	-	-	( 1,638)	( 400)
Recognition of comprehensive income									
Net income								1,936	1,936
Unrealized gain on available-for-sale securities					9				9
Gain from holding non-monetary assets							3		3
Other	114	39		( 4)					149
	114	39	-	( 4)	9	-	3	1,936	2,097
Balance as at December 31, 2014	2,345	1,888	460	5,121	424	-	33	1,936	12,207
Resolutions adopted by shareholders									
Creation of reserves			97	( 97)					-
Appropriation of net income of 2014 to retained earnings				1,936				( 1,936)	-
Dividends paid to shareholders				( 461)					( 461)
	-	-	97	1,378	-	-	-	( 1,936)	( 461)
Recognition of comprehensive income									
Net income								2,278	2,278
Unrealized loss on available-for-sale securities					( 88)				( 88)
Foreign currency translation reserve						4			4
Gain from holding non-monetary assets							( 28)		( 27)
Other	1	33		21					( 27)
	1	33	-	21	-	-	( 28)	-	( 27)
Balance as at December 31, 2015	Ps. 2,346	Ps. 1,921	Ps. 557	Ps. 6,520	Ps. 336	Ps. 4	Ps. 5	Ps. 2,278	Ps. 13,967

The accompanying notes are an integral part of these financial statements.

GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Period from January 1 to December 31, 2015 and 2014

(Amounts in millions of Mexican pesos)

(Notes 1, 2 and 3)

	2015	2014
	Ps.	Ps.
Net income	2,278	1,936
Adjustment of items not affecting cash flows:		
Depreciation of property, furniture and equipment	30	31
Amortization of intangible assets	46	69
Provisions	505	149
Current and deferred income tax	812	705
Technical reserves	16	13
Share of profit of associates	( 5)	( 1)
Other	( 4)	37
	<u>1,400</u>	<u>1,003</u>
Operating activities		
Margin accounts	-	69
Investments in securities	( 39,091)	33,617
Assets under security repurchase agreements	( 561)	75
Loan portfolio	( 15,289)	( 19,322)
Accounts receivable from loans, discounts and credits granted by the insurance company	( 2)	3
Premium debtors	299	50
Accounts receivable from reinsurers and rebonders	1,535	( 1,143)
Foreclosed and repossessed assets	250	429
Other operating assets	( 1,455)	3,126
Core deposits	11,513	24,398
Interbank and other borrowings	17	( 3,681)
Liabilities under security repurchase agreements	41,210	( 35,352)
Derivatives (liability)	( 28)	73
Accounts payable to reinsurers and rebonders	( 270)	176
Subordinated debentures with characteristics of liabilities	1,001	-
Collateral securities sold or pledged as collateral	-	( 506)
Income tax	( 1,396)	( 479)
Other operating liabilities	( 1,399)	( 4,563)
Net cash flows used in operating activities	<u>( 3,666)</u>	<u>( 3,030)</u>
Investing activities		
Proceeds from sale of property, furniture and equipment	513	-
Payments for the purchase of property, furniture and equipment	( 14)	( 19)
Payments for the purchase of intangible assets and other assets	( 46)	( 94)
Net cash flows from/(used in) investing activities	<u>453</u>	<u>( 113)</u>
Financing activities		
Proceeds from share buybacks	( 285)	149
Cash dividends paid	( 461)	( 400)
Other	318	-
Net cash flows used in financing activities	<u>( 428)</u>	<u>( 251)</u>
Net increase/(decrease) in cash and cash equivalents	37	( 455)
Cash and cash equivalents at beginning of year	6,167	6,622
Cash and cash equivalents at end of year	<u>Ps. 6,204</u>	<u>Ps. 6,167</u>

The accompanying notes are an integral part of these financial statements.



GRUPO FINANCIERO INTERACCIONES, S.A.B. DE C.V.  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Amounts in millions of Mexican pesos,  
except for foreign currency and exchange rates)

1. Incorporation, Nature of Operations and Relevant Events

Incorporation and nature of operations

Grupo Financiero Interacciones, S.A.B. de C.V. (the Group) was incorporated on October 28, 1992 and started up operations in December 1992. The Group is the holding company of the companies below in Note 2b and is primarily engaged in all kinds of financial activities related to buying, selling, and holding equity securities.

The Group's head offices are located in the Cuauhtemoc district of Mexico City at Avenida Paseo de la Reforma #383, 15th floor.

The Group's business activities are regulated by the Law to Regulate Financial Groups (LRAF, Spanish acronym) and the regulations issued by the Mexican Banking and Securities Commission (CNBV, Spanish acronym).

The Group was authorized to operate as a financial group in terms of official communication No. 1588 issued by the Ministry of Finance and Public Credit on October 15, 1992.

In accordance with Article 119 of the LRAF, the Group signed a statutory responsibility agreement under which it assumes unlimited subordinate liability for the performance of the obligations of its subsidiaries and for the losses that they may incur as a result of their activities. The Group's liability in this regard is limited to the equity of each entity.

a) Approval of issue of the financial statements

On February 26, 2016, the accompanying consolidated financial statements and these notes were authorized for issue by the Group's Board of Directors, under the responsibility of the following Group officers: Carlos Rojo Macedo, General Director; Alejandro Frigolet Vázquez-Vela, Assistant Corporate Finance and Administrative Director; Carlos Adrián Madrid Camarillo, Director of Accounting and Financial Reporting; and Carlos Andrade Téllez, Corporate Internal Audit Director.

The accompanying consolidated financial statements shall be subject to further approval of the shareholders. As part of its inspection and oversight powers, the CNBV has the right to demand any changes and/or corrections to the financial statements that it considers necessary prior to their publication.

2.

## 2. Summary of Significant Accounting Policies

### a) Basis of preparation and presentation of financial information

The accompanying consolidated financial statements were prepared in accordance with the accounting standards for controlling companies of financial groups issued by the CNBV. Under these accounting standards, the controlling companies of financial groups are required to observe the Mexican Financial Reporting Standards (Mexican FRS), as issued or adopted by the Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.* or CINIF), and any other accounting rules issued by the CNBV for adoption by such entities. The CNBV's own accounting standards include rules with respect to accounting valuations, recognition, and disclosures and financial statement presentation applicable to certain captions in the financial statements.

### b) Consolidation of financial statements

The accompanying consolidated financial statements as at and for the years ended December 31, 2015 and 2014 include the financial statements of Banco Interacciones, S.A., Institución de Banca Múltiple, Grupo Financiero Interacciones and subsidiaries (the Bank); Interacciones Casa de Bolsa, S.A. de C.V, Grupo Financiero Interacciones and subsidiaries (Casa de Bolsa); Servicios Corporativos Interacciones, S.A. de C.V., Grupo Financiero Interacciones; and Aseguradora Interacciones, S.A. de C.V., Grupo Financiero Interacciones (Aseguradora).

The financial statements of Grupo Financiero and its subsidiaries have been prepared at the same reporting date and for the same reporting period. All significant intercompany balances and transactions have been eliminated on consolidation.

Highlights of the condensed financial information of each of the subsidiaries as at and for the years ended December 31, 2015 and 2014 are as follows (does not include the elimination of intercompany transactions):

Subsidiary	Equity interest	2015			
		Total assets	Total liabilities	Equity	Operating income
Consolidated:					
Banco Interacciones	99.99%	Ps. 182,147	Ps. 170,571	Ps. 11,576	Ps. 2,932
Interacciones Casa de Bolsa	99.99%	48,310	46,672	1,638	1,690
Aseguradora Interacciones	99.99%	3,516	3,079	437	606
Servicios Corporativos Interacciones	99.98%	59	47	12	303
		<u>Ps. 234,032</u>	<u>Ps. 220,369</u>	<u>Ps. 13,663</u>	<u>Ps. 5,531</u>

Subsidiary	Equity interest	2014			
		Total assets	Total liabilities	Equity	Operating income
Consolidated:					
Banco Interacciones	99.99%	Ps. 123,352	Ps. 113,453	Ps. 9,899	Ps. 2,381
Interacciones Casa de Bolsa	99.99%	34,471	32,933	1,538	256
Aseguradora Interacciones	99.99%	6,247	5,778	469	647
Servicios Corporativos Interacciones	99.98%	66	50	16	244
		<u>Ps. 164,136</u>	<u>Ps. 152,214</u>	<u>Ps. 11,922</u>	<u>Ps. 8,798</u>

- Banco Interacciones

On September 8, 1993, the authorization for the Bank's incorporation and startup of operations was published in the *Official Gazette*. The Bank is regulated by, among other legislation, the Mexican Credit Institutions Act, which comprises the regulations for the banking and credit services industry in Mexico.

The consolidated financial statements of the Bank include the financial statements of the Bank and those of its 99%-owned subsidiaries Inmobiliaria Interorbe, S.A. de C.V.; Inmobiliaria Mobinter, S.A. de C.V.; Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V.; and Estrategia en Finanzas & Infraestructura, S.A. de C.V.

The financial statements of the Bank have been prepared in accordance with the regulatory accounting framework for credit institutions issued by the CNBV, which are part of the CNBV's General Rules for credit institutions.

- Interacciones Casa de Bolsa

Interacciones Casa de Bolsa (Casa de Bolsa) is primarily engaged in providing securities brokerage services in terms of the Mexican Securities Trading Act and in accordance with the general rules issued by the CNBV, under authorization No. 3288 granted by the CNBV on October 19, 1982.

Casa de Bolsa's consolidated financial statements as at and for the years ended December 31, 2015 and 2014 include the financial statements of Interfinancial Services, Ltd. and Intertrading Holdings, Inc. (subsidiaries) in which Casa de Bolsa holds a 100% equity interest. These companies operate in the financial sector.

Casa de Bolsa's financial statements were prepared in accordance with the accounting standards for stock brokerage firms issued by the CNBV, which are set forth in the general rules applicable to stock brokerage firms (Circular Única applicable to stock brokerage firms).

4.

- Aseguradora Interacciones

Aseguradora Interacciones, S.A. de C.V. is authorized to act as an insurance company in the terms of the Mexican Stock and Mutual Insurance Companies Act. The Group is engaged in writing life, automobile, accident and health and property and casualty insurance policies in the following lines of business: civil and professional liability, maritime and transport, fire, crop, sundry, earthquake and other catastrophic risks and financial reinsurance. The Group is also authorized to engage in reinsurance business.

The National Insurance and Bonding Commission (CNSF, Spanish acronym) oversees and regulates the activities of insurance companies in Mexico. Aseguradora does not have any employees of its own and it receives administrative services from Servicios Corporativos Interacciones, S.A. de C.V.

Until December 31, 2014, the consolidated financial statements of Aseguradora included the financial statements of Aseguradora and those of its subsidiaries Inmobiliaria Interin, S.A. de C.V. and Inmobiliaria Interdiseño, S.A. de C.V., in which Aseguradora held equity interest of 98.95% and 99.85%, respectively. In October 2015, Aseguradora sold the two real estate companies to a third party.

The financial statements of Aseguradora have been prepared in accordance with the accounting rules for insurance companies issued by the CNSF.

- Servicios Corporativos Interacciones

Servicios Corporativos Interacciones was incorporated on December 2, 1992 primarily to provide all kinds of technical assistance and advisory services, as well as commercial, accounting, administrative, industrial and financial services.

The financial statements of Servicios Corporativos were prepared under Mexican FRS.

c) Consolidated statements of cash flows

The Group prepares its consolidated statements of cash flows using the indirect method, which adjusts accrual basis net income or loss for the effects of non-cash transactions, movements in operating cash flows balances, and cash flows from investing and financing activities.

d) Recognition of the effects of inflation

In 2015 and 2014, the Group operated in a non-inflationary economic environment, as defined under Mexican FRS B-10, since the cumulative inflation rate for the three years prior to 2015 and 2014 of 10.55% and 12.07%, respectively, did not exceed 26%. As a result, beginning January 1, 2008, the Group ceased to recognize the effects of inflation on its financial information. Consequently, only non-monetary items acquired before December 31, 2007, recognize the effects of inflation from the date they were acquired, contributed or initially recognized through December 31, 2007. Such non-monetary items include fixed assets, intangibles, share capital, capital reserves and retained earnings.

#### e) Presentation of financial statements

CNBV regulations require that amounts shown in the consolidated financial statements of credit institutions be expressed in millions of Mexican pesos. Consequently, items with balances of less than one million Mexican pesos, as reflected in the Group's accounting records, have been excluded from their respective captions in the financial statements.

#### f) Significant accounting estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the affected asset or liability in future periods.

The key assumptions concerning future events and circumstances and other key sources of uncertainty at the reporting date that represent a significant risk of causing the need for a material adjustment to the carrying amounts of assets and liabilities, are described below. The Group based its assumptions and estimates on the best available information at the time the financial statements were prepared. Nevertheless, existing estimates and assumptions about future events and circumstances may change due to market events beyond the Group's control. Such changes are immediately reflected in management's assumptions as they occur.

- Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. These judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates, and default rate assumptions for securities.

- Loan-loss reserve

To calculate its loan-loss reserve, the Group individually assesses its outstanding commercial loans based on the classification of borrowers established in the CNBV's grading methodology. This assessment requires management's judgment in analyzing the quantitative and qualitative factors of borrowers to assign credit scores to each borrower. This credit score is a key factor for estimating the probability of default based on the expected loss formula and consequently, for determining the applicable reserve rate applied and the risk grade for each loan. Actual results could differ from the assessment of these factors.

6.

- Impairment of investment in securities

The Group reviews its debt securities classified as available-for-sale and held-to-maturity investments at each reporting date to assess whether they are impaired. The Group also records impairment charges on these equity investments when there has been a significant or prolonged decline in the fair value below their cost. Interpreting the meaning of what may be deemed to be “significant” or “prolonged” requires judgment by management. Nevertheless, the Group evaluates, among other factors, the historical changes in the pricing and terms of each instrument, as well as the size of differences between the fair value and acquisition cost of its investments.

- Deferred income tax assets

The Group periodically evaluates the possibility of recovering its deferred tax assets based on the amount of taxable income it expects to generate in future years and when necessary, it creates a valuation allowance for those assets that do not have a high probability of being realized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

- Allowance for foreclosed or repossessed assets

The Group creates an allowance for foreclosed or repossessed assets in accordance with the CNBV's valuation rules for this allowance, which require that the allowance be calculated considering the specified allowance percentages and the length of time that has passed since the foreclosure or repossession of the assets took place. The Group's management also measures the carrying amounts of these assets considering its expectations regarding their recoverability and the net realizable value of each asset. The factors underlying the calculations of these allowances (i.e., percentages and terms) and management's other analyses considered for estimating the amount of the allowance may differ from actual results.

- Technical reserves

#### Long-term life insurance contracts

The Group's liabilities for life insurance contracts, which represent the expected value of future benefits resulting from policies in force, are determined based on actuarial calculations using assumptions established when the products are first registered with the Commission or using assumptions that have been subsequently updated. All of the assumptions are registered with and authorized by the CNSF. The assumptions used include discount and mortality rates, expected morbidity, expected longevity, returns on investments, costs, surrenders, and the future value of payouts and other amounts paid to the insured parties or their beneficiaries.

Due to the complexity of these valuations, the underlying assumptions they depend on and their long-term nature, the reserve created for these benefits is very sensitive to changes in the assumptions. The liabilities recorded for insurance contracts are subject to adequacy testing, which reflects management's best estimate of future cash flows associated with the Group's long-term insurance contracts.

#### Claims reserves for the property and casualty, accident and health lines

To calculate its claims reserves for the property and casualty, accident and health lines, the Group calculates estimates of (i) the expected ultimate cost of claims reported at the reporting date, and (ii) the expected ultimate cost of the reserve for claims incurred but not reported (IBNR) at the reporting date. It can take a significant period of time to determine the ultimate cost of claims with certainty.

The ultimate cost of outstanding claims is estimated using actuarial claims projection techniques that comprise the methodologies registered with the CNBV, such as the Chain Ladder method.

The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred claims, average costs per claim, and claim numbers based on the observed development of earlier years and expected loss ratios.

#### g) Cash and cash equivalents

Cash and cash equivalents principally consist of bank deposits and highly liquid investments with maturities of less than 90 days. These investments are stated at cost plus unpaid accrued interest at the date of the consolidated statements of financial position, which is similar to their market value.

Call money financing extended or acquired in the interbank market and whose repayment period may not exceed three business days are presented in the statement of financial position as part of the caption Cash and cash equivalents in the case of financing extended, and Demand loans in the case of loans received. Interest expense and income under these short-term loans is recognized on an accrual basis in the income statement under the caption Net interest income.

Bills of exchange with immediate guaranteed collection are recognized as part of Other cash equivalents if they are collectible within two business days (for bills of exchange issued in Mexico) or five business days (for bills of exchange issued abroad) after the date of the transaction that gave rise to them. Bills of exchange that are not recovered within these terms are transferred to the Loans or Other accounts receivable caption, depending on the nature of the source transaction.

8.

For all bills of exchange transferred to the Other accounts receivable caption, an allowance for the full amount of the debt is created within 15 business days after the transfer.

h) Recognition of transactions

The Group's transactions involving securities, derivatives, security repurchase agreements and security loans, among others (both proprietary and on customers' behalf), are recognized at the time the respective agreements are entered into, irrespective of the settlement date.

i) Unrealized gain on financial instruments

In determining the fair value of both proprietary and customer positions in derivative financial instruments, the Group uses the prices, rates and other market information provided by a CNBV-authorized price supplier.

j) Open transactions

- Securities trading

The related amount receivable or payable under open securities transactions is recognized in the corresponding clearing account at the agreed on price at the time of the trade. The difference between the market price of the securities and the agreed on price is recognized in the income statement as part of the caption Net trading income.

- FOREX trading

The Group buys and sells currency futures with 24-, 48- and 72-hour terms. Dollars bought and sold are recorded in assets or liabilities at the transaction's inception date. These dollar amounts are translated into Mexican pesos using the FIX exchange rate published by Banco de México in the *Official Gazette* one business day after either the date of the related transactions or the financial statements reporting date.

When it is agreed that settlement shall be within a maximum of two bank-working days from the trade date, the traded currency is recorded as a restricted liquid asset (in the case of buy transactions) and a liquid asset outlay (in the case of sell transactions), with a respective credit or debit against the corresponding clearing account. Gains or losses on FOREX trading are recognized in the income statement as part of the caption Net trading income.

Debit balances in clearing accounts that are not recovered within 90 calendar days subsequent to the trade date are reclassified as past-due debt under the caption Other accounts receivable, net and the Company creates an allowance account for the entire balance.



For securities and FOREX transactions that are not paid for immediately in cash or where settlement is not on a same-day basis, the related amount receivable or payable is recorded in Mexican pesos in clearing accounts, until the respective payment is made. Debit and credit balances in clearing accounts are included as part of the captions Other accounts receivable and Sundry creditors and other accounts payable, as the case may be, and may be offset only if and when the Group has the contractual right to do so and intends to settle the net amount, or to simultaneously realize the asset and settle the liability.

#### k) Investments in securities

Investments in securities include investments in debt and equity instruments. These investments are classified based on management's intention with regard to each investment at the time they are acquired. Each classification is governed by specific rules with respect to the way the investment is measured, valued and presented in the financial statements, as described below:

##### - Held-for-trading securities

These instruments are acquired to earn returns from the appreciation in their value realized through short-term trading transactions. At the end of each month, held-for-trading securities are valued at fair value, and the related gain or loss is recognized in the consolidated income statement as part of the caption Net trading income. At the time the instruments are sold, the unrealized gain or loss is reclassified in the consolidated income statement as securities trading income or loss, as the case may be.

##### - Available-for-sale securities

These are debt securities and equity instruments that are not acquired to earn returns from price differences resulting from short-term trading activities. Furthermore, the Company neither has the intention nor the ability to hold the debt securities to their maturity. Therefore, these instruments are residual in nature (i.e., they are acquired for purposes different from those of the trading or held to maturity securities).

Available-for-sale securities are measured at fair value, and the related gain or loss, net of income tax, is recognized in consolidated equity as part of the caption Unrealized gain on available-for-sale securities. At the time the instruments are sold, the cumulative unrealized gain or loss is reclassified in the income statement as securities trading gains or losses under the caption Net trading income.

##### - Held-to-maturity securities

Held-to-maturity financial investments are debt instruments with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. Held-to-maturity securities are valued at their amortized cost, which means that accrued interest includes the amortization of the premium or discount (included in the fair value, if applicable, at which they were initially recognized) and the transaction costs.

10.

In accordance with CBNV accounting rules, the Group may not classify any financial assets as held-to-maturity if in the current-year or the two immediately preceding years, it has sold or reclassified held-to-maturity securities before maturity, regardless of whether the financial assets it intends to classify as held-to-maturity and those that were sold or reclassified before maturity share similar characteristics, except under the following conditions:

- within 28 days prior to either the instrument's maturity or, when applicable, the date of the repurchase option of the security by the issuer, or
- after more than 85% of the original nominal value of the security has accrued or, when applicable, has been earned by the Group.

During the years ended December 31, 2015 and 2014, the Group has not sold any held-to-maturity securities.

At the time of their acquisition, investments in securities are initially measured at fair value (which includes any applicable discount or premium). Transaction costs associated with the acquisition of securities are recognized depending on their category: a) trading securities are recognized in profit or loss for the year at the date of acquisition; and b) available-for-sale securities and held-to-maturity securities are recognized initially as part of the investment.

Accrued interest on debt securities is recognized in net profit or loss in the applicable category as part of the caption Investments in securities. Accrued interest collected is reclassified from the Investments in securities caption to the Cash and cash equivalents caption.

- Transfers of financial instruments between categories

No reclassifications are permitted between financial instruments categories, except for securities reclassified from held-to-maturity to available-for-sale, which is allowed provided that the Group does not intend to hold these instruments to maturity. Transfers to the held-to-maturity category or from the held-for-trading category to the available-for-sale category require express authorization of the CBNV. Any unrealized gain or loss at the reclassification date is recognized under the caption Unrealized gain on available-for-sale securities in the consolidated statement of changes in equity.

l) Security repurchase agreements (repos)

The Group enters into repurchase agreements involving government and bank securities.

The accounts receivable or payable under repos, which represent the Group's right to receive the cash from its borrowers and its obligation to return the cash to its lenders, plus or minus the interest accrued on each transaction, are recorded in the consolidated statement of financial position as part of the caption Assets under security repurchase agreements or Liabilities under security repurchase agreements, respectively.

Financial assets provided by the Group as collateral in repos are classified as restricted securities based on the type of financial asset in question. Collateral securities received by the Group as a lender in repurchase transactions are recognized in Memorandum accounts under the caption Collateral securities received.

Memorandum accounts that include collateral securities that the Group received as a lender in repos and which it has subsequently sold or pledged as collateral for other transactions, are cancelled either at the time the Group acquires the collateral it sold to return it to the borrower, or upon maturity of the Group's second loan agreement or default by the counterparty to the original repo. These collateral securities are included in memorandum accounts under the caption Collateral securities received and sold or pledged as collateral by the Group.

- As the borrower

The Group recognizes the cash it receives or a settlement account, as well as an account payable initially recorded at the contractual price, which represents the obligation to return the cash the Group received from the lender. Over the term of the repo, the account payable is measured using an amortized-cost model through which the premiums on the repos are recognized in profit or on an accrual basis.

- As the lender

The Group recognizes the cash or a settlement account, as well as an account receivable initially recognized at the contractual price, which represents the right to receive the cash that the Group delivered to the borrower. Over the term of the repo, the account receivable is measured using an amortized-cost model through which the premiums on the repos are recognized in profit or on an accrual basis.

- Offsetting a financial asset and financial liability

Whenever the Group sells or pledges in guarantee any collateral securities it has received as a lender, the account payable it recognized for these financial assets is netted against the account receivable initially recognized by the Group as the lender. The net negative or positive balance resulting from this offsetting is presented as part of either the caption Assets under security repurchase agreements or Collateral securities sold or pledged as collateral, as the case may be.

m) Derivative financial instruments and hedging activities

Derivatives are recognized in the statement of financial position at fair value, regardless of whether they are classified as held for trading or as hedges. Cash flows received or delivered to adjust derivatives to their fair value at the inception of the hedge (excluding premiums on options) are recognized as part of the fair value of the instrument.

12.

The Group uses hedging instruments as part of its strategies for mitigating or eliminating altogether the various financial risks it is exposed to and its strategies regarding asset/liability management, as well as to reduce its deposits and borrowing costs. Transactions conducted for trading purposes refer mainly to transactions that the Group carries out with its customers or with other intermediaries to meet their financial risk hedging requirements, and they generate hedging positions that the Group offsets through mirror transactions conducted on the open market.

Transaction costs are expensed as incurred.

The notional amounts of the Group's derivatives are recognized in memorandum accounts under the caption Other memorandum accounts.

Highlights of the accounting treatment of the Group's transactions with financial instruments (derivatives) are as follows:

- Options

Options are contracts under which the Group has the right, but not the obligation, to buy an underlying asset at a determined price called the exercise price, at an established date or time. The premium paid on an option transaction is presented separately in the consolidated statement of financial position as part of the caption Derivatives for trading or hedging purposes. The premium is valued at the fair value of the option.

- Forwards

Forward contracts are transactions under which there is an obligation to buy or sell a financial asset or an underlying asset at a future date for an amount, quality and price that are pre-established in the respective contract. Forwards are highly negotiable contracts as to their pricing, terms, quantity and quality, margin requirements, delivery location, and payment terms. Since forwards are not traded in any secondary market, they expose the Group to credit risk.

- Financial instruments acquired for hedging purposes

The Group has the following financial instruments acquired for hedging purposes:

- Fair value hedges

These instruments hedge the Group's exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitments, or an identified portion of such assets, liabilities or unrecognized firm commitments attributable to a particular risk and which may affect the Group's operating results. The Group has contracted fair value hedges to mitigate market risks related to financial assets and liabilities.

The unrealized gain or loss resulting from the mark-to-market valuation of hedging instruments is immediately recognized in profit or loss.

The unrealized gain or loss on the hedged item attributable to the risk being hedged is adjusted to the book value of that item and is recognized in profit or loss. This is applicable even if the hedged item is valued at cost.

- Cash-flow hedges

These instruments hedge the Group's exposure to variability in cash flows on its forecasted transactions that (i) are attributable to a particular risk associated with a recognized asset or liability (such as one or more of the future interest payments under a variable-interest loan or debt instrument) or a highly probable event; and that (ii) could affect the Group's operating results.

The separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):

- the cumulative gain or loss on the hedging instrument from inception of the hedge; and
- the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge

Any remaining gain or loss on the hedging instrument or designated component of it (that is not an effective hedge) is recognized in profit or loss.

As at December 31, 2015 and 2014, the Group maintains no open hedge derivative positions.

n) Loan portfolio

Significant policies and procedures related to loan approval, control, and recovery

The management of the Group's loan portfolio is based on well-defined strategies, which include centralized loan processing, portfolio diversification, optimized credit analysis, close loan monitoring and a loan grading model.

The Group's different business areas develop and structure proposals that are analyzed by the credit department or, if applicable, are referred to the relevant decision-makers to ensure that there is an adequate level of segregation between the Group's business originators and the employees who authorize the Group's transactions.

The Group's credit area constantly evaluate the financial position of each of the Group's customers through exhaustive review and risk analysis of each loan performed at least once a year. When the area detects that the financial circumstance of a given customer has deteriorated or improved significantly, the appropriate changes in the customer's rating are made. This way, the Group determines the changes that have occurred in the risk profile of each of its customers.

14.

The Group has policies and procedures in place to maintain a healthy, diversified portfolio with a prudent and controlled risk level. These policies and procedures also consider the business units, currency, loan term, and business sector related to the loan in question. Loan limits are submitted annually to the Board of Directors for authorization.

- Recording of loans

Irrevocable lines of credit and unused lines of credit are controlled in Memorandum accounts under the caption Loan commitments at the time they are authorized by the Loan Committee. Drawdowns made by borrowers on their authorized lines of credit are recorded as assets (loan granted) at the time the related funds are transferred to the borrower.

Origination fees earned on unused lines of credit are recognized as interest income on a deferred basis over a 12-month period. At the time drawdowns are made against these lines of credit, the deferred commissions are recognized in the income statement.

With respect to discounted notes, both with or without recourse, the Group records the total amount of notes received as part of its loans, and credits the related cash expenditure agreed upon in the related agreement against this amount. Any difference between these two amounts is then recognized in the statement of financial position as interest earned in advance under the caption Deferred credits and early settlements, and is amortized on a straight-line basis over the term of the loan.

Letters of credit are recorded in Memorandum accounts as part of the caption Loan commitments and after they are exercised by the customer or the counterparty, they are reclassified to the loan portfolio, while the unsettled portion of the instrument is recorded as part of Sundry creditors and other accounts payable. The considerations agreed on under these transactions are recognized in the income statement under the Commissions and fees earned caption at the time they are actually received by the Group.

Consumer loans not extended through credit cards and mortgage loans are recognized at the time the financing and loans are granted, and collateral received by the Group in respect of these transactions is duly documented before the cash is delivered to the borrowers. Interest is calculated on unpaid loan balances.

Collateral and loan guarantees received by the Group are recognized in Memorandum accounts as part of the caption Loan commitments. Commissions earned on these transactions are recognized in the income statement on an accrual basis.

Loans to employees are included in the Other accounts receivable caption and the interest accrued on these loans is recognized in the income statement under the Other income caption.

Interest on performing loans is recognized in the income statement as it accrues, irrespective of the settlement date. The recognition of interest is suspended at the time a given loan is reclassified to the past-due portfolio.

Loan origination fees are amortized over the term of the loan.

Incremental loan origination costs are amortized over the same terms as the loan origination fees of each loan.

In accordance with Mexican FRS, commissions earned, origination costs and other items associated with the loan origination process should be separately assessed to determine whether they should be included as part of the effective interest rate of the transaction.

- Identification of troubled loans (past due loans)

Loans whose amounts, conditions, and repayment terms have made, or could make it difficult for the Group to recover using its regular loan collection system, are classified as troubled loans (non-performing loans) and are transferred to the Group's loan recovery area. This procedure is in place to take advantage of the loan recovery area's experience and specialized negotiation, recovery, and oversight strategies aimed at determining the best way to maximize the Group's recovery of troubled loans in the shortest possible time.

- Loans reclassified to the past-due loan portfolio

Balances that become past due in terms of the original loan conditions are reclassified to the past-due portfolio when either the Group learns that the borrower has declared bankruptcy in terms of the Mexican Bankruptcy Act or when the borrower fails to make payments within the originally stipulated terms, and following these general guidelines:

- If the loan is repayable in one installment of principal and interest and is 30 days or more past-due;
- If principal is repayable in one single installment and interest is payable in installments and the loan is 90 days or more past-due in interest payments or 30 days or more past-due in repayment of principal;
- If the loan is repayable in partial, periodic installments of principal and interest and is 90 days or more overdue;
- If the loan is revolving and is two months past due or, as appropriate, is 60 days or more past-due.
- Overdrafts in customer checking accounts and documents for immediate guaranteed collection are included in the past-due loan portfolio as they become known by the Group.

Overdue loans where the borrower has subsequently paid in full the outstanding balances (principal and interest) and restructured or renewed loans where there is evidence of sustained payment of both principal and interest loans are transferred back to the performing loan portfolio.

16.

Loans repayable in one single installment and interest payable in installments, as well as loans to be paid in a single installment of principal and/or interest upon maturity that are restructured during the term of the loan or renewed at any time, are classified as overdue until there is evidence of sustained payment by the borrower.

- Loan restructurings and renewals

Loan restructurings consist of extensions made to the guarantees covering drawdowns made by borrowers, as well as changes in the original loan conditions with respect to payments, interest rates, or currency, or a grace period granted by the Group during the term of the loan.

Loan renewals occur when a loan's repayment term is extended during or past the loan's original maturity date, or when the loan is repaid by the borrower at any time using additional financing obtained from the Group by either the original debtor or any other person that because of common economic links with the debtor, constitutes a common risk for the Group.

Restructured overdue loans remain in the performing loan portfolio as long as there is evidence of sustained payment of both principal and interest of at least three consecutive installments, or in the case of installments that cover periods in excess of 60 days, when the borrower has made at least one payment. For restructured loans that involve a reduction in the frequency of payments below what was originally agreed, sustained payment shall be considered to exist when three consecutive payments under the original payment plan have been made.

Loans to be repaid in a single installment of principal and/or interest upon maturity that are restructured during the term of the loan or renewed at any time are classified as overdue.

o) Loans grading rules and loan-loss reserve

The loan-loss reserve is determined based on the grading rules established in the specific accounting criteria for credit institutions issued by the CNBV via its *Circular Única* for Banks, which include methodologies for the evaluation and creation of reserves by type of loan.

- Commercial loans

The Group applies the methodology established by the CNBV for grading commercial loans, which is as follows:

- The Group assesses the default risk of each borrower based on the three parameters recommended by the Basel Committee: (i) probability of default, (ii) loss severity, and (iii) exposure at default. Loss severity varies based on the loan structure and it ranges from 0% to 100%.



- Loans are reclassified by type of loan, with separate identification of commercial loans granted to corporations and individuals engaged in business activities, decentralized bodies (federal, state or municipal), and political parties, with sales or net income divided into two groups:
  - a) For borrowers of this kind with net income or annual net sales of less than 14 million UDIs, UDIs are classified into loans with overdue payments or without late payments. The probability of default is determined using 17 variables divided into 3 different groups: (a) payment experience; (b) Federal Housing Financing Agency (INFONAVIT) payment experience; and (c) the characteristics of the borrower.
  - b) For borrowers of this kind with net income or annual net sales of more than 14 million UDIs, UDIs are classified into small, medium and large entities. The probability of default is determined using 21 variables divided into 8 different groups: (a) payment experience; (b) Federal Housing Financing Agency (INFONAVIT) payment experience; (c) a financial factor; (d) country- and industry-specific risk factors; (e) market position; (f) transparency and regulatory compliance; (g) corporate governance; and (h) management competence.

The case-by-case application of a formula that considers expected loss factors and variables related to default risk and accrued maturities at the calculation date, which vary based on the Group's loan classification methodology.

The reserve percentage is determined using the specific formula developed by the CNBV. An analysis of the reserve percentages based on the risk grades for the commercial loan portfolio is as follows:

Risk grade	Reserve percentage
A-1	0 to 0.9
A-2	0.091 to 1.5
B-1	1.501 to 2.0
B-2	2.001 to 2.5
B-3	2.501 to 5.0
C-1	5.001 to 10.0
C-2	10.001 to 15.5
D	15.501 to 45.0
E	More than 45.0

The rules for commercial loan grading require the Group to conduct a quarterly credit risk assessment based on total loan amounts granted to single borrowers.

18.

- Loans granted to federal and municipal government entities

The loan-loss reserve for loans to government entities (state and municipal) is determined considering the default risk for each borrower determined based on the three parameters recommended by the Basel Committee: (i) probability of default, (ii) loss severity, and (iii) exposure at default. The probability of default is determined using 19 variables divided into 5 different groups: (a) payment experience; (b) credit rating given by a rating agency; (c) financial risk; (d) socio-economic risk; and (e) financial stress. Loss severity varies based on the loan structure and it ranges from 10% to 45% exposure at default.

For loans to decentralized government bodies (both state and municipal) that are expressly backed by the respective state or municipal governments, the Group calculates the amount of the corresponding loan-loss reserve using the procedure applicable to loans to state and municipal governments.

- Investment projects with self-funded loan repayment sources

For investment project loans with self-funded loan repayment sources, various internal or external experts assess the Group's associated financial risk during the construction or operation phases of the projects on a case-by-case basis.

- Home mortgage loans

The loan-loss reserve for mortgage loans, which includes home mortgage loans for home purchases, and home construction, remodeling or enhancement, is determined considering the default risk of each borrower based on the three parameters recommended by the Basel Committee: (i) probability of default, (ii) loss severity, and (iii) exposure at default. Probability of default is determined using 8 coefficients, which primarily consider the Group's payment experience. Loss severity varies based on the loan structure and ranges from 10% to 100% of exposure at default.

An analysis of the reserve percentages based on the risk grades for mortgage loans is as follows:

<u>Risk grade</u>	<u>Reserve percentage</u>
A-1	0 to 0.50
A-2	0.501 to 0.75
B-1	0.751 to 1.0
B-2	1.001 to 1.50
B-3	1.501 to 2.0
C-1	2.001 to 5.0
C-2	5.001 to 10.0
D	10.001 to 40.0
E	40.001 to 100.0

- Consumer loans

Consumer loans (i.e., loans to individuals, divided into different groups such as consumer and personal loans) are determined considering the default risk of each borrower based on the following: (i) probability of default, (ii) loss severity, and (iii) exposure at default. Probability of default is determined using 8 coefficients, which primarily consider the Group's payment experience. Loss severity varies based on the loan structure and ranges from 10% to 65% of exposure at default.

An analysis of reserve percentages based on the risk grades for the consumer loan portfolio is as follows:

Level of risk	Consumer	
	Non-revolving	Credit card and other revolving loans
A-1	0 to 2.0	0 to 3.0
A-2	2.01 to 3.0	3.01 to 5.0
B-1	3.01 to 4.0	5.01 to 6.5
B-2	4.01 to 5.0	6.51 to 8.0
B-3	5.01 to 6.0	8.01 to 10.0
C-1	6.01 to 8.0	10.01 to 15.0
C-2	8.01 to 15.0	15.01 to 35.0
D	15.01 to 35.0	35.01 to 75.0
E	35.01 to 100.0	More than 75.01

- Recognition in the consolidated income statement

Changes in the loan-loss reserve resulting from the loan grading process are recognized in the income statement and net interest income is adjusted accordingly up to the amount of the reserve for the type of loans in question.

Whenever the balance of the loan-loss reserve exceeds the reserve amount required based on the respective grading methodologies, the difference is cancelled against the income statement under the loan-loss reserve the next time the type of loan in question (commercial, consumer, mortgage) is graded. Whenever the amount to be released exceeds the balance of the reserve recognized in the income statement, this difference is recognized as other operating income.

Mexican FRS require that reductions in the balance of the allowance for doubtful accounts be recognized at the time such reductions are determined.

Any total or partial loan reduction, forgiveness, cancellation or discount is recognized in the income statement in the loan-loss reserve caption. Whenever the amount of such reductions, forgiveness, cancellations or discounts exceeds the balance of the reserve associated with the loan, a reserve should be created for up to the amount of the difference.

20.

- Write-offs

In accordance with CNBV regulations, the Group recognizes write-offs occurring during the year in profit or loss, without the need for authorization from the CNBV to do so. Subsequent recoveries of write-offs are recognized in profit or loss in the Other operating income/(expenses) caption.

p) Collection rights

Collection rights are financial instruments that are not considered investments in securities because they have not been issued as part of a series by a trust or another legal entity. These instruments also include impaired loans that based on the information available, current circumstances and the results of the loan review process, the Group has determined that the amounts due by the borrower (principal and interest) under the loan's original terms and conditions may not be recovered in full.

The amount recognized for a collection right as another account receivable is the price paid at the time the collection right was acquired. This means that no bad debt allowance should be recognized for the instrument at the date of acquisition. Collection rights are subsequently valued using the effective interest rate method, which requires the initial investment in the instrument to be systematically amortized, with the related returns be recognized in the Group's income statement accounts using an estimated rate of return from subsequent collections in cash and in kind derived from collection rights. When the full price paid for a collection right is recovered by the Group, any subsequent recoveries made against the original debt are recognized in profit or loss. The Group is required to calculate quarterly the expected cash flows during the effective terms of its collection rights. Should the Group determine a reduction in the expected cash flows from a given instrument, it must create an allowance for bad debts for this anticipated reduction.

q) Foreclosed and repossessed assets

Foreclosed and repossessed assets are recognized at the lower of either their cost or their fair value, net of all costs and expenses incurred by the Group during the associated foreclosure or repossession proceedings.

At the time a foreclosed asset is sold, the difference between the selling price and carrying value of the asset, net of associated reserves, and any adjustments to the value, creation, and adjustments to this reserve, are recognized as part of the Other operating income caption.

The allowance for impairment in foreclosed and repossessed assets and property received as payment in kind are recognized on a monthly basis in a systematic and cumulative manner using a specific allowance that is recognized in the income statement under the Other operating income caption. The mechanism used for calculating and recognizing the allowance consists of creating an impairment projection schedule for each foreclosed asset to create an allowance of up to 100% of the value of each asset, or a lesser percentage for those assets that the Group's specialized recovery area determines may remain on the statement of financial position for a specific period of time, in accordance with the CNBV's rules.

The Group determines the monthly incremental amount of the allowance required under CNBV rules so that the asset is recognized consistently year after year as the assets age. The amount of the allowance is adjusted each month based on the variances in the value of the foreclosed assets (inflows and outflows).

Foreclosed and repossessed assets and property received as payment in kind that the Group intends to retain for its own use are recognized in the statement of financial position at their carrying amounts determined at the time the assets were foreclosed or repossessed.

#### r) Property, furniture and equipment

Property, furniture and equipment is stated at cost, net of accumulated depreciation. Through December 31, 2007, property, furniture and equipment was restated based on the value of the Investment Units (UDI).

Depreciation is determined on the value of fixed assets on a straight-line basis, over the estimated useful lives of the related assets.

#### s) Assessment of long-lived assets for impairment

Long-lived assets, both tangible and intangible, are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Impairment is determined based on the recoverable amount of the related asset, which is the higher of the cash-generating unit's net selling price and its value in use (the present value of future cash flows), using an appropriate discount rate.

For the years ended December 31, 2015 and 2014, there were no indicators of impairment in the value of the Group's long-lived assets.

#### t) Equity investments

Investments in associates are accounted for using the equity method, which basically consists of recognizing the Group's proportional share in the net income or loss and the equity of its investees.

#### u) Deposits and borrowings

Liabilities related to deposits and borrowings in the form of demand and time deposits, as well as bank bonds and interbank loans and other borrowings, are accounted for based on the contractual obligations underlying each arrangement. Accrued interest on these deposits and borrowings is recognized in the income statement as part of the caption Net interest income.

22.

Securities included in the Group's core deposits that are part of its direct deposits and borrowings are classified and accounted for as follows:

- Instruments issued at nominal value are accounted for based on the contractual obligations underlying each arrangement. Accrued interest is recognized in profit or loss.
- Instruments issued at a price other than nominal value (with a premium or at a discount) are accounted for based on the contractual obligations underlying each arrangement, while the difference between the nominal value of the security and the amount of cash received for it is recognized as a deferred cost or prepaid expense and is amortized on a straight-line basis over the term of each instrument.
- Instruments issued at a discount and bearing no interest (zero coupon) are valued at their issue date based on the amount of cash received for them. The difference between the nominal value of the security and the amount of cash received for the instrument is accounted for as interest, and is recognized in profit or loss using the effective interest rate method.

Term deposits with interest payable at maturity, other time deposits and certificates of deposit are recognized at their nominal values. Promissory notes issued by the Group on the interbank market are sold at a discount.

Commissions paid for loans received by the Group or to the underwriter of the Group's debt instruments are recognized in the income statement on an accrual basis under the caption Commissions and fees paid.

Debt issue costs, as well as the premiums and discounts on the Group's debt, are recognized in the statement of financial position as deferred costs or prepaid expenses, as the case may be, and are amortized as interest income or expense on an accrual basis over the terms of the securities giving rise to them.

Premiums and discounts are accounted for as part of the liability that gave rise to them. Deferred issue costs are recognized as part of the caption Other assets.

#### v) Provisions, contingent liabilities and commitments

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In the case of contingencies, the Group's management assesses the circumstances and status of each contingency at the reporting date to determine if an outflow of revenues is probable, possible, or remote.

Contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Also, commitments are only recognized when they will generate a loss.

w) Employee benefits

- Employee profit sharing

The Group determines its taxable income for purposes of its calculation of employee profit sharing in accordance with the Mexican Income Tax Law and pays the amount determined following the limits set forth in section III of Article 127 of the Federal Labor Law. The Group recognizes its liability for employee profit sharing payable in the statement of financial position as at December 31, 2015 and 2014. Deferred employee profit sharing is determined as described above and there are no items giving rise to employee profit sharing as at December 31, 2015 and 2014.

- Termination benefits

Non-alternative retirement benefits payable to employees due to corporate restructurings are either recognized as expenses as they accrue, or are recognized whenever: (i) the Group has a present obligation (legal or constructive) to pay these benefits as a result of a past event, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of the obligation. The Group's liability for non-alternative retirement benefits payable for reasons other than corporate restructurings are recognized based on independent actuarial calculations as at December 31, 2015 and 2014.

- Seniority premiums

Under Mexican Labor Law, seniority premiums accruing to employees who resign or are dismissed under certain circumstances after fifteen or more years of service, are recognized as a cost of the years in which services are rendered. The Group has created a provision to cover the defined benefit obligation, based on actuarial calculations made as at December 31, 2014 and 2015.

As at December 31, 2015 and 2014, the Group recognized a liability for labor obligations totaling Ps. 39 (Ps. 5 for seniority premiums, Ps. 2 for termination benefits and Ps. 32 for severance benefits) and Ps. 42 (Ps. 5 for seniority premiums, Ps. 2 for termination benefits and Ps. 35 for severance benefits), respectively, which was determined on the basis of actuarial calculations. For the years ended December 31, 2015 and 2014, the Group's net periodic benefit cost was Ps. 4 and Ps. 8, respectively.

24.

- Unamortized items

The Group has past service costs that are being amortized as part of the net periodic benefit cost over a term equal to the average remaining working lifetime of employees.

The net projected liability is included in the accompanying consolidated statement of financial position as part of the caption Sundry creditors and other accounts payable.

x) Technical reserves

Technical reserves are set up and invested by the Group as required by the Mexican Stock and Mutual Insurance Companies Act and the rules in effect related to the creation of the reserves.

Technical reserves are determined and accounted for as follows:

- Unearned premium reserve

The Group determines the unearned premium reserve in the life, accident and health and property and casualty insurance lines based on actuarial methods that include adequacy standards.

The actuarial methods used consist of a payment projection model that includes estimates of the claims and payouts in respect of the Group's in-force policies in each line of business. This methodology has been registered with the Commission through a technical note.

- Unearned premium reserve for life insurance policies

In accordance with CNSF rules, this reserve was determined as follows:

Less than or equal to one year. The unearned premium reserve represents an estimate of the sum of the unearned risk premium under the Group's in-force policies multiplied by the adequacy factor, plus the unaccrued portion of administrative expenses. Such reserve may in no case be less than the unaccrued premium that the Group, in accordance with its contractual terms, is obliged to refund the policyholder if the policy is cancelled.

The adequacy factor is determined by dividing the expected value of future payments of claims and benefits, as determined based on the Group's registered valuation method, less future net premiums, by the unearned premium of in-force policies. The sufficiency factor may never be less than one. The adequacy factor is reviewed and adjusted on a quarterly basis.

More than one year. The unearned premium reserve, excluding loss adjustment expenses, may in no case be less than the amount calculated by applying the actuarial method used for calculating the minimum reserve amount, nor may it be less than the surrender value that the Group is obliged to refund the policyholder in the event the contract is cancelled, whenever the surrender value is higher than the minimum unearned premium reserve.



For purposes of calculating the Group's technical liabilities, the following claim and severity assumptions were applied:

- Individual life: Mexican Experience Study 91-98 CNSF 2000-I
- Group and collective life: Mexican Experience Study 91-98-CNSF 2000-G

The claim and severity assumptions were taken from the Group's technical notes registered with the Commission.

Unearned premium reserve in the property and casualty and accident and health lines

The unearned premium reserve is calculated as described below:

The unearned premium reserve (except earthquake and hydro-meteorological risks) represents the sum of the unearned premium of in-force policies multiplied by the adequacy factor, plus the unaccrued portion of loss adjustment expenses. Such reserve may in no case be less than the unaccrued premium rate that the Group, in accordance with its contractual terms, is obliged to refund the policyholder if the agreement is cancelled.

The adjustment for reserve deficiency is determined by multiplying the unearned premium for in-force policies by the adequacy factor minus one. The sufficiency factor is determined by dividing the expected value of future payments of claims and benefits, as determined based on the Group's registered valuation method, less future net premiums, by the unearned premium of in-force policies. The adequacy factor may never be less than one. The adequacy factor is reviewed and adjusted on a quarterly basis.

- Earthquake

In 2015 and 2014, the unearned premium reserve covering earthquake and/or volcanic eruption is calculated considering 100% of the Group's retained premium, as determined based on the valuation system designed by the Universidad Nacional Autónoma de México and authorized by the CNSF.

Estimates of expected future claims are calculated considering the gross amount and the portion of ceded business is also taken into account. For this line of business, the portion of the reserve covering ceded business is determined based on the difference between the gross reserve and the reserve for retained business determined using the above-mentioned valuation system, which distinguishes between reinsurance business ceded locally and ceded to foreign reinsurers.

26.

- Hurricane and other hydrometeorological risks

In 2015 and 2014, the unearned premium reserve covering hurricane and other hydrometeorological risks is calculated considering 100% of the Group's retained premium, as determined based on the valuation system designed by the Universidad Nacional Autónoma de México and authorized by the CNSF.

The unearned premium reserve and the maximum probable loss in the hydro-meteorological line of business is calculated using a valuation system developed by the CNSF.

Estimates of expected future claims are calculated considering the gross amount and the portion of ceded business is also taken into account. For this line of business, the portion of the reserve covering ceded business is determined based on the difference between the gross reserve and the reserve for retained business determined using the above-mentioned valuation system, which distinguishes between reinsurance business ceded locally and ceded to foreign reinsurers.

- Reserve for catastrophic risks

Earthquake

This reserve is established to cover the Group's obligations with respect to retained earthquake insurance business. The reserve is cumulative and claims may only be charged against the reserve with the CNSF's prior authorization. The CNSF has set the maximum reserve accrual at 90% of the average probable maximum loss over the last five years, as determined using a technical analysis.

The reserve is increased monthly through releases from the reserve for retained unearned premiums in the earthquake line and the capitalization of interest earned on the investment of the earthquake risk reserve amounts, calculated on the monthly balance of such reserve.

Hurricane and other hydrometeorological risks

This reserve is established to cover the Group's obligations with respect to retained hydrometeorological risks insurance business. The reserve is cumulative and claims may only be charged against the reserve with the CNSF's prior authorization. The CNSF has set the maximum reserve accrual at 90% of the average probable maximum loss over the last five years, as determined using a technical analysis.

The reserve is increased monthly through releases from the reserve for retained unearned premiums in the hydrometeorological risk line and the capitalization of interest earned on the investment of the hydrometeorological risk reserve amounts, calculated on the monthly balance of such reserve.

- Reserve for claims reported and not yet settled

This reserve is established to cover the Group's obligations for claims filed by policyholders but not yet paid out to them. This reserve is increased when the Group learns of claims. These increases in the reserve consider the insured sums in the life line, as well as estimates of the Group's total obligation in the property and casualty and accident and health lines. Increases in the reserve also consider the corresponding reinsurance recovery. Losses on assumed reinsurance business are recognized at the time losses are reported by the cedents, and at the same time the Group recognizes its own reinsurance recovery.

- Reserve for unvalued claims

The reserve for unvalued claims in the accident and health and casualty and property lines is determined based on an actuarial methodology registered with the CNSF and should reflect: (i) the expected value of future payouts against claims that have been filed by policyholders during the current year or in prior years but whose exact amounts are still unknown; (ii) claims for which there are no related claim valuations; and (iii) the value of potential additional payment obligations resulting from previously valued claims. This reserve is calculated quarterly by applying a factor determined based on the technical note registered with the CNSF to all claims incurred. The calculation of expected future payouts for in-force policies considers gross values, net of the portion of reinsurance ceded (share in reinsurance ceded).

- Policy dividends

Policy dividends are established in each insurance contract and are calculated in accordance with the technical notes for dividend-paying products, which is based on the Group's own experience (claim rates) and general experience (based on claims paid under each policy) as well. The Group pays dividends on policies in the life insurance lines.

- Reserve for losses incurred but not reported and loss adjustment expenses

This reserve is established to recognize the estimated amount of losses incurred but not yet reported to the Group, as well as the corresponding loss adjustment expenses. The reserve is estimated based on the Group's past experience with IBNR and the related expenses using the methodology proposed by the Group's own specialists. This reserve is calculated quarterly by applying a factor determined based on the technical note registered with the CNSF to all claims incurred.

- Managed insurance investment funds

The fund consists of cash contributions made, or policy dividends earned, by holders of traditional individual life insurance policies with investment plans, as well as short-term endowments due at the policy's expiration date and interest earned on the fund's investments. These funds are included on the statement of financial position as part of the investment caption, as well as in the related liability accounts. Policyholders may make partial withdrawals against the fund.

28.

y) Income tax

Income tax consists of current income tax and deferred income tax. Current income tax refers to the tax payable by the Group on its taxable income for the period, while deferred income tax is comprised of the deferred assets and liabilities attributable to temporary differences between the book and tax values of balance sheet accounts, plus the effects of tax losses and tax credits. Deferred tax assets are recognized only when there is a high probability that they will materialize in the future. Deferred taxes are determined by applying the enacted income tax rate effective as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

Current income tax is determined in accordance with current tax legislation and represents a liability of less than one year. Tax prepayments in excess of annual income tax for the year give rise to an account receivable.

z) Outstanding subordinated debentures

The Group's liability for subordinated debt represents the amount it is obligated to pay out to its bondholders. The carrying amount of outstanding debt is the nominal value of the bonds, minus any remaining discount or plus any remaining premium. Interest expense under subordinated debt is recognized as it accrues.

Debt issue costs, as well as the discounts or premiums on the placement of debentures are being amortized over the period in which debentures will be outstanding, in proportion to their maturities. These expenses are recognized as deferred charges. The premium or discount on the placement of debentures is recognized in the Outstanding subordinated debentures caption.

aa) Share-based payments

The Bank and Casa de Bolsa's policy is to make payments based on the shares of Grupo Financiero Interacciones (equity bonds) to executives with seniority of more than three years. These payments are initially measured at fair value. All vested and unallocated shares are recognized in the Other assets caption and are measured at fair value on a daily basis. Under no circumstances does the Group pay this benefit in cash.

ab) Recognition of interest

Interest income and commissions earned on the Group's performing portfolio are recognized on an accrual basis. Interest and the outstanding principal of loans are considered in the loan grading procedure used in the calculation of the loan-loss reserve.

Accrued interest or other finance income on past-due loans is recognized in Memorandum accounts and is recognized in the income statement under the Interest income caption at the time it is eventually collected from the borrower.

Interest on repos and instruments held by the Group is recognized in the income statement as it accrues.

#### ac) Recognition of commissions

Commissions on loan management and maintenance are earned after the loan has been granted and so they are recognized in the year in which they accrue. Commissions are recognized in the income statement as part of the Commissions and fees earned caption.

Commissions and fees paid are calculated and recognized based on the likelihood that borrowers will repay their loans (principal and interest) on time, in accordance with Mexican FRS C-9.

This caption also includes commissions earned on capital market and public offering brokerage services, and on the administration and safekeeping of securities, net of commissions and fees paid to the Mexican Stock Exchange and other entities. Commissions and fees received are recognized in the income statement using the accrual method.

In addition, contingent commissions are defined as those compensations paid to individuals or corporate agents that participate in the intermediation of or are involved in the contracting of the Group's insurance products, above and beyond the direct commissions or compensations normally paid for each product. For the years ended December 31, 2015 and 2014, contingent commissions are represented by bonuses that are paid out for low claim rates, increases in net premiums paid and office support.

For the years ended December 31, 2015 and 2014, the Group had agreements that stipulated the payment of contingent commissions with both independent and corporate agents, as described in this note. The total amount of contingent commissions paid during the years ended December 31, 2015 and 2014 was Ps. 5 and Ps. 8, respectively, and these amounts are recognized in the consolidated income statement as part of the caption Additional agent commissions.

As at December 31, 2015 and 2014, the Group has no outstanding contingent commissions.

The general basis for the payment of bonuses are as follows:

- For low claim rates based on each line of business: The claim rate percentage is calculated by dividing the annual amount of claims, plus the associated loss adjustment expenses, net of salvage and recoveries, by the net earned premium. This bonus is granted based on the Group's individual agreements negotiated with each agent or promoter.

30.

- For increases in net premiums paid: This bonus is calculated based on the increase in the performing portfolio on a year-over-year basis.
- For office support: For this bonus, a fixed monthly fee is paid to agents for administrative activities related to policy sales.

ad) Foreign currency transactions

The exchange rate used to translate Mexican pesos into U.S. dollars is the FIX exchange rate published by Banco de Mexico in the *Official Gazette* on the work day immediately following the date of the transaction or the reporting date, as the case may be.

ae) Transactions in investment units (UDI)

Transactions in Investment Units (UDIs) are recognized at the date of the related transaction. Assets and liabilities in UDIs are valued at the end of each year based on the value of the UDI at that time. Gains and losses arising from changes in the value of the UDI affecting the Group's positions related to income or expenses reflected in its net interest income are recognized as interest income or expense, as the case may be. Exchange gains or losses that are unrelated to the Group's net interest income are recognized as part of the Other operating income caption in the income statement.

af) Memorandum accounts

Memorandum accounts are used to record and control all of the Group's financial and non-financial supplementary information on the statement of financial position, mainly related to the opening of lines of credit, letters of credit, securities held for safekeeping and managed securities, which are all stated at fair value. They also include property held under trust agreements (where the Group is trustee), asset and liability positions under security repurchase agreements, uncollected accrued interest on past-due loans and the amounts of derivative financial instruments that the Group has contracted during the year.

ag) Earnings per share

Earnings per share are determined by dividing the net profit or loss for the year by the weighted-average number of shares outstanding at the date of the statement of financial position.

ah) Comprehensive income

The comprehensive income shown in the consolidated statement of changes in equity consists mainly of the Group's net income or loss for the year, plus the unrealized gain or loss on available-for-sale securities valued at their fair value and the gain from holding non-monetary assets.

ai) Segment Information

The Group has identified its reportable operating segments. Each of these segments is considered an individual component of the Group's internal structure, each with its own particular risks and return opportunities. Segments are analyzed periodically to ensure their adequate funding and to evaluate their performance.

aj) Reinsurance business ceded

The Group limits the amount of its liabilities under policies in force by ceding a portion of its policy risk to reinsurers through automatic and facultative treaties, ceding to the reinsurers a portion of the respective premiums.

The Group has a limited capacity to retain business in all lines of business and has excess of loss coverage for all retained business and in those lines of business allowed under current regulations.

Reinsurers are required to reimburse the Group for reported claims based on their share in each policy.

ak) Net cost of claims

The net cost of claims consists of losses, policy dividends, maturities, surrenders and loss adjustment expenses, net of salvage and reinsurance recoveries.

al) New accounting pronouncements

The following new accounting pronouncements are effective for annual periods beginning on or after January 1, 2015:

Improvements to Mexican FRS:

Mexican FRS B-8, *Consolidated and Combined Financial Statements* - This standard provides guidance on identifying investment entities and understanding their principal characteristics and main activities to assist in determining whether or not the reporting entity has control over the investment entity under given circumstances.

Mexican accounting Bulletin C-9, *Accrued Liabilities, Provisions, Contingent Assets and Liabilities and Commitments* - This standard was amended to establish that when an entity receives trade advances from customers in respect of sales or services denominated in foreign currencies, the exchange difference arising between the entity's functional currency and the payment currency should have no effect on the reported amount of the advance payment. Accordingly, an entity's trade advances caption should not be adjusted for subsequent fluctuations in the relevant exchange rate and it should be measured using the prevailing exchange rate on the date of the transaction (i.e., the historical exchange rate).

32.

The standard also indicates that when an entity no longer considered a going concern or has consistently failed to meet its payment obligations in accordance with the relevant laws, that entity is required to disclose this fact, as well as any contingencies related to this circumstance.

Mexican FRS B-13, *Subsequent Events* –The amendments to this standard establish that entities should not prepare their financial statements on a going concern basis if at the date of issue of those financial statements, the entity's management has determined that in the upcoming period, which must cover at least 12 months as of the financial statement issue date, it intends to dissolve the entity or halt the entity's commercial operations, or that there is no feasible way for the entity to continue operating.

Mexican FRS B-15, *Foreign Currency Translation* –This standard was amended to update the definitions of the terms "foreign operation" and "exchange rate".

The adoption of these new accounting rules had no material effect on the Group's financial position or operating results.

The following new accounting pronouncements are effective for annual periods beginning on or after January 1, 2016:

Mexican FRS C-1, *Cash and Cash Equivalents*, and Mexican FRS B-2, *Statement of Cash Flows*

Mexican FRS C-1, *Cash and Cash Equivalents*, and Mexican FRS B-2, *Statement of Cash Flows*, were amended to clarify that the definition of cash includes foreign currency, and to define cash equivalents as investments that an entity maintains to meet its short-term commitments. In both standards, the term "liquid investments" has been replaced by the term "highly-liquid investments", since this wording is thought to be more precise. These changes were made to the standards in order to align the meanings of these terms to the definitions established in International Accounting Standard 7 (IAS 7), *Statement of Cash Flows*.

In the case of cash valuation and cash equivalents, several changes were made to Mexican FRS C-1, *Cash and Cash Equivalents*, to specify that since cash and cash equivalents is a financial instrument, like any other financial instrument, it should be measured at fair value upon initial recognition, and highly-liquid instruments should be measured at fair value following the guidelines provided in the accounting standard for financial instruments.

Mexican FRS C-7, *Investments in Affiliates, Joint Ventures and Other Equity Investments*

Mexican FRS C-7 was amended to establish that non-cash investments and capital contributions should be measured at fair value, which is consistent with the guidelines established in Mexican FRS C-11, *Equity*.



### Mexican FRS B-7, *Business Combinations*

Mexican FRS B-7, *Business Combinations*, was amended to establish that it does not apply to business combinations involving entities under common control, regardless of how the amount of the related consideration is determined. Mexican FRS B-7 previously established that transactions involving acquisitions or mergers of entities under common control, and acquisitions and disposals of non-controlling interests were to be accounted for following Mexican FRS B-7, provided that the transactions were carried out at fair value.

These changes to Mexican FRS B-7 are intended to bring the standard in line with International Financial Reporting Standard 3 (IFRS 3), *Business Combinations*.

Mexican FRS D-3, *Employee Benefits*.- The most important changes contained in the new standard are as follows: a) The new Mexican FRS D-3 eliminates the recognition of post-employment benefits and the use of the corridor approach or a percentage change band for the recognition of actuarial gains and losses under which actuarial gains and losses could be deferred. Instead, all actuarial gains and losses must be recognized immediately in the respective provisions as they arise. As so-called remeasurements, these adjustments are to be immediately recognized in other comprehensive income but must subsequently be recycled through profit or loss. b) Plan asset ceiling - the new Mexican FRS D-3 establishes an asset ceiling for determining an entity's maximum obligation for post-employment benefits. c) Plan amendments, curtailments, and gains and losses from settlement - the new Mexican FRS D-3 requires immediate recognition of the effects of these events. d) Discount rate - the new Mexican FRS D-3 establishes that the calculation of the discount rate for the defined benefit obligation for post-employment benefits should be determined by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. e) Termination benefits - regarding benefits paid for voluntary and non-voluntary separation of employees, the new Mexican FRS D-3 requires the entity to perform an analysis to determine if the payment in question qualifies as a termination benefit or post-employment benefit, since the accounting treatment of these payments depends on this classification.

The Group is analyzing what effects the adoption of these new accounting rules will have on its financial statements.

34.

The following new accounting pronouncements are effective for annual periods beginning on or after January 1, 2018:

Mexican FRS C-3, *Accounts Receivable*- This new accounting standard addresses the accounting treatment of trade receivables and other accounts receivable that will be paid in one year or less. Under Mexican FRS C-3, these accounts receivable should be measured at the fair value of the consideration receivable, which is generally the nominal amount of cash to be received. However, the Group should determine if the time value of money of the accounts receivable is significant based on the terms of the account receivable and its customary business practices and if deemed appropriate, recognize the account receivable at present value upon initial recognition. In addition, an entity's assessment regarding the non-recoverability of trade accounts receivable should be recognized from the time the balance is due from the counterparty based on the expected credit loss. This amount should be recognized in an entity's statement of income as part of an existing expense caption, or in a separate caption when the amount of the expected credit loss is material.

Mexican FRS C-9, *Provisions, Contingencies and Commitments* - The new Mexican FRS C-9, *Provisions, Contingencies and Commitments*, will supersede Mexican accounting Bulletin C-9, *Accrued Liabilities, Provisions, Contingent Assets and Liabilities and Commitments*. The most important changes contained in the new Mexican FRS C-9 are as follows: a) the accounting treatment for financial liabilities is no longer addressed in Mexican accounting Bulletin C-9, since this matter is now addressed in the new Mexican FRS C-19, *Financial Liabilities*, and b) the definition of liability has been modified to eliminate the "virtually certain" criteria and include the term probable "outflow of resources".

Mexican FRS C-19, *Financial Liabilities* - Mexican FRS C-19, *Financial Liabilities*, addresses the accounting treatment for financial liabilities, which had previously been addressed in Mexican accounting Bulletin C-9, *Accrued Liabilities, Provisions, Contingent Assets and Liabilities and Commitments*. Unlike Mexican accounting Bulletin C-9, the new Mexican FRS C-19 clarifies certain issues surrounding the accounting treatment for certain types of transactions, and includes the following new accounting rules: a) after initial recognition, financial liabilities that meet certain criteria may be measured at their fair values; b) on initial recognition, long-term liabilities are to be measured at their present values; and c) the new standard includes guidance on the use of amortized cost and the effective interest rate method for measuring financial liabilities.

Mexican FRS C-20, *Financial Assets* - This new standard refers to financial instruments receivable generated by the financing of long-term trade accounts receivable and loans extended by credit institutions and other entities to their customers, or debt instruments acquired through the market for the purpose of obtaining a yield. One of the most significant changes contained in Mexican FRS C-20 is regarding how financial assets are to be classified. In effect, this standard eliminates the concept of management's intent for financial assets and establishes the classification of financial assets on the basis of the entity's business model for managing its financial instruments, which includes: 1) financial assets held to collect contractual cash flows, which are measured at amortized cost, and 2) financial assets that will be sold in order to realize changes in their fair value, the accounting treatment of which is addressed in Mexican FRS C-2.

The Group is analyzing what effects the adoption of these new standards will have on its financial statements.

### 3. Cash and Cash Equivalents

An analysis of cash and cash equivalents as at December 31, 2015 and 2014 is as follows:

	2015	2014
Cash	Ps. 13	Ps. 13
Foreign currency	1	4
Deposits in Banco de Mexico (Banxico) (a)	5,699	4,009
Domestic and foreign banks	232	804
Three-day call money transactions (c)	92	1,106
Reserve fund of the Mexican Association of Securities Intermediaries	1	1
Cash held in trusts	48	114
Contributions to the Central Security Counterparty Guarantee Fund (b)	118	116
	<u>Ps. 6,204</u>	<u>Ps. 6,167</u>

#### (a) Deposits in Banco de México (Banxico)

As at December 31, 2015 and 2014, the Group has made the following deposits in Banxico:

	2015	2014
Circular - telefax 36/2008 <sup>(1)</sup>	Ps. 4,009	Ps. 4,009
Banxico credit auction <sup>(2)</sup>	913	-
Other deposits in foreign currency <sup>(3)</sup>	777	-
	<u>Ps. 5,699</u>	<u>Ps. 4,009</u>

<sup>(1)</sup> Under Circular Telefax 36/2008 issued by Banxico, as a measure to ensure the continued health of Mexico's financial sector, credit companies are now required to make a restricted monetary regulation deposit to Banxico through Banxico's Account Holders Service System (SIAC-BANXICO). A breakdown of the Group's deposit to Banxico is as follows:

Date published	1-August-08
Individual amount	Ps.4,009
Term of deposit	Open-ended
Rate	Weighted funding rate
Term of returns	28 days

<sup>(2)</sup> On December 31, 2015, the Group participated in a four-day credit auction with Banco de Mexico totaling Ps. 913 and bearing interest of 3.25%

<sup>(3)</sup> Corresponds to U.S. dollar deposits made to Banco de Mexico using the SIAC.

36.

(b) Contributions to the Central Counterparty Guarantee fund

This fund is represented by the contributions, plus interest accrued through the deposit date, made by the Group to Trust No. F/47383-5, of which the Group is a trust founder. The contributions made to the trust are intended to guarantee the correct transfers and accuracy in the amounts of securities traded between securities intermediaries. The Group may make withdrawals against this fund, provided that it meets the conditions to be able to do so established in the corresponding agreement.

(c) Call money transactions

As at December 31, 2015, the Group's call money position is represented by one transaction of Ps. 92 and as at December 31, 2014, the Group's call money position is represented by four call money transactions with an average balance of Ps. 275 each.

4. Investments in Securities

An analysis of the Group's investments in securities as at December 31, 2015 and 2014 is as follows:

	2015			
	Cost	Accrued interest	Unrealized gain or loss	Fair value
<b>Unrestricted</b>				
Debt instruments:				
UDI-denominated development bonds <sup>(1)</sup>	Ps.( 317)	Ps. -	Ps. -	Ps.( 317)
Development bonds	3,697	5	1	3,703
Structured notes ("certificados bursátiles")	272	1	( 4)	269
Fixed-yield bonds	787	1	( 1)	787
	4,439	7	( 4)	4,442
Equity instruments, net	550	-	1	551
	4,989	7	( 3)	4,993
<b>Restricted</b>				
Debt instruments:				
Sovereign debt	595	-	( 8)	587
Fixed-yield bonds	16,678	69	128	16,875
Development bonds	63,938	42	71	64,051
Structured notes ("certificados bursátiles")	7,795	10	( 28)	7,777
Corporate debt	359	-	-	359
Other	124	-	( 1)	123
	89,489	121	162	89,772
Equity instruments, net	12	-	-	12
	89,501	121	162	89,784
	Ps. 94,490	Ps. 128	Ps. 159	Ps. 94,777

<sup>(1)</sup> Includes open security buy transactions.

	2014			
	Cost	Accrued interest	Unrealized gain or loss	Fair value
Unrestricted				
Debt instruments:				
UDI-denominated development bonds <sup>(1)</sup>	Ps.( 99)	Ps. -	Ps. -	Ps.( 99)
Development bonds	5,711	2	2	5,715
Structured notes ("certificados bursátiles") <sup>(1)</sup>	( 4)	-	-	( 4)
Fixed-yield bonds <sup>(1)</sup>	( 265)	-	-	( 265)
Term deposits with interest payable at maturity	2,193	10	( 1)	2,202
Corporate debt	28	7	2	37
	<u>7,564</u>	<u>19</u>	<u>3</u>	<u>7,586</u>
Equity instruments, net	296	-	1	297
	<u>7,860</u>	<u>19</u>	<u>4</u>	<u>7,883</u>
Debt instruments:				
Sovereign debt	99	-	1	100
Fixed-yield bonds	9,364	52	87	9,503
Development bonds	27,511	50	56	27,617
Structured notes ("certificados bursátiles")	7,306	17	( 32)	7,291
Corporate debt	1,071	3	2	1,076
Other	524	-	3	527
	<u>45,875</u>	<u>122</u>	<u>117</u>	<u>46,114</u>
Equity instruments, net	2	-	-	2
	<u>45,877</u>	<u>122</u>	<u>117</u>	<u>46,116</u>
	<u>Ps. 53,737</u>	<u>Ps. 141</u>	<u>Ps. 121</u>	<u>Ps. 53,999</u>

<sup>(1)</sup> Includes open security buy transactions.

#### b) Available-for-sale securities

An analysis of the Group's available-for-sale securities as at December 31, 2015 and 2014 is as follows:

	2015			
	Cost	Accrued interest	Unrealized gain or loss	Fair value
Unrestricted				
Debt instruments:				
Structured notes ("certificados bursátiles")	Ps. 958	Ps. 1	Ps. 1	Ps. 960
Certificates of deposit	253	-	-	253
Equity instruments, net	1,211	1	1	1,213
Shares in mutual funds	603	-	434	1,037
	<u>1,814</u>	<u>1</u>	<u>435</u>	<u>2,250</u>

38.

		2015			
		Cost	Accrued interest	Unrealized gain or loss	Fair value
Restricted					
Debt instruments:					
Sovereign debt	Ps.	373	Ps. 8	Ps.( 24)	Ps. 357
Other		443	-	( 8)	435
Equity instruments, net					
Shares in mutual funds		301	-	76	377
		1,117	8	44	1,169
	Ps.	2,931	Ps. 9	Ps. 479	Ps. 3,419
		2014			
		Cost	Accrued interest	Unrealized gain or loss	Fair value
Unrestricted					
Debt instruments					
Structured notes ("certificados bursátiles")	Ps.	1,089	Ps. 2	Ps. 4	Ps. 1,095
Certificates of deposit		343	-	-	343
Equity instruments, net		1,432	2	4	1,438
Shares in mutual funds		1,871	-	501	2,372
		3,303	2	505	3,810
Restricted					
Debt instruments					
Sovereign debt		710	23	( 9)	724
Equity instruments, net					
Shares in mutual funds		301	-	124	425
		1,011	23	115	1,149
	Ps.	4,314	Ps. 25	Ps. 620	Ps. 4,959

An analysis of the net unrealized gain on the Group's available-for-sale securities recognized in components of other comprehensive income as at December 31, 2015 and 2014 is as follows:

	2015		2014	
Unrealized gain	Ps.	479	Ps.	620
Less:				
Deferred income tax effect		( 143)	( 196)	
	Ps.	336	Ps.	424

## c) Held-to-maturity securities

An analysis of the Group's investments in held-to-maturity securities as at December 31, 2015 and 2014 is as follows:

	2015		
	Cost	Accrued interest	Carrying amount
Unrestricted			
Debt instruments:			
Government debt	Ps. 4	Ps. -	Ps. 4
Corporate debt	1,283	1	1,284
Structured notes ("certificados bursátiles")	1	-	1
Subtotal of unrestricted securities	1,288	1	1,289
Restricted			
Debt instruments:			
Structured notes ("certificados bursátiles")	761	16	777
Total held-to-maturity securities	Ps. 2,049	Ps. 17	Ps. 2,066
	2014		
	Cost	Accrued interest	Carrying amount
Unrestricted			
Debt instruments:			
Government debt	Ps. 3	Ps. -	Ps. 3
Corporate debt	1,538	2	1,540
Structured notes ("certificados bursátiles")	1	-	1
Subtotal of unrestricted securities	1,542	2	1,544
Restricted			
Debt instruments:			
Structured notes ("certificados bursátiles")	756	1	757
Total held-to-maturity securities	Ps. 2,298	Ps. 3	Ps. 2,301

As at December 31, 2015 and 2014, there is no evidence of impairment in the Group's held-to-maturity securities.

40.

As at December 31, 2015 and 2014, a breakdown of the Group's investments in securities by credit rating is as follows:

Rating	2015		2014	
	Amount	%	Amount	%
AAA	Ps. 94,704	94.46%	Ps. 54,857	89.55%
AA	1,396	1.39%	794	1.29%
A	759	0.76%	904	1.48%
BB	-	0.00%	464	.76%
CC	1	0.00%	-	0.00%
S/C	3,402	3.39%	4,240	6.92%
	<u>Ps. 100,262</u>	<u>100.00%</u>	<u>Ps. 61,259</u>	<u>100.00%</u>

d) Interest income

For the years ended December 31, 2015 and 2014, the Group's interest income for each category of security investment is as follows (Note 25a):

	2015	2014
Held-for-trading securities	Ps. 3,392	Ps. 2,681
Available-for-sale securities	73	109
Held-to-maturity securities	74	81
	<u>Ps. 3,539</u>	<u>Ps. 2,871</u>

e) Reclassification of financial assets

For the years ended December 31, 2015 and 2014, the Group made no reclassifications of its securities investments between categories that required express authorization of the CNBV.

5. Security Repurchase Agreements (Repos)

An analysis of the Group's repos as at December 31, 2015 and 2014 is as follows:

	2015		
	Forward price	Accrued premiums	Total
Assets under repos			
Government debt	Ps. 20,954	Ps. 24	Ps. 20,978
Structured notes ("certificados bursátiles")	2,130	-	2,130
	<u>Ps. 23,084</u>	<u>Ps. 24</u>	<u>Ps. 23,108</u>
Less:			
Securities sold or pledged as collateral			
Government debt			Ps. 20,311
Structured notes ("certificados bursátiles")			2,130
			<u>22,441</u>
			<u>Ps. 667</u>



	2015		
	Forward price	Accrued premiums	Total
Liabilities under repos			
Government debt	Ps. 75,759	Ps. 57	Ps. 75,816
Brazilian government debt	350	16	366
Structured notes ("certificados bursátiles")	11,307	2	11,309
Other debt instruments in U.S. dollars	574	-	574
	<u>Ps. 87,990</u>	<u>Ps. 75</u>	<u>Ps. 88,065</u>
	2014		
	Forward price	Accrued premiums	Total
Assets under repos			
Government debt	Ps. 5,198	Ps. 1	Ps. 5,199
Structured notes ("certificados bursátiles")	2,309	-	2,309
	<u>Ps. 7,507</u>	<u>Ps. 1</u>	<u>Ps. 7,508</u>
Less:			
Securities sold or pledged as collateral			
Government debt			Ps. 5,093
Structured notes ("certificados bursátiles")			2,309
			<u>7,402</u>
			<u>Ps. 106</u>
Liabilities under repos			
Government debt	Ps. 36,664	Ps. 3	Ps. 36,667
Brazilian government debt	702	39	741
Structured notes ("certificados bursátiles")	8,921	2	8,923
Other debt instruments in U.S. dollars	524	-	524
	<u>Ps. 46,811</u>	<u>Ps. 44</u>	<u>Ps. 46,855</u>

As at December 31, 2015 and 2014, the terms of the Group's repos are between 4 and 91 days and 2 and 56 days, respectively.

As at December 31, 2015 and 2014, the collateral received by the Group under repos is comprised of debt securities.

For the years ended December 31, 2015 and 2014, interest earned by the Group under its security repurchase agreements was Ps. 173 and Ps. 96, respectively (Note 25a), and its interest expense under repos was Ps. 3,134 and Ps. 2,367, respectively (Note 25b).

42.

## 6. Derivative Financial Instruments

### a) Derivatives held-for-trading

#### - Forwards

As at December 31, 2015 and 2014, the Group maintains a short position in forwards in U.S. dollars with fair values of Ps. (49) and Ps. (77), respectively. An analysis is as follows:

Type of derivative or contract	Notional amount nominal value	Value of underlying asset/reference variable		Fair value as at 31 December		Expiration date
		2015	2014	2015	2014	
			Exchange rate (USD)			
FWD	USD ( 98)	-	14.7414	-	Ps.( 77)	2015
FWD	USD ( 166)	17.2487	-	Ps.( 49)	-	2016
				<u>Ps.( 49)</u>	<u>Ps.( 77)</u>	

#### - Options

As at December 31, 2015, the Group maintains a long position in one call option with a cumulative notional amount of Ps. 404, with interest calculated at the Mexican weighted interbank interest (TIIE) rate and which expires in 2016. The premium paid by the Group for this option is less than one million Mexican pesos. The Group also maintains a short position in 10 call options with a cumulative notional amount of Ps. 4,397, with interest calculated at the Mexican weighted interbank interest (TIIE) rate and which expire in 2016 and 2017. The premiums earned by the Group on these options totaled Ps. 7. As at December 31, 2015, the fair value of these instruments is less than one million Mexican pesos.

As at December 31, 2014, the Group reported a long position in three call options with a cumulative notional amount of Ps. 1,935, with interest calculated at the Mexican weighted interbank interest (TIIE) rate and which expire in 2015 and 2016. The premiums paid by the Group for these options totaled Ps. 7. The Group also maintains a short position in 13 call options with interest calculated at the TIIE rate, with a cumulative notional amount of Ps. 5,997 and which expire from 2015 to 2017. The premiums earned by the Group on these options totaled Ps. 15. As at December 31, 2014, the fair value of these instruments is less than one million Mexican pesos.

### b) Hedging transactions

As at December 31, 2015 and 2014, the Group has no position in hedge derivatives.

The Group's policies and procedures for managing the risks inherent to transactions with derivative financial instruments are described in Note 29.

## c) Margin accounts

As at December 31, 2015 and 2014, the total balance of the Group's margin accounts associated with its outstanding derivatives is Ps. 125 and Ps. 56, respectively, which is recognized in the caption Other accounts receivable, since the instruments are traded in recognized markets (see Note 9).

## 7. Loan Portfolio

An analysis of the Group's loan portfolio as at December 31, 2015 and 2014 is as follows:

## a) Loan reconciliation

	2015	2014
Total loans as per consolidated statement of financial position	Ps. 97,286	Ps. 81,757
Unaccrued finance income	185	47
Loan commitments recorded in memorandum accounts	2,077	2,358
	<u>Ps. 99,548</u>	<u>Ps. 84,162</u>

## a) Analysis of performing and past-due loan portfolio by type of loan

An analysis of the Group's performing and past-due loan portfolio as at 31 December 2015 and 2014 is as follows:

Item	2015					
	Performing portfolio			Past-due portfolio		
	Principal	Interest	Total	Principal	Interest	Total
Commercial loans	Ps. 23,738	Ps. 45	Ps. 23,783	Ps. 104	Ps. 1	Ps. 105
Loans to financial entities	1,915	5	1,920	-	-	-
Loans to government entities	70,942	248	71,190	-	-	-
Consumer loans	39	-	39	-	-	-
Home mortgage loans	240	-	240	9	-	9
	<u>Ps. 96,874</u>	<u>Ps. 298</u>	<u>Ps. 97,172</u>	<u>Ps. 113</u>	<u>Ps. 1</u>	<u>Ps. 114</u>
Item	2014					
	Performing portfolio			Past-due portfolio		
	Principal	Interest	Total	Principal	Interest	Total
Commercial loans	Ps. 18,097	Ps. 30	Ps. 18,127	Ps. 105	Ps. 1	Ps. 106
Loans to financial entities	2,454	5	2,459	-	-	-
Loans to government entities	60,604	183	60,787	-	-	-
Consumer loans	34	-	34	-	-	-
Home mortgage loans	235	-	235	9	-	9
	<u>Ps. 81,424</u>	<u>Ps. 218</u>	<u>Ps. 81,642</u>	<u>Ps. 114</u>	<u>Ps. 1</u>	<u>Ps. 115</u>

44.

b) Analysis of loans by type of currency

An analysis of loans by currency as at December 31, 2015 and 2014 is as follows:

	2015	2014
Mexican pesos		
Commercial loans	Ps. 24,360	Ps. 19,802
Loans to financial entities	1,979	2,459
Loans to government entities	69,034	59,700
Consumer loans	38	34
Home mortgage loans	249	244
	<u>95,660</u>	<u>82,239</u>
U.S. dollars		
Commercial loans	1,494	801
Loans to government entities	2,394	1,122
	<u>3,888</u>	<u>1,923</u>
	<u>Ps. 99,548</u>	<u>Ps. 84,162</u>

c) Operating limits

The CNBV establishes lending limits to be observed by credit institutions. The most critical of these lending limits are as follows:

- Loans constituting common risk

Loans granted to one borrower or to a group of borrowers that are considered one borrower because they represent common risk are subject to the lending limits shown in the following table:

% of core capital	Loan capitalization level
12%	More than 8% and up to 9%
15%	More than 9% and up to 10%
25%	More than 10% and up to 12%
30%	More than 12% and up to 15%
40%	More than 15%

Loans backed by unconditional and irrevocable guarantees covering both principal and interest, provided by foreign financial entities with credit ratings of investment grade or higher, may exceed the maximum limit applicable to that particular lender. However, in no case may these loans represent more than 100% of the Group's core capital for each borrower or group of borrowers constituting common risk.

As at December 31, 2015 and 2014, the Group has complied with the aforementioned limits.

- Other loan limits

The sum of loans granted to the three largest borrowers, loans granted exclusively to multi-service banks, and loans to state-owned entities and agencies, including public trusts, may not exceed 100% of the Group's core capital.

As at December 31, 2015 and 2014, the highest total amount due from the three largest borrowers was Ps. 8,534 and Ps. 7,660, respectively, which represented 75% and 65% of the Group's core capital calculated as at 31 December 2015 and 2014, respectively.

As at December 31, 2015 and 2014, the Group has granted 24 and 20 loans, respectively, that exceed 10% of its core capital. As at December 31, 2015, these loans total Ps. 75,273 and represent 76% of the Group's core capital. As at December 31, 2014, these loans total Ps. 61,793 and represent 73% of the Group's core capital.

d) Analysis of economic environment (troubled loan portfolio)

The troubled loan portfolio includes commercial loans for which the Group has determined that the amounts due (principal and interest) may not be recovered in full from the borrower.

As established in Article 113, section II, paragraph a) of the *Circular Única* for banks, the probability of default of the troubled loan portfolio is automatically set at 100%.

An analysis of the Group's troubled commercial loans as at 31 December 2015 and 2014 is as follows:

		2015								
		Performing			Past-due			Total		
				% of				% of		
		Balance	Reserves	allowance	Balance	Reserves	allowance	Balance	Reserves	allowance
Troubled loan portfolio		Ps. 287	Ps. 129	45%	Ps. 105	Ps. 103	98%	Ps. 392	Ps. 232	59%

		2014								
		Performing			Past-due			Total		
				% of				% of		
		Balance	Reserves	allowance	Balance	Reserves	allowance	Balance	Reserves	allowance
Troubled loan portfolio		Ps. 13	Ps. 6	46%	Ps. 106	Ps. 105	99%	Ps. 119	Ps. 111	94%

46.

e) Classification of loans by region

A breakdown of the Group's loan portfolio by region as at 31 December 2015 and 2014 is as follows:

			% of loan portfolio	
	2015	2014	2015	2014
Mexico City	Ps. 29,777	Ps. 24,419	29.91%	29.05%
Coahuila	8,413	8,540	8.45%	10.14%
Nuevo León	7,317	5,566	7.35%	6.61%
Quintana Roo	7,254	5,079	7.29%	6.03%
Chihuahua	5,532	5,467	5.56%	6.49%
Puebla	5,148	4,016	5.17%	4.77%
Sonora	4,350	3,729	4.37%	4.43%
Veracruz	3,769	4,963	3.79%	5.89%
Jalisco	3,636	3,665	3.65%	4.35%
Michoacán	3,414	2,501	3.43%	2.97%
México	3,015	3,850	3.03%	4.57%
Oaxaca	2,073	2,615	2.08%	3.11%
Zacatecas	2,048	1,538	2.06%	1.83%
Guerrero	1,858	461	1.87%	0.55%
San Luis Potosí	1,836	2,070	1.84%	2.46%
Tamaulipas	1,784	1,138	1.79%	1.35%
Morelos	1,728	463	1.74%	0.55%
Baja California Norte	1,379	365	1.39%	0.43%
Querétaro	1,241	757	1.25%	0.90%
Nayarit	1,228	803	1.23%	0.95%
Colima	815	258	0.82%	0.31%
Durango	549	586	0.55%	0.70%
Hidalgo	414	200	0.42%	0.24%
Campeche	408	399	0.41%	0.47%
Sinaloa	226	501	0.23%	0.60%
Tabasco	224	64	0.23%	0.08%
Aguascalientes	47	74	0.05%	0.09%
Baja California Sur	27	42	0.03%	0.05%
Yucatán	20	9	0.02%	0.01%
Chiapas	17	14	0.02%	0.02%
Tlaxcala	1	1	-%	-%
Guanajuato	-	9	-%	0.01%
	<u>Ps. 99,548</u>	<u>Ps. 84,162</u>	<u>100.00%</u>	<u>100.00%</u>

g) Performing restructured and renewed loans

In 2015, the Group restructured 15 loans and renewed 24 loans. In 2014, the Group restructured 13 loans and renewed 15 loans, as it maintained or enhanced the original loan conditions and guarantees of each loan agreement.

An analysis of the Group's restructured and renewed loans as at 31 December 2015 and 2014 is as follows:

	2015			2014		
	Performing	Past-due	Total	Performing	Past-due	Total
Restructured loans	Ps. 17,754	Ps. 69	Ps. 17,823	Ps. 7,720	Ps. 71	Ps. 7,791
Renewed loans	18,130	-	18,130	19,414	-	19,414
	<u>Ps. 35,884</u>	<u>Ps. 69</u>	<u>Ps. 35,953</u>	<u>Ps. 27,134</u>	<u>Ps. 71</u>	<u>Ps. 27,205</u>

#### h) Past-due portfolio

An aged analysis of the Group's past-due loan portfolio as at 31 December 2015 and 2014 is as follows:

	2015				
	From 1 to 180 days past-due	From 181 to 365 days past-due	From 366 to 730 days past-due	More than 730 days past-due	Total past-due portfolio
Commercial loans	Ps. -	Ps. 4	Ps. 1	Ps. 100	Ps. 105
Home mortgage loans	4	-	-	5	9
	<u>Ps. 4</u>	<u>Ps. 4</u>	<u>Ps. 1</u>	<u>Ps. 105</u>	<u>Ps. 114</u>

	2014				
	From 1 to 180 days past-due	From 181 to 365 days past-due	From 366 to 730 days past-due	More than 730 days past-due	Total past-due portfolio
Commercial loans	Ps. -	Ps. 1	Ps. 45	Ps. 60	Ps. 106
Home mortgage loans	1	3	2	3	9
	<u>Ps. 1</u>	<u>Ps. 4</u>	<u>Ps. 47</u>	<u>Ps. 63</u>	<u>Ps. 115</u>

The amounts of the loans shown in the two tables above are determined at the time the loans are reclassified to the past-due portfolio.

#### i) Movements in the past-due portfolio

An analysis of movements in the past-due loan portfolio as at December 31, 2015 and 2014 is as follows:

	2015	2014
Beginning balance of past-due portfolio	Ps. 115	Ps. 136
Plus:		
Net reclassification from performing loan portfolio to past-due portfolio	8	65
Less:		
Partial collections	( 3)	( 45)
Write-offs	( 6)	( 41)
	<u>( 9)</u>	<u>( 86)</u>
	<u>Ps. 114</u>	<u>Ps. 115</u>

48.

j) Rediscounting of loans backed by funds (with recourse)

The Mexican government has set up a number of funds to promote development in specific areas of Mexico's agriculture, cattle-raising, industrial and tourism sectors through financing provided by Banxico, Banco Nacional de Comercio Exterior (National Foreign Trade Bank or Bancomext), Nacional Financiera and Trust Funds for Rural Development (FIRA). These agencies provide financing through rediscounted loans using either their own resources or loans provided by third parties. An analysis of the balance of the Group's loans in Mexican pesos and U.S. dollars provided under this program as at December 31, 2015 and 2014 is as follows:

	2015		2014	
	U.S. dollars translated into		U.S. dollars translated into	
	Mexican pesos	Mexican pesos	Mexican pesos	Mexican pesos
Commercial loans (NAFIN rediscounts)	Ps. 5,309	Ps. 1,460	Ps. 6,768	Ps. -
Commercial loans (FIRA rediscounts)	-	-	1	-
Commercial loans (Bancomext rediscount)	5,184	-	-	3,759
	<u>Ps. 10,493</u>	<u>Ps. 1,460</u>	<u>Ps. 6,769</u>	<u>Ps. 3,759</u>

k) Interest and commissions

An analysis of interest and commissions on the Group's loan portfolio for the years ended December 31, 2015 and 2014 is as follows:

	Interest		Commissions	
	2015	2014	2015	2014
Loans to government entities	Ps. 3,585	Ps. 3,090	Ps. 1	Ps. 1
Commercial loans	1,416	1,085	2	2
Loans to financial entities	80	149	-	1
Home mortgage loans	15	16	-	-
Consumer loans	3	2	-	-
	<u>Ps. 5,099</u>	<u>Ps. 4,342</u>	<u>Ps. 3</u>	<u>Ps. 4</u>

As at December 31, 2015 and 2014, unamortized commissions earned on new loans totaled Ps. 95 and Ps. 106, respectively, of which Ps. 16 and Ps. 18, respectively, correspond to commercial loans and Ps. 79 and Ps. 88, respectively, to loans extended to government entities.

As at December 31, 2015 and 2014, the total amount of interest on past due loans that has been suspended for recognition in the income statement was Ps. 354 and Ps. 294, respectively.



## 8. Loan-loss Reserve

An analysis of the loan-loss reserve as at December 31, 2015 and 2014 is as follows:

	2015		2014	
Commercial loans (a)	Ps.	1,615	Ps.	1,373
Consumer loans (b)		1		1
Home mortgage loans (c)		4		6
	Ps.	1,620	Ps.	1,380

## a) Commercial loans (including loans to financial and government entities)

An analysis of the Group's loan-loss reserve for commercial loans as at December 31, 2015 and 2014 is as follows:

Risk	2015		2014	
	Amount of loans	Amount of reserve	Amount of loans	Amount of reserve
A1	Ps. 56,970	Ps. 211	Ps. 44,642	Ps. 210
A2	15,736	176	21,191	248
B1	11,379	204	8,400	141
B2	4,342	102	1,263	30
B3	5,317	205	5,431	215
C1	4,763	396	1,245	104
C2	134	15	11	1
D	518	205	1,595	318
E	101	101	106	106
	Ps. 99,260	Ps. 1,615	Ps. 83,884	Ps. 1,373

## b) Consumer loans

An analysis of the Group's loan-loss reserve for consumer loans as at December 31, 2015 and 2014 is as follows:

Risk	2015		2014	
	Amount of loans	Amount of reserve	Amount of loans	Amount of reserve
A	Ps. 39	Ps. 1	Ps. 33	Ps. 1
B	-	-	1	-
	Ps. 39	Ps. 1	Ps. 34	Ps. 1

50.

c) Home mortgage loans

An analysis of the Group's loan-loss reserve for home mortgage loans as at 31 December 2015 and 2014 is as follows:

Risk	2015		2014	
	Amount of loans	Amount of reserve	Amount of loans	Amount of reserve
A	Ps. 225	Ps. 1	Ps. 185	Ps. 1
B	9	-	38	1
C	12	1	8	-
D	1	-	11	2
E	2	2	2	2
	<u>Ps. 249</u>	<u>Ps. 4</u>	<u>Ps. 244</u>	<u>Ps. 6</u>

d) Movements in the loan-loss reserve

Movements in the Group's loan-loss reserve through December 31, 2015 and 2014 were as follows:

	2015	2014
Balance at beginning of year	Ps. 1,380	Ps. 1,897
Plus:		
Increase in loan-loss reserve	1,176	961
Foreign exchange loss on loans in U.S. dollars	2	1
	<u>1,178</u>	<u>962</u>
Less:		
Sale of loan portfolio	-	( 265)
Write-offs	( 6)	( 41)
Release of loan-loss reserve (Note 26f)	( 932)	( 1,165)
Other charges to the reserve	-	( 8)
	<u>( 938)</u>	<u>( 1,479)</u>
Balance at end of year	<u>Ps. 1,620</u>	<u>Ps. 1,380</u>

9. Other Accounts Receivable, net

An analysis of this caption as at December 31, 2015 and 2014 is as follows:

	2015	2014
Assets under open forex and securities transactions	Ps. 1,904	Ps. 863
Other receivables	1,415	1,396
Loans to personnel	7	9
Creditable taxes	19	27
Guarantee deposits for derivative transactions (Note 6c)	125	56
Unapplied value added tax	-	118
	<u>3,470</u>	<u>2,469</u>
Allowance for doubtful accounts	( 245)	( 286)
	<u>Ps. 3,225</u>	<u>Ps. 2,183</u>

## 10. Foreclosed and Repossessed Assets, net

An analysis of this caption as at 31 December 2015 and 2014 is as follows:

	2015	2014
Land	Ps. 520	Ps. 234
Buildings	16	16
Rights	447	777
Machinery and equipment	14	14
	<u>997</u>	<u>1,041</u>
Allowance for impairment in the value of the assets <sup>(1)</sup>	( 638)	( 432)
	<u>Ps. 359</u>	<u>Ps. 609</u>

<sup>(1)</sup> In 2015 and 2014, the Group recorded an allowance for impairment in the value of its assets of Ps. 459 and Ps. 275, respectively, due to changes in the ages of its assets that management detected. The Group also recorded preventative impairment allowances totaling Ps. 179 and Ps. 157, respectively, which it calculated in accordance with the asset age reserve tables developed by the CNBV for foreclosed and repossessed assets.

## 11. Property, Furniture and Equipment, net

An analysis of this caption as at December 31, 2015 and 2014 is as follows:

	2015	2014
Land	Ps. 4	Ps. 61
Buildings	17	252
Furniture and equipment	64	57
Automotive equipment	1	2
Computer equipment	65	64
Installation expenses	179	224
Other	14	12
	<u>344</u>	<u>672</u>
Accumulated depreciation	( 189)	( 259)
	<u>Ps. 155</u>	<u>Ps. 413</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was Ps. 30 and Ps. 31, respectively. In 2015, the Group sold property for a total sale price of Ps. 440.

52.

## 12. Equity investments

An analysis of the Group's equity investments as at December 31, 2015 and 2014 is as follows:

	2015		2014
Fondos de Inversión Interacciones <sup>(1)</sup>	Ps. 48	Ps.	45
S. D. Indeval, S.A. de C.V.	-		2
Cecoban	2		2
Other investments	1		1
	<u>Ps. 51</u>	<u>Ps.</u>	<u>50</u>

<sup>(1)</sup> The Group holds equity interest in the fixed share capital of 22 mutual funds that are managed by Interacciones Sociedad Operadora de Fondos de Inversión (a direct subsidiary of the Bank).

## 13. Other Assets

An analysis of this caption as at December 31, 2015 and 2014 is as follows:

	2015		2014
Other assets			
Software	Ps. 62	Ps.	114
Trademarks and patents	159		183
Other assets, net	29		22
	<u>250</u>		<u>319</u>
Prepaid expenses and deferred charges			
Prepaid expenses	324		22
Executive airline services	143		146
Trust 8105	5		6
Commissions paid for financial liabilities	16		19
	<u>488</u>		<u>193</u>
Deferred charges			
Debt issue costs	56		74
	<u>Ps. 794</u>	<u>Ps.</u>	<u>586</u>

Amortization expense for the years ended December 31, 2015 and 2014 was Ps. 46 and Ps. 69, respectively.

## 14. Core Deposits

## a) Demand deposits

An analysis of the Group's demand deposits as at December 31, 2015 and 2014 is as follows:

Checking accounts	Mexican pesos		Foreign currency translated into Mexican pesos		Total	
	2015	2014	2015	2014	2015	2014
Interest bearing	Ps.33,280	Ps.24,729	Ps. 1	Ps. 744	Ps.33,281	Ps.25,473
Non-interest bearing	880	1,436	254	-	1,134	1,436
	<u>Ps.34,160</u>	<u>Ps.26,165</u>	<u>Ps. 255</u>	<u>Ps. 744</u>	<u>Ps.34,415</u>	<u>Ps.26,909</u>

For the years ended December 31, 2015 and 2014, interest payable by the Group on demand deposits was Ps. 930 and Ps. 815, respectively (Note 25b).

## b) Time deposits

	2015		2014	
	Principal	Interest	Total	Total
General public:				
Over-the-counter promissory notes	Ps.16,239	Ps. 25	Ps.16,264	Ps.14,060
Money market:				
Term deposits with interest payable at maturity <sup>(1)</sup>	Ps. 8,499	Ps. 14	Ps. 8,513	Ps.12,827
Certificates of deposit <sup>(2)</sup>	8,160	14	8,174	2,437
	<u>16,659</u>	<u>28</u>	<u>16,687</u>	<u>15,264</u>
	<u>Ps.32,898</u>	<u>Ps. 53</u>	<u>Ps.32,951</u>	<u>Ps.29,324</u>

<sup>(1)</sup> As at December 31, 2015 and 2014, term deposits with interest payable at maturity are denominated in Mexican pesos and mature from January to July 2016 and from January to July 2015, respectively.

<sup>(2)</sup> As at December 31, 2015, certificates of deposit are denominated in Mexican pesos and mature from January to July 2016, while certificates of deposit payable as at December 31, 2014 are denominated in Mexican pesos and mature from January to December 2015.

For the years ended December 31, 2015 and 2014, interest payable by the Group on time deposits was Ps. 1,043 and Ps. 1,061 respectively (Note 25b).

54.

c) Debt certificates issued

An analysis of the Group's debt certificates as at December 31, 2015 and 2014 is as follows:

2015						
Issuer	Issue date	Maturity	Principal	Accrued interest	Total	
BINTER 13	16/05/2013	12/05/2016	Ps. 1,000	Ps. 1	Ps. 1,001	
BINTER 13-2	15/08/2013	11/08/2016	1,395	1	1,396	
BINTER 13-3	19/09/2013	15/09/2016	1,500	4	1,504	
BINTER 13-4	05/12/2013	18/05/2017	1,000	4	1,004	
BINTER 14	27/03/2014	07/09/2017	1,500	-	1,500	
BINTER 14-2	19/06/2014	25/01/2018	1,500	-	1,500	
BINTER 14-3	27/06/2014	22/06/2018	900	2	902	
BINTER 14-4	26/09/2014	21/09/2018	2,500	1	2,501	
BINTER 14-5	27/11/2014	14/02/2019	1,500	1	1,501	
BINTER 15	26/03/2015	03/10/2019	1,500	1	1,500	
			Ps. 14,295	Ps. 14	Ps. 14,309	

2014						
Issuer	Issue date	Maturity date	Principal	Accrued interest	Total	
BINTER 12	14/12/2012	11/12/2015	Ps. 1,193	Ps. 3	Ps. 1,196	
BINTER 13	16/05/2013	12/05/2016	1,000	1	1,001	
BINTER 13-2	15/08/2013	11/08/2016	1,395	5	1,400	
BINTER 13-3	17/06/2013	15/06/2016	1,500	4	1,504	
BINTER 13-4	05/12/2013	18/05/2017	1,000	4	1,004	
BINTER 14	27/06/2014	07/06/2017	1,500	5	1,505	
BINTER 14-2 <sup>(1)</sup>	19/06/2014	25/01/2018	1,499	5	1,504	
BINTER 14-3	27/06/2014	22/06/2018	900	2	902	
BINTER 14-4 <sup>(1)</sup>	26/09/2014	21/09/2018	2,499	4	2,503	
BINTER 14-5 <sup>(1)</sup>	27/11/2014	14/02/2019	1,409	1	1,410	
			Ps. 13,895	Ps. 34	Ps. 13,929	

<sup>(1)</sup> Amounts shown are not consistent with the instrument descriptions provided below due to the netting of intercompany balances carried out for consolidation purposes.

Through official communication 153/107349/2014 dated September 22, 2014, the CNBV authorized a program for the Group to issue certificates of deposits, bank structured notes ("certificados bursátiles") and term deposits with interest payable at maturity of up to Ps. 20 000, or the equivalent of this amount in investment units (UDIs).

Highlights of the Group's outstanding debt are as follows:

- BINTER 12 bank structured notes ("certificados bursátiles")

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,193
Number of instruments:	12,000,000
Term:	1,092 days
Date of issue:	December 14, 2012
Maturity date:	December 11, 2015
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.5%.

- BINTER 13 bank structured notes ("certificados bursátiles")

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,000
Number of instruments:	10,000,000
Term:	1,092 days
Date of issue:	May 16, 2013
Maturity date:	May 12, 2016
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.4%.

- BINTER 13-2 bank structured notes ("certificados bursátiles")

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,395
Number of instruments:	14,000,000
Term:	1,092 days
Date of issue:	August 15, 2013
Maturity date:	August 11, 2016
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.4%.

56.

- BINTER 13-3 bank structured notes ("certificados bursátiles")

Nominal value: \$ 100 Mexican pesos  
Issue amount: Ps. 1,500  
Number of instruments: 15,000,000  
Term: 1,092 days  
Date of issue: September 19, 2013  
Maturity date: September 15, 2016  
Guarantee: Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.  
Interest rate: 28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.4%.

- BINTER 13-4 bank structured notes ("certificados bursátiles")

Nominal value: \$ 100 Mexican pesos  
Issue amount: Ps. 1,000  
Number of instruments: 10,000,000  
Term: 1,260 days  
Date of issue: December 5, 2013  
Maturity date: May 18, 2017  
Guarantee: Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.  
Interest rate: 28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.4%.

- BINTER 14 bank structured notes ("certificados bursátiles")

Nominal value: \$ 100 Mexican pesos  
Issue amount: Ps. 1,500  
Number of instruments: 15,000,000  
Term: 1,260 days  
Date of issue: March 27, 2014  
Maturity date: September 7, 2017  
Guarantee: Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.  
Interest rate: 28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 1.2%.



- BINTER 14-2 bank structured notes (“certificados bursátiles”)

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,500
Number of instruments:	15,000,000
Term:	1,316 days
Date of issue:	June 19, 2014
Maturity date:	January 25, 2018
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 0.9%.

- BINTER 14-3 bank structured notes (“certificados bursátiles”)

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 900
Number of instruments:	9,000,000
Term:	1,456 days
Date of issue:	June 27, 2014
Maturity date:	June 22, 2018
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 0.9%.

- BINTER 14-4 bank structured notes (“certificados bursátiles”)

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 2,500
Number of instruments:	25,000,000
Term:	1,456 days
Date of issue:	September 26, 2014
Maturity date:	September 21, 2018
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	29-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 0.9%.

58.

- BINTER 14-5 bank structured notes (“certificados bursátiles”)

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,500
Number of instruments:	15,000,000
Term:	1,540 days
Date of issue:	November 27, 2014
Maturity date:	February 14, 2019
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	28-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 0.9%.

- BINTER 15 bank structured notes (“certificados bursátiles”)

Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,500
Number of instruments:	15,000,000
Term:	1,652 days
Date of issue:	March 26, 2015
Maturity date:	October 3, 2019
Guarantee:	Since these instruments are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity.
Interest rate:	29-day Mexican weighted interbank interest rate (TIIE) (calculated two business days before the beginning of each interest period), plus 0.9%.

## 15. Interbank and Other Borrowings

### a) Demand loans

As at December 31, 2015, the Group has no outstanding call money transactions. As at 31 December 2014, the Group has outstanding two-day call money transactions for a total principal amount of Ps. 45, bearing interest of 2.95%.

### b) Short- and long-term loans

As at December 31, 2015 and 2014, the Group has taken out several short-and long-term loans with floating interest rates from domestic development banks. An analysis is as follows:

	2015			2014		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Mexican pesos:						
Nacional Financiera, S.N.C.	Ps. 2,581	Ps. 2,734	Ps. 5,315	Ps. 2,793	Ps. 3,174	Ps. 5,967
Banco Nacional de Comercio Exterior, S.N.C.	399	4,797	5,196	351	3,416	3,767
Banco Nacional de Obras y Servicios Públicos, S.N.C.	169	3,385	3,554	217	4,700	4,917
	<u>3,149</u>	<u>10,916</u>	<u>14,065</u>	<u>3,361</u>	<u>11,290</u>	<u>14,651</u>
In U.S. dollars translated into Mexican pesos:						
Nacional Financiera, S.N.C.	1,461		1,461	808		808
Public trust funds in Mexican pesos:						
Trust Funds for Rural Development (FIRA)				1		1
Fondo de Operaciones y Financiamiento Bancario para la Vivienda (FOVI)	10		10	14		14
	<u>10</u>	<u>-</u>	<u>10</u>	<u>15</u>	<u>-</u>	<u>15</u>
	<u>Ps. 4,620</u>	<u>Ps. 10,916</u>	<u>Ps. 15,536</u>	<u>Ps. 4,184</u>	<u>Ps. 11,290</u>	<u>Ps. 15,474</u>

#### Nacional Financiera, S.N.C. (NAFIN)

The Group has an available fixed-and-variable rate line of credit of up to Ps. 10,200 extended by NAFIN. The funds received by the Group under this arrangement are in Mexican pesos and U.S. dollars. These loans include no guarantees, since they exclusively involve discounted notes.

#### Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)

The Group has an open fixed and variable rate line of credit from Bancomext of up to USD 400 million. Drawdowns are made through the discounting of negotiable debt instruments representing the Group's commercial loans to its customers.

#### Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS) - Governments- Invex 867 Trust

The Group has entered into line of credit agreements with BANOBRAS to receive financing of up to Ps. 2,500 (maturing on November 30, 2025) for the Group to lend to state agencies, who are to invest these amounts in public projects that aligned with the mandate of BANOBRAS. The funds with which the Group intends to settle all of its contractual obligations in respect of this line of credit will come from the repayment of other loans it has extended and their respective promissory notes, and from any additional contributions the Group has made to the trust, based on the terms of the trust agreement. As at December 31, 2015 and 2014, this loan from BANOBRAS bears interest at the Mexican weighted interbank interest rate (TIIE) rate plus 1.40 and 1.56 percentage points, respectively, and the outstanding principal of these loans as at December 31, 2015 and 2014 is Ps. 617 and Ps. 1,458, respectively.

60.

On February 9, 2009, the Group entered into Irrevocable Administrative and Source of Funding Trust No. 867 as a trustor and secondary beneficiary, with BANOBRAS as trustor and primary beneficiary, and Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero, as a trustee, to establish one or more repayment mechanisms for the loans made by BANOBRAS to the Group, where the proceeds obtained by the Group from repayment of four outstanding loans by the borrowers shall be used to cover the Group's obligations under the line of credit. The rights over these loans were placed in the trust. As at December 31, 2015 and 2014, the balance of the Trust was Ps. 5 and Ps. 31, respectively.

#### BANOBRAS (Infrastructure- Monex Trust 1616)

On December 13, 2013, the Group obtained a term line of credit of up to Ps. 3,773 from BANOBRAS. This loan is to mature 240 months after the first drawdown, which occurred on December 19, 2013. The proceeds from the loan were used to meet certain financial commitments that the Group undertook related to various infrastructure projects that are in the construction and operating stages. This loan bears interest at the Mexican weighted interbank interest rate (TIIE), plus a premium that is determined as stipulated in the agreement.

On December 17, 2013, the Group entered into Irrevocable Trust agreement No. F/1616 as a trustor and secondary beneficiary of the trust, with Banco Monex, S.A. Institución de Banca Múltiple, Monex Grupo Financiero, División Fiduciaria as a trustee, and BANOBRAS as primary beneficiary. The trust was created to establish a mechanism for the management and use of proceeds from the term loan. The trust receives the proceeds from the contributed collection rights and uses the proceeds to repay the loan. As at December 31, 2015 and 2014, the outstanding balance of the trust is Ps. 2,932 and Ps. 3,428, respectively.

#### Export - Import Bank of Korea

On March 19, 2009, the Group entered into a revolving line of credit agreement with the Export-Import Bank of Korea to receive financing of up to USD 10 million (maturing on March 18, 2016). The proceeds from this loan are to be used as: i) an interbank loan to cover financing extended by the Group to buyers of eligible products as stipulated in the agreement for terms of less than twenty-four months; ii) a letter of credit; iii) as a guarantee fund under the terms and conditions established in the agreement. The loan bears interest at the London Interbank Offered Rate (LIBOR). As at December 31, 2015 and 2014, the Group has made no drawdowns against this line of credit.

#### Public trusts

The Group has obtained lines of credit from Trust Funds for Rural Development (FIRA), Fondo de Operaciones y Financiamiento Bancario para la Vivienda (FOVI) and Fideicomiso de Fomento Minero (FIFOMI) to receive financing of up to USD 1,200 USD 18 and USD 20, respectively. Such financing corresponds to public trustee common funds and it is secured by the loan itself.

## c) Interest paid

For the years ended December 31, 2015 and 2014, accrued interest on interbank loans was Ps. 688 and Ps. 672, respectively (Note 25b).

## d) Current lines of credit

An analysis of the Group's available lines of credit as at December 31, 2015 and 2014 is as follows:

2015					
Lender	Amount of line of credit	Currency	Translated into Mexican pesos	Amount drawn down (principal)	Amount available for drawdown
NAFIN	Ps. 10,200	Mexican pesos	Ps. 10,200	Ps. 6,769	Ps. 3,431
BANCOMEXT	400	U.S. dollars	6,899	5,184	1,715
FIFOMI	20	U.S. dollars	345	-	345
FIRA	1,200	Mexican pesos	1,200	-	1,200
BANOBRAS	6,273	Mexican pesos	6,273	3,546	2,727
FOVI	18	Mexican pesos	18	10	8
Export - Import Bank of Korea	10	U.S. dollars	173	-	173
			<u>Ps. 25,108</u>	<u>Ps. 15,509</u>	<u>Ps. 9,599</u>

2014					
Lender	Amount of line of credit	Currency	Translated into Mexican pesos	Amount drawn down (principal)	Amount available for drawdown
NAFIN	10,921	Mexican pesos	Ps. 10,921	Ps. 6,768	Ps. 4,153
BANCOMEXT	400	U.S. dollars	5,896	3,759	2,137
FIFOMI	20	U.S. dollars	295	-	295
FIRA	1,200	Mexican pesos	1,200	1	1,199
BANOBRAS	6,330	Mexican pesos	6,330	4,909	1,421
FOVI	18	Mexican pesos	18	14	4
Export - Import Bank of Korea	10	U.S. dollars	147	-	147
			<u>Ps. 24,807</u>	<u>Ps. 15,451</u>	<u>Ps. 9,356</u>

The lines of credit obtained from the aforementioned financial companies include certain affirmative and negative restrictive covenants that the Group must meet during the effective term of each loan agreement. According to the Group's management, as at December 31, 2015 and 2014, the Group is currently in compliance with these restrictive covenants and obligations and it expects to continue to comply with them during the entire terms of the loan agreements.

## 16. Assets Under Open Transactions

As at December 31, 2015 and 2014, this caption primarily refers to assets under same-day value forex transactions involving sales of foreign currencies with 24- and 48-hour settlements, as well as securities trading transactions. An analysis as follows:

62.

	2015		2014
Clearing accounts related to buying and selling foreign currency (Note 3)	Ps. 1	Ps.	-
Clearing accounts for securities trading activities	1,421		571
	<u>Ps. 1,422</u>	<u>Ps.</u>	<u>571</u>

#### 17. Accrued Liabilities and Other Accounts Payable

An analysis of this caption as at December 31, 2015 and 2014 is as follows:

	2015		2014
Liabilities derived from bank services	Ps. 870	Ps.	852
Value added tax	83		42
Taxes and fees payable	5		3
Taxes and social security contributions	53		47
Employee benefits	31		34
Provisions for sundry liabilities	1,074		1,216
Other sundry creditors	462		493
	<u>Ps. 2,578</u>	<u>Ps.</u>	<u>2,687</u>

#### 18. Outstanding Subordinated Debentures

An analysis of the Group's outstanding subordinated debentures as at December 31, 2015 and 2014 is as follows:

Issuer	Date		2015		
	Issue date	Maturity date	Principal	Interest Accrued	Total
BINTER 07 Q	20-Nov-2007	07-Nov-2017	Ps. 700	Ps. 2	Ps. 702
BINTER 08 Q	28-Nov-2008	16-Nov-2018	500	1	501
BINTER 10 Q	16-Dec-2010	03-Dec-2020	650	2	652
BINTER 12 Q	29-Nov-2012	17-Nov-2022	700	1	701
BINTER 15 Q	26-Feb-2015	13-Feb-2025	1,000	1	1,001
			<u>Ps. 3,550</u>	<u>Ps. 7</u>	<u>Ps. 3,557</u>

Issuer	Date		2014		
	Issue date	Maturity date	Principal	Interest Accrued	Total
BINTER 12 Q	29-Nov-12	17-Nov-22	Ps. 700	Ps. 1	Ps. 701
BINTER 10 Q	16-Dic-10	03-Dic-20	650	2	652
BINTER 08 Q	28-Nov-08	16-Nov-18	500	1	501
BINTER 07 Q	20-Nov-07	07-Nov-17	700	2	702
			<u>Ps. 2,550</u>	<u>Ps. 6</u>	<u>Ps. 2,556</u>

For the years ended December 31, 2015 and 2014, interest payable by the Group on its subordinated debentures was Ps. 183 and Ps. 144, respectively (Note 25b).

#### Subordinated debenture placement program

At an ordinary and extraordinary shareholders' meeting held on November 6, 2008, the shareholders authorized the Group to raise capital through the issue of one or more preferred or non-preferred non-convertible subordinated debentures for a maximum total issue amount of Ps. 2 billion (hereinafter "the debenture issue"). The proceeds from the debenture issue were used to bolster the Group's capital.

Through official letter 153/17956/200/8 dated November 27, 2008, the CNBV authorized the provisional registration of the debenture issue in the National Securities Registry, as well as the public offering of the debentures under this program. The debenture issue was authorized by Banxico through official letter S33/18643 dated 27 November 2008.

In an official letter dated November 24, 2008, the Mexican Stock Exchange also expressed its consent for the registration of the debenture issue.

#### Issue of Subordinated Debentures BINTER 15

Through official letter 153/5112/2015 dated February 23, 2015, the CNBV authorized the release of the updated debenture prospectus, as well as the public offering notice related to the BINTER 15 issue. General information regarding the BINTER 15 subordinated debenture issue is provided below:

Type of security:	Preferred non-convertible subordinated debentures.
Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 1,000
Number of debentures issued:	10,000,000
Term:	3,640 days
Date of issue:	February 26, 2015
Maturity date:	February 13, 2025
Guarantee:	Since the subordinated debentures are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity
Interest rate:	The 28-day Mexican weighted interbank interest rate (TIIE), plus 2.5 percentage points.

64.

- Issue of Subordinated Debentures BINTER 12

Through official letter 153/9239/2012 dated November 26, 2012, the CNBV authorized the release of the updated debenture prospectus, as well as the public offering notice related to the BINTER 12 issue. Through official letter DGAJB-154/11410/2012, the BINTER 12 debenture issue was given final authorization. General information regarding the BINTER 12 subordinated debenture issue is provided below:

Type of security:	Preferred non-convertible subordinated debentures
Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 700
Number of debentures issued:	7,000,000
Term:	3,640 days
Date of issue:	November 29, 2012
Maturity date:	November 17, 2022
Guarantee:	Since the subordinated debentures are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity
Interest rate:	The 28-day Mexican weighted interbank interest rate (TIIE), plus 2.5 percentage points.

- Issue of Subordinated Debentures BINTER 10

Through official letter 153/89436/2010 dated December 14, 2010, the CNBV authorized the release of the updated debenture prospectus, as well as the public offering notice related to the BINTER 10 issue. Through official letter DGAJB-154/89048/2010, the BINTER 10 debenture issue was given final authorization. General information regarding the BINTER 10 subordinated debenture issue is provided below:

Type of security:	Preferred non-convertible subordinated debentures
Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 650
Term:	3,640 days
Date of issue:	December 16, 2010
Maturity date:	December 3, 2020
Guarantee:	Since the subordinated debentures are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity
Interest rate:	The 28-day Mexican weighted interbank interest rate (TIIE), plus 2.0 percentage points.



- Issue of Subordinated Debentures BINTER 08

Through official letter 153/17956/2008 dated November 27, 2008, the CNBV authorized the release of the updated debenture prospectus, as well as the public offering notice related to the BINTER 08 issue. Through official letter S33/18643/2008, the BINTER 08 debenture issue was given final authorization. General information regarding the BINTER 08 subordinated debenture issue is provided below:

Type of security:	Preferred non-convertible subordinated debentures
Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 500
Term:	3,640 days
Date of issue:	November 28, 2008
Maturity date:	November 16, 2018
Guarantee:	Since the subordinated debentures are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity
Interest rate:	The 28-day Mexican weighted interbank interest rate (TIIE), plus 1.75 percentage points.

Issue of Subordinated Debentures BINTER 07

At an extraordinary shareholders' meeting held on October 12, 2007, the shareholders authorized the Group to seek financing through the issue of non-preferred non-convertible subordinated debentures for a maximum total issue amount of Ps. 700 million. The proceeds from the debenture issue were used to bolster the Group's capital.

Through official letter S33/18468 dated November 8, 2007, Banxico authorized the BINTER 07 subordinated debenture issue, and this approval was reported to the CNBV through the certificate signed on November 16, 2007 and official letter 312-2/8524/2007 issued on the same day. The BINTER 07 subordinated debenture issue has been registered in the CNBV's National Securities Registry under file number 2312-2.00-2007-005, through official letter 153/1654726/2007 dated November 14, 2007, as well as in the respective debt issue list of the Mexican Stock Exchange.

At an extraordinary shareholders' meeting held on July 23, 2008, the shareholders agreed to modify the terms of the BINTER 07 program in order to have the Group issue preferred subordinated debentures instead of non-preferred subordinated debentures.

This change in the BINTER 07 subordinated debenture program was authorized in the National Securities Registry through official letter 153/17940/2008 dated November 12, 2008. For purposes of the issue certificate, the change was authorized by the CNBV through official letter 311- 32166/2008 CNBV 311.311.19(82), and it was authorized by Banxico through official letter S33/18646 dated November 4, 2008.

66.

General information regarding the BINTER 07 subordinated debenture issue is provided below:

Type of security:	Preferred non-convertible subordinated debentures
Nominal value:	\$ 100 Mexican pesos
Issue amount:	Ps. 700
Number of debentures:	7,000,000
Term:	3,640 days
Date of issue:	November 20, 2007
Maturity date:	November 7, 2017
Guarantee:	Since the subordinated debentures are unsecured, they bear no guarantee, nor are they backed by the IPAB or by any other Mexican government entity
Interest rate:	The 28-day Mexican weighted interbank interest rate (TIIE), plus 1.75 percentage points.

In accordance with the Act, Article 13 of Circular 3/2012 issued by Banxico and based on the conditions established in the General Provisions for Credit Institutions, the Group is entitled to pay out in advance, with the prior authorization of Banxico, at any payment date as of the fifth year from the issue date, all, but not less than all of the subordinated debentures, at a price equal to its nominal value, plus accrued interest at the prepayment date, provided that (i) the Group, through its common representative, informs in writing the obligors, the CNBV, Indeval and the Mexican Stock Exchange of its decision to exercise its right of prepayment within five business days prior to the date on which the Group intends to pay out in advance all of the subordinated debentures, and (ii) the prepayment is made in the form and place established for that purpose.

Prepayment of the Group's subordinated debentures is subject to the Group's maintaining a capitalization index for credit, operational and market risks, after payment, higher than 10%, determined in accordance with the capitalization provisions or, if applicable, with the relevant authorization established in Article 31 of Circular 3/2012 issued by Banxico.

## 19. Foreign Currency Position

As at December 31, 2015 and 2014, the date of the audit report on these financial statements, the exchange rates published by Banxico were Ps. 17.2487 pesos and Ps. 14.7414 pesos, respectively, per U.S. dollar. The exchange rate as at December 31, 2015 was Ps. 17.3993 pesos per U.S. dollar.

The Group has the following U.S. dollar denominated assets and liabilities as at December 31, 2015 and 2014:

	2015			
	Currency			
	U.S. dollars		Mexican pesos	
<b>Assets:</b>				
Cash and cash equivalents	USD	58	Ps.	1,005
Securities and derivatives		59		1,010
Loan portfolio		206		3,552
Premiums receivable		7		122
Accounts receivable from reinsurers		71		1,230
Other accounts receivable		10		180
Other assets		6		106
		417		7,205
<b>Liabilities:</b>				
Demand deposits		15		255
Technical reserves		69		1,187
Liabilities under repos		13		223
Accounts payable to reinsurers		5		85
Security and derivative transactions		162		2,791
Bank loans and other accounts payable		111		1,915
Deferred credits and early settlements		1		24
		376		6,480
Net monetary asset position	USD	41	Ps.	725

	2014			
	Currency			
	U.S. dollars		Mexican pesos	
<b>Assets:</b>				
Cash and cash equivalents	USD	56	Ps.	819
Securities and derivatives		146		2,146
Loan portfolio		117		1,723
Premiums receivable		1		13
Accounts receivable from reinsurers		10		152
Other accounts receivable		4		64
Other assets		1		12
		335		4,929
<b>Liabilities:</b>				
Demand deposits		50		744
Technical reserves		11		158
Liabilities under repos		31		451
Accounts payable to reinsurers		1		10
Security and derivative transactions		44		642
Bank loans and other accounts payable		66		968
Deferred credits and early settlements		-		6
		203		2,979
Net monetary asset position	USD	132	Ps.	1,950

68.

In accordance with the contents of Circular 3/2013 issued by Banxico, credit institutions must maintain daily foreign currency positions that are balanced both on a combined basis and on a currency-by-currency basis. The acceptable combined liability or asset position of a bank may not exceed 15% of its net capital. Regarding its individual foreign currency position as at December 31, 2015 and 2014, the Group complies with the aforementioned limit.

## 20. Equity

### a) Share capital

As at December 31, 2015 and 2014, the Group's variable minimum capital is represented by an ordinary portion of series "O" shares. As at December 31, 2015 and 2014, the Group's fixed share capital is Ps. 762 (Ps. 2,346 and Ps. 2,345, respectively, restated for inflation), and is represented by 269,932,827 common registered Series I Class "O" shares with a par value of Ps. 2.82065123 pesos each.

The Group's bylaws establish certain restrictions on the percentages of equity that individuals or legal entities may hold in it.

In 2015, the Group carried out share buybacks for a total buyback amount of Ps. 285. These shares were subsequently reissued for purchase by the general investing public. The share premium generated on this transaction was Ps. 34.

### b) Capital reserves

#### Legal reserve

In accordance with the Mexican Corporations Act, the Group is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Group's share capital. Such reserve may not be distributed to the shareholders during the life of the Group, except in the form of a stock dividend.

At regular shareholders' meetings held on April 30, 2015 and 2014, the shareholders agreed to appropriate Ps. 97 and Ps. 81 from the Group's net income of 2015 and 2014, respectively, to increase the Group's legal reserve.

### c) Inflation restatement of share capital, capital reserves and retained earnings

An analysis of the effects of inflation recognized through December 31, 2007 on the Group's share capital, capital reserve, and retained earnings accounts as at December 31, 2015 and 2014 is as follows:

	Total			
	Nominal value	Inflation restatement increment	2015	2014
Contributed capital				
Share capital	Ps. 763	Ps. 1,583	Ps. 2,346	Ps. 2,345
Share premium	1,904	17	1,921	1,888
Earned capital				
Capital reserves	553	4	557	460
Retained earnings	6,727	( 207)	6,520	5,121
Unrealized gain on available-for-sale securities	336	-	336	424
Foreign currency translation reserve	4	-	4	-
Gain from holding non-monetary assets	5	-	5	33
Net income attributable to equity holders of the parent	2,278	-	2,278	1,936
Equity	<u>Ps. 12,570</u>	<u>Ps. 1,397</u>	<u>Ps. 13,967</u>	<u>Ps. 12,207</u>

#### d) Distribution of earnings

As at December 31, 2015 and 2014, the Group's Net taxed profits account (CUFIN) balance is Ps. 267 and Ps. 258, respectively. Earnings distributed in excess of the CUFIN balance will be subject to the payment of corporate income tax, which is calculated by applying a gross-up by a factor of 1.4286 to the dividend and then applying the 30% corporate income tax rate to the gross-up amount. The CUFIN should be restated for inflation using the National Consumer Price Index (NCPI) through the distribution date.

As at December 31, 2015 and 2014, the collective CUFIN balance of the subsidiaries was Ps. 7,194 and Ps. 4,806, respectively. An analysis is as follows:

	2015	2014
Bank	Ps. 6,573	Ps. 4,180
Casa de Bolsa	621	626
	<u>Ps. 7,194</u>	<u>Ps. 4,806</u>

As at December 31, 2015 and 2014, Aseguradora Interacciones and Servicios Corporativos Interacciones do not have a CUFIN balance.

Individuals are required to include any dividends or profits received in their other taxable income. These individuals may credit the income tax withheld and remitted by the Group that distributed the dividends or profits against their annual income tax, provided that, in addition to the dividends, they also include the amount of the income tax remitted by the Group on the dividend as part of their taxable income

70.

e) Capital reductions

As at December 31, 2015 and 2014, the Group's Restated contributed capital account (CUCA) balance is Ps. 5,207 and Ps. 3,146, respectively. Any capital reduction or reimbursement to shareholders in excess of the CUCA balance should be treated for tax purposes as a distributed profit.

As at December 31, 2015 and 2014, the collective CUCA balance of the subsidiaries is Ps. 7,224 and Ps. 7,009, respectively. An analysis is as follows:

	2015	2014
Bank	Ps. 4,438	Ps. 4,345
Casa de Bolsa	1,643	1,608
Aseguradora	1,143	1,056
Servicios Corporativos <sup>(1)</sup>	-	-
	<u>Ps. 7,224</u>	<u>Ps. 7,009</u>

<sup>(1)</sup> Balance of less than Ps. 1 million.

21. Current and Deferred Income Tax

a) Income tax

For the years ended December 31, 2015 and 2014, the Group reported taxable income of Ps. 4,123 and Ps. 2,833, respectively. A condensed reconciliation of the Group's income before income tax to its tax result is as follows:

	2015	2014
Net income	Ps. 2,278	Ps. 1,936
Book (not tax) deductions	4,846	3,741
Deductions for tax (not book) purposes	( 1,936)	( 2,272)
Income for tax (not book) purposes	1,085	1,321
Book (not tax) income	( 2,150)	( 1,893)
Tax result	<u>Ps. 4,123</u>	<u>Ps. 2,833</u>

The Group's income tax for the years ended December 31, 2015 and 2014 was Ps. 1,237 and Ps. 850, respectively.

As at December 31, 2014, the Group recognized Ps. 74 in the Current income tax payable caption. This amount corresponds to income tax related to the Group's book/tax reconciling items from prior years that will be paid in the short-term, as established during management's negotiations with the Tax Administration Service.

For the years ended December 31, 2015 and 2014, Aseguradora carried forward tax losses from prior years and therefore, had no income tax payable for such years.

b) Deferred income tax

As at December 31, 2015 and 2014, deferred income tax effects recognized in the consolidated financial statements are as follows:

	2015		2014
Deferred tax assets:			
Expense provisions	Ps. 566	Ps.	381
Increase in the loan-loss reserve	180		133
Allowance for foreclosed and repossessed assets	227		116
Interest and commissions collected in advance	69		54
Agents and creditors	-		73
Other	57		83
	<u>1,099</u>		<u>840</u>
Deferred tax liabilities:			
Unrealized gains on financial instruments	191		362
Prepaid expenses	86		54
Other	-		85
	<u>277</u>		<u>501</u>
Deferred income tax asset, net	<u>Ps. 822</u>	<u>Ps.</u>	<u>339</u>

As at December 31, 2014, the Group created a valuation allowance of Ps. 111 for those deferred tax assets that do not have a high probability of being realized. As at December 31, 2015, this valuation allowance was reversed.

For the years ended December 31, 2015 and 2014, the Group recognized a deferred income tax benefit of Ps. 425 and Ps. 219, respectively, in the income statement and a deferred income tax expense of Ps. 39 and Ps. 4, respectively, in the caption Unrealized gain on available-for-sale securities in the consolidated statement of changes in equity.

c) Effective income tax rate

A reconciliation of the statutory income tax rate to the effective income tax rate recognized by the Group for financial reporting purposes for the years ended December 31, 2015 and 2014 is as follows:

72.

	2015	2014
Income before income tax	Ps. 3,090	Ps. 2,641
Reconciling items:		
Annual inflation adjustment	( 248)	( 309)
Non-deductible expenses	54	69
Non-taxable income (Brazil 2012 coupon)	( 26)	( 35)
Other items	( 163)	( 263)
Income before income tax, plus permanent items	2,707	2,103
Statutory income tax rate	30%	30%
	812	631
Extraordinary income tax provision	-	74
Total current and deferred income tax	Ps. 812	Ps. 705
Effective income tax rate	26%	27%

d) Available tax loss carryforward

In Mexico, a taxpayer's tax losses of a given year may be carried forward against the taxable income it generates in the next ten years. These tax losses should be restated for inflation based on the NPCI.

22. Related Party Balances and Transactions

Transactions that represent more than 1% of the Group's net capital of the month prior to the months of reporting date require disclosure.

An analysis of the Group's principal balances due from and to related parties as at 31 December 2015 and 2014 is as follows:

	2015		
	Debit balance	Income	Expenses
Loan portfolio:			
Grupo Hermes, S.A. de C.V.	Ps. 163	Ps. 16	Ps. -
Banco Monex BMO 22010 F/517 Lerma Santiago	294	-	-
Banco Multiva S.A. IBM Grupo Financiero F/305-8	198	3	-
Unión de Crédito Concreces, S.A. de C.V.	23	1	-
	Ps. 678	Ps. 20	Ps. -



	2015		
	Debit balance	Transactions	
		Income	Expenses
Core deposits:			
Cerrey, S.A. de C.V.			
Time deposits	Ps. 458	Ps. -	Ps. 10
Administrative services:			
Hermes Corporativo, S.A. de C.V.	Ps. -	-	39
Grupo Hermes, S.A. de C.V.	-	-	15
	Ps. -	Ps. -	Ps. 54
	2014		
	Debit balance	Transactions	
		Income	Expenses
Loan portfolio:			
Banco Monex, Fideicomiso/Lerma- Santiago No. 517			
Banco Multiva	Ps. 286	-	-
Fideicomiso/Grupo Hermes No. 305-8	265	-	-
Grupo Hermes, S.A. de C.V.	587	Ps. 11	-
	Ps. 1,138	Ps. 11	Ps. -

### 23. Earnings per Share

An analysis of this caption for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Net income for the year	Ps. 269,851,078	Ps. 268,533,681
Number of outstanding shares (average)	2,278	1,936
Earnings per share (Mexican pesos)	Ps. 8.44	Ps. 7.21

74.

## 24. Memorandum Accounts

### a) Property held in trust or under mandate

	2015	2014
Trusts:		
Administrative	Ps. 64,600	Ps. 51,624
Guarantee	2,641	3,501
Investment	2,655	2,334
	<u>69,896</u>	<u>57,459</u>
Mandates	748	89
	<u>Ps. 70,644</u>	<u>Ps. 57,548</u>

For the years ended December 31, 2015 and 2014, the Group earned Ps. 111 and Ps. 92, respectively, from activities performed in its capacity as trustee.

### b) Property held for safekeeping or managed

	2015	2014
Instruments and securities managed for mutual funds and customers	Ps. 24,006	Ps. 25,329
Other	37	177
	<u>Ps. 24,043</u>	<u>Ps. 25,506</u>

The caption Property held for safekeeping or managed includes assets or securities pledged as collateral that the Group has received for it to manage.

### c) Customers' securities received for safekeeping

An analysis of customers' securities received for safekeeping as at December 31, 2015 and 2014 is as follows:

	2015	2014
Money market securities	Ps. 8,887	Ps. 11,367
Fixed-yield instruments	20,647	19,196
Shares in debt instrument mutual funds	15,303	17,140
Shares in variable-yield mutual funds	41,773	41,240
	<u>Ps. 86,610</u>	<u>Ps. 88,943</u>

## d) Collateral securities received

	2015	2014
Guarantees under loan transactions	Ps. 9,138	Ps. 9,399

## e) Collateral securities received and sold or pledged as collateral

	2015	2014
Government debt	Ps. -	Ps. 5,212
Other debt instruments	-	2,309
	Ps. -	Ps. 7,521

## 25. Income Statement

An analysis of the Group's income statement for the years ended December 31, 2015 and 2014 is as follows:

## a) Interest income

	2015	2014
Cash and cash equivalents (Note 3)	Ps. 229	Ps. 395
Margin accounts	7	4
Investments in securities (Note 4d)	3,539	2,871
Interest and premiums on repos (Note 5)	173	96
Loan portfolio <sup>(1)</sup>	5,099	4,340
Commissions on security repurchase agreements	3	4
Other	172	141
	Ps. 9,222	Ps. 7,851

<sup>(1)</sup> An analysis of the Group's loans as at December 31, 2015 and 2014 is as follows:

## Interest portfolio by type of loan

	2015		2014	
	Performing	Past-due	Performing	Past-due
Commercial loans	Ps. 1,413	Ps. 3	Ps. 1,079	Ps. 7
Loans to financial entities	80	-	147	-
Consumer loans	3	-	2	-
Home mortgage loans	15	1	15	-
Loans to government entities	3,581	3	3,088	2
	5,092	Ps. 7	4,331	Ps. 9
	Ps. 5,099		Ps. 4,340	

76.

b) Interest expense

	2015	2014
Demand deposits (Note 14a)	Ps. 930	Ps. 815
Time deposits (Note 14b)	1,043	1,061
Interbank and other borrowings (Note 15)	688	672
Subordinated debentures (Note 18)	183	144
Premiums on security repurchase agreements (Note 5)	3,134	2,367
Other	701	482
	<u>Ps. 6,679</u>	<u>Ps. 5,541</u>

c) Commissions and fees earned

	2015	2014
Letter of credit without refinancing	Ps. 33	Ps. 41
Activities performed as a trustee (Note 24a)	111	92
Loan transactions	3,900	2,603
Other commissions and fees paid	1,165	785
	<u>Ps. 5,209</u>	<u>Ps. 3,521</u>

d) Commissions and fees paid

	2015	2014
Fund transfer	Ps. 2	Ps. 2
Other commissions and fees paid	2,067	1,640
	<u>Ps. 2,069</u>	<u>Ps. 1,642</u>

Net trading income

	2015	2014
Unrealized gain or loss		
Investments in securities	Ps. 44	Ps. 43
Derivative financial instruments	34	( 66)
	<u>78</u>	<u>( 23)</u>
Results from buying and selling		
Investments in securities and derivative financial instruments	223	656
Foreign currencies and precious metals	74	118
	<u>297</u>	<u>774</u>
	<u>Ps. 375</u>	<u>Ps. 751</u>

## 26. Other Operating Income/(Expenses)

	2015	2014
Overstatements in the loan-loss reserve (Note 8d)	Ps. 932	Ps. 1,165
Cancellation of other liability accounts	59	77
Gain on assignment of loan rights	1	-
Recovery of loan portfolio	5	-
Gain on sale of foreclosed and repossessed assets and other fixed assets	347	29
Leasing revenues	5	13
Allowance for doubtful accounts	( 41)	( 8)
Allowance for foreclosed and repossessed assets	( 231)	( 334)
Other	( 308)	286
	<u>Ps. 769</u>	<u>Ps. 1,228</u>

## 27. Contingencies

## a) Contingency reserves

The Group is party to various lawsuits of a civil, commercial and tax nature. Based on the opinion of its legal advisors regarding the potential outcomes of these cases, the Group has created provisions for all of its ongoing lawsuits that are likely to require an outflow of resources. As at December 31, 2015 and 2014, these provisions amount to Ps. 231 and Ps. 145, respectively. However, the assumptions and conditions underlying these estimates could change substantially in subsequent periods, which means that the outcomes of any current or future litigation cannot be determined with absolute certainty.

## b) Reviews by the Tax Administration Service (SAT)

The Group has filed several nullity suits against the resolutions issued by the SAT regarding the Group's calculation of employee profit sharing for 2005, 2007 and 2008 of Ps. 89 and income tax for 2005 and 2007 of Ps. 44 and Ps. 47, respectively. Based on the opinion of its legal advisors, the Group believes it has reasonable grounds of defense against the SAT's findings and that it will therefore prevail in this case.

## c) Tax reviews

In accordance with current Mexican Tax Law, the Group's income tax returns are open to review by the tax authorities for a period of five years from the date they are filed. In the event of such a review, the tax authorities could determine taxes owed by the Group due to differences in the criteria used by the Group and the tax authorities in the interpretation of Mexican tax laws.

78.

As at December 31, 2015, Aseguradora's income tax returns for 2013 are being reviewed by the Tax Administration Service.

d) Ordinary commercial lawsuit

As at December 31, 2015, Casa de Bolsa is party to a number of civil, commercial and tax lawsuits, which have been analyzed by Casa de Bolsa's management and its legal advisors in order to determine the amounts of the provisions necessary to cover court cases that could represent a probable outflow of resources, which as at December 31, 2015 total Ps. 25. However, the assumptions and conditions underlying these estimates could change substantially in subsequent periods, which means that the outcomes of any current or future litigation cannot be determined with absolute certainty.

As at December 31, 2015, Casa de Bolsa is party to an ordinary commercial lawsuit in which the plaintiff is demanding the reimbursement of its deposit under a brokerage agreement and the Ps. 5 of these deposits that is currently invested.

e) Other contingencies

As at December 31, 2015 and 2014, the Group has no significant contingencies related to any complaints or lawsuits filed against it.

## 28. Segment Information

### - Banco Interacciones

A summary of the operating results of the Bank's principal operating segments as at 31 December 2015 and 2014 is shown below. The amounts included in the segment information are classified differently from the classification used for the preparation of the financial statements, since segment information is prepared by combining the Bank's operating and accounting records. The Bank does business in the following segments:

#### Loan portfolio:

- State and municipal governments
- Infrastructure
- Small and medium enterprises (business banking and factoring)
- Federal government

Treasury:

- Domestic treasury
- International treasury
- Money market transactions

A summary of the Bank's operating segment information is as follows:

a) Loan portfolio

State and municipal governments				
Item	2015		2014	
Average principal	Ps.	52,028	Ps.	46,955
Interest income	Ps.	3,114	Ps.	2,956
Interest expense		2,031		1,860
Net interest income		1,083		1,096
Loan-loss reserve		1,366		428
Commissions and fees earned		3,988		2,121
Commissions and fees paid		1,805		1,307
Operating expenses		1,006		613
Other operating income		1,029		975
Net income	Ps.	1,923	Ps.	1,844

Infrastructure				
Item	2015		2014	
Average principal	Ps.	17,713	Ps.	14,773
Interest income	Ps.	1,305	Ps.	1,085
Interest expense		691		657
Net interest income		614		428
Loan-loss reserve	(	283)		302
Commissions and fees earned		428		397
Commissions and fees paid		49		25
Operating expenses		209		84
Other operating income	(	228)		45
Net income	Ps.	839	Ps.	459

80.

Small and medium enterprises

Item	2015	2014
Average principal	Ps. 5,718	Ps. 3,324
Interest income	Ps. 397	Ps. 228
Interest expense	224	75
Net interest income	173	153
Loan-loss reserve	94	75
Commissions and fees earned	121	126
Commissions and fees paid	-	3
Operating expenses	91	40
Other operating income	45	6
Net income	Ps. 154	Ps. 167

Other

Item	2015	2014
Average principal	Ps. 333	Ps. 389
Interest income	Ps. 24	Ps. 27
Interest expense	13	15
Net interest income	11	12
Loan-loss reserve	5	121
Commissions and fees earned	1	172
Commissions and fees paid	-	93
Operating expenses	13	5
Other operating (expenses)/income	( 242)	45
Net income	Ps.( 248)	Ps. 10

Federal government

Item	2015	2014
Average principal	Ps. 6,365	Ps. 1,185
Interest income	Ps. 261	Ps. 50
Interest expense	248	13
Net interest income	13	37
Loan-loss reserve	5	35
Operating expenses	22	4
Other operating income	32	-
Net income	Ps. 18	Ps.( 2)



## b) Domestic and international treasury

Item	2015	2014
Average principal	Ps. 20,085	Ps. 24,856
Interest income	Ps. 714	Ps. 896
Interest expense	368	745
Net interest income	346	151
Commissions and fees earned	31	56
Commissions and fees paid	16	8
Net trading income	165	39
Operating expenses	160	148
Net income	Ps. 365	Ps. 90

## Money market transactions

Item	2015	2014
Average principal	Ps. 63,158	Ps. 39,672
Interest income	Ps. 2,047	Ps. 1,435
Interest expense	1,962	1,236
Net interest income	85	199
Net trading (loss)/income	( 66)	117
Operating (expenses)/income	( 205)	140
Net income	Ps.( 186)	Ps. 176

## c) Segment reconciliation

A reconciliation of the largest items comprising the operating segments shown above as compared to the total amount shown in the Bank's basic consolidated financial statements is as follows:

	2015	2014
Income by segment:		
Loan portfolio	Ps. 2,686	Ps. 2,478
Treasury	365	90
Money market transactions	( 186)	176
Other segments (fiduciary, currency trading)	166	163
Expenses, net (not directly related to operating segments)	( 99)	( 526)
Operating income	Ps. 2,932	Ps. 2,381

82.

- Casa de Bolsa

As at December 31, 2015 and 2014, Casa de Bolsa carried out transactions in the following segments:

- a. Services involving:
- Capital market
  - Mutual funds
- b. Brokerage and treasury services involving:
- Money market transactions
  - Treasury

An analysis of the information related to Casa de Bolsa's business in each segment is as follows:

a) Service:

	2015	2014
Capital market		
Average principal	Ps. 86,596	Ps. 39,346
Commissions and fees earned	258	218
Commissions and fees paid	26	19
Service revenues	232	199
Trading income	53	-
Trading loss	63	-
Unrealized gains	2	-
Operating expenses	524	111
Net (loss)/income	Ps.( 300)	Ps. 88

	2015	2014
Mutual funds		
Average principal	Ps. 45,507	Ps. 18,051
Commissions and fees earned	171	168
Commissions and fees paid	2	9
Service revenues	169	159
Operating expenses	8	96
Net income	Ps. 161	Ps. 63

	2015	2014
Money market transactions		
Average principal	Ps. 187,571	Ps. 117,084
Commissions and fees paid	10	-
Interest income	1,650	1,227
Interest expense	1,532	1,085
Trading income	179	746
Trading loss	92	291
Operating income	195	597
Unrealized gains and losses	32	14
Operating expenses	79	255
Net income	Ps. 148	Ps. 356

	2015	2014
Treasury		
Average principal	Ps. 6,141	Ps. 1,695
Interest income	40	31
Interest expense	23	2
Commissions and fees earned	29	101
Commissions and fees paid	4	10
Trading income	273	-
Trading loss	181	-
Operating income	134	120
Unrealized gains and losses	( 7)	( 5)
Operating expenses	71	59
Other income	12	-
Net income	Ps. 68	Ps. 66

b) Segment reconciliation

A reconciliation of the largest items comprising the operating segments shown above as compared to the total amount shown in Casa de Bolsa's basic consolidated financial statements is as follows:

Income by segment	2015	2014
Service revenues	Ps.( 139)	Ps. 151
Capital market	( 300)	88
Mutual funds	161	63
Brokerage and Treasury	216	412
Money market transactions	148	356
Treasury	68	56
Other income/(expenses), net (not directly related to operations)	181	( 307)
Operating income	Ps. 258	Ps. 256

84.

## 29. Risk Management (unaudited information)

This note refers mainly to Banco Interacciones, since this is the Group's largest subsidiary.

### Qualitative information

#### a) Risk exposure objectives

Since the Bank's main aim is to provide its customers services with high added value, the Bank's attempts to keep its risk exposure to a minimum by maintaining proprietary positions in its different business units as a way to avoid putting the Group's capital and financial solvency at risk. When conditions in the financial markets are favorable and the business units assume proprietary positions, such positions are customized using risk exposure levels that limit the potential losses of these proprietary positions.

The purpose of risk management is to ensure that the Bank maintains its financial positions within the limits established for such purposes at all times and in this way ensure the Bank's financial health. In this regard, the Bank's business units are required to maintain their operations and risk levels within the established limits, in order to minimize the exposure of their capital to fluctuations resulting from different risk factors.

Moreover, the Bank's Comprehensive Risk Management area makes every effort to identify and monitor the factors that may affect the Bank's capitalization levels, and to maintain this indicator at optimum levels. The Bank's risk management objectives, policies, and procedures are periodically submitted to the Risk Management Board for authorization and approval.

#### b) Risk management function

Risk management is carried out mainly through the Bank's Risk Management Committee, with the support of the Corporate Risk Management Office, who on a quarterly basis, must report of the most significant risk management aspects to the Board of Directors. The Board of Directors has authorized the applicable risk management policies and procedures, as well as the Bank's general and specific exposure limits for its quantifiable risks.

The Risk Committee's meetings are held on a monthly basis and are attended by two members of the Bank's Board of Directors and its CEO, and the Bank's Corporate Risk Management and Internal Audit Directors. At these monthly sessions, the Committee receives the different reports prepared by the Corporate Risk Management Office, which include reporting on any exceeded transaction limits, any corrective actions deemed necessary, and progress in any projects being developed by the Risk Committee.

#### c) Risk management process

The different types of risks to which the Bank is exposed are identified by the Corporate Risk Management Office and this process mainly consists of identifying the following:

1. The business units that cause exposure to risk
2. The types of risks such units are exposed to
3. The risk factors that affect the market values of the instruments and/or transactions

A detailed analysis of the characteristics of the Bank's transactions and operations, the markets in which it operates, the regulations that the transactions are subject to, and the Bank's counterparties allow the Bank to detect the risks that its business units are exposed to.

In particular, for its market and credit risk, the Bank performs a detailed analysis of its positions, instruments, and transactions, as well as counterparty creditworthiness, allowing it to identify the specific factors that could give rise to potential losses in such positions. The risk factors for each business unit depend on:

- a) The lending and borrowing transactions they carry out
- b) The complexity of the transactions and instruments involved in such transactions

Business units that give rise to risk exposure are identified after performing an in-depth analysis of the Bank's different areas, the transactions that each area carries out, and the instruments they use. The business units analyzed in this risk analysis are:

- Money market
- Foreign currency market
- Derivatives market
- Treasury
- Loans

#### d) Risk management methodologies

The Bank has prepared a Risk Management Manual that is continuously updated. This manual includes the policies and procedures related to performing this function, as well as the main methodologies applied to each type of risk.

#### I. Quantifiable risks

- Discretionary risks

#### 1. Risk management for derivatives

As per an official document issued by Banxico on March 31, 2010, Banxico confirmed the Bank's authorization to carry out the following types of derivative transactions as an intermediary in over-the-counter markets:

86.

- ✓ Forwards over Mexican pesos, foreign currencies and investment units (UDIs).
- ✓ Forwards over nominal, real or premium interest rates of all kinds of debt instruments and indices based on said rates.
- ✓ Options over Mexican pesos, foreign currencies, and investment units (UDIs).
- ✓ Options over nominal, real or premium interest rates of all kinds of debt instruments and indices based on said rates.
- ✓ Swaps over Mexican pesos, foreign currencies, and investment units (UDIs).
- ✓ Swaps over nominal, real or premium interest rates of all kinds of debt instruments and indices based on said rates.

The Bank contracts these instruments in order to:

- a) Meet the risk hedging requirements of the Bank's customers so that they are able to manage the risks to which they are exposed due to changes in the variables inherent to the market.
- b) With other intermediaries: as hedges for the aforementioned transactions and to ensure the existence of a position that generates future earnings for the Bank.

The Bank's strategy regarding derivative transactions at all times considers the Bank's principal objectives and the strategy is in line with the Bank's risk profile. This strategy also takes into account the Bank's policies and generally conservative approach to risk, which the Bank considers to manage the risks it assumes when it enters into derivative contracts.

These instruments are valued in accordance with the applicable accounting rules, using standard methodologies that are consistent with sound banking practices and that are described in the respective accounting rules.

Regarding the effectiveness of its hedges, upon initial assessment and over the life of the hedge, the Bank attempts to offset the fair value or cash flows of the hedged item on a period-by-period or cumulative basis with changes in the fair value or cash flows of the derivative itself by a range of 80% and 125%. The selected method for determining hedge effectiveness depends on the particular risk management strategy in place, and it also considers the specific instruments contracted by the Bank. This method is deemed reasonable and statistically supported due to its consistent offsetting variances, which are determined on the basis of reliable statistical testing that enables the Bank to assess the reliability of the data generated.

The procedures and controls used by the Comprehensive Risk Management Unit in managing the risks inherent to the Bank's derivative contracts are reasonable and consistent with the characteristics of such transactions. Also, as part of the Bank's continuous improvement efforts, a periodic review of the methodologies in place is performed internally and by an independent expert in order to strengthen the Bank's risk management processes and procedures.

- Derivative credit risk

The impact of counterparty default on a given derivatives transaction may be mitigated by replacing the instrument in the market with another instrument. At the time of default, the credit risk in a transaction is exactly the same as the risk of replacing the instrument in the market. This type of risk is called implicit risk, and it may be managed using a Value at Risk (VaR) methodology that replaces the transaction market with another. After the transaction is replaced in the market, the potential loss is due to the effect of changes in the pricing of the instruments, which ultimately affects the value of the derivative transaction.

The aim of implicit risk is to post collateral to counterparty so that in the event of default, the collateral may be sufficient to cover any potential loss incurred at the time the transaction in the market is replaced. Accordingly, implicit risk should take into account the potential risk (future) from possible increases in pricing using a risk factor that is based on the transaction's maturity date and on its underlying instrument. The best method for determining the credit risk for this type of transaction is to add the MtM(+) (current risk) plus the risk factor multiplied by the notional amount (future risk) in terms of an equation:

$$\text{Credit risk} = \text{MtM}(+) \text{ (current risk)} + \text{RF} * \text{Notional amount (future risk)}$$

Current risk is basically the mark-to-market or positive valuation of the transaction (the amount payable by the counterparty), where the Risk Factor and the notional amount are multiplied by future (potential) risk.

The impact of counterparty default on a given derivatives transaction may be mitigated by replacing such instrument in the market with another instrument. At the time of default, the credit risk in a transaction is exactly the same as the risk of replacing the instrument in the market. This type of risk is called implicit risk, and it may be managed using the Value at Risk (VaR) methodology by replacing the transaction in the market with another. The potential loss from doing so comes from the effect of changes in the pricing of the instruments.

The aim of implicit risk is to post collateral to counterparty so that in the event of default, the collateral may be sufficient to cover any potential loss incurred at the time the transaction in the market is replaced. However, a pre-determined factor should be added to implicit risk in order to offset the effect of less-than-expected liquidity in the market, since operating on the assumption that markets are always efficient could lead to understatements in credit risk.

$$\text{Credit risk} = \text{current risk (MTM)} + \text{potential risk}$$

88.

Current risk is basically the mark-to-market or positive valuation of the transaction (the amount payable by the counterparty) while potential risk is the VaR associated with the transaction.

## 2. Credit risk

Credit risk is defined as a potential loss arising from the failure of a borrower or an issuer to meet its payment obligations. These types of risks are managed by analyzing the counterparties and obtaining the expected losses on the respective loan portfolio, based on a default probability analysis related to the credit ratings of each of the financial instruments.

The methodology used to quantify the Bank's credit risk is based on probabilistic models that allow management to estimate the distribution of the losses resulting from this risk. The Comprehensive Risk Management System includes the Credit Risk+ methodology used for measuring and quantifying credit risk for the loan portfolio and transactions carried out with financial instruments. The Credit Risk+ methodology is used to measure the credit risk based on a portfolio approach that takes into consideration the credit ratings of the counterparties and the exposure of each borrower.

Using this methodology, the Bank determines its expected loss, which is the total loss as a percentage of its capital that could arise from the Bank's credit risk exposure. Also, the loss resulting from the changes in the quality of the Bank's counterparties, called unexpected loss, is also calculated. The methodology for quantifying the credit risk is applied to all of the Bank's credit portfolios and its position in the financial instruments.

For such purposes, it is necessary to rely on certain assumptions, including the following:

- The default rates or probabilities related to the credit ratings of each borrower are constant over the timeline tested.
- Defaults are stand-alone events between borrowers.
- Exposure due to default (total exposure, less recovery value) is known and remains constant.
- The timeline tested is fixed and constant. In this case, the proposed timeline is one year.

The following aspects are considered in the measurement of credit risks: Amount of exposure, recovery rate and probability of default.

The probability of default is associated with the credit ratings of each counterparty. Furthermore, the Bank prepares estimates of the expected loss based on the extreme scenarios in which the quality of the loan portfolio is impaired, in order to determine the impact on the estimates of expected and unexpected losses.



This method is based on two stages:

- The frequency of default and severity of losses in the event of default are included in the method based on a default probability analysis, the probability distribution in the number of portfolio defaults is calculated over the timeline tested. Based on the exposures by borrower and recovery percentages, the expected loss by borrower is estimated. This amount known as loss due to default is taken as an input to the exposure model.
- The distributions of both the frequency of defaults and exposures described above are added together to obtain the probability of loss added to the portfolio. Based on such probability, the Bank is able to obtain the aforementioned risk measurements (expected and unexpected losses at different level of confidence).

Regarding the credit risk management, the Bank has developed metrics to properly supplement the applicable guidelines, such as loan portfolio concentration measured using different parameters, including the Herfindahl-Hirschman index, the GINI index, etc. The Bank follows up on several of its portfolio classifications, based on the borrower, geography, and target market, among other factors.

### 3. Liquidity risk

The liquidity risk is defined as the potential loss from the impossibility of or difficulty in rolling over debt under normal conditions for the Bank, or the early or forced sale of assets with unusually high discounts.

To manage its liquidity risk, the Bank considers aspects related to the gap analyses performed on the Bank's open positions. As part of the Bank's risk control strategy, the Corporate Risk Management Office prepares a monthly interest rate and maturity gap report. Moreover, the Bank has developed methodologies for quantifying its liquidity risk related to the early sale of its assets or debt rollovers under extraordinary conditions.

To quantify the potential loss caused by the early sale of assets, a function that relates the loss in the value of the assets with the amount of the assets offered for sale is prepared. Therefore, based on scenarios showing different liquidity requirements, the potential loss of outstanding assets is determined based on the depreciation factor that was determined. This methodology takes into account all the assets that are reflected in the statement of financial position and includes the following assumptions:

- All assets have different liquidity levels, which are based on the feasibility of selling the asset at its market price, which itself is directly related to the size and breadth of the existing market for these kinds of instruments.
- The increase in the availability of these assets on the market affects their pricing and the impairment is related to the prevailing sale price. Therefore, there should be a relationship between the amount of each asset subject to analysis and the effect of its market price.

90.

- Should the Bank have any extraordinary liquidity requirements, it shall always attempt to sell those assets with the highest liquidity level, since these are the assets whose market price will be most impaired.
- The potential liquidity risk loss will be based on the Bank's cash requirements. In other words, the greater the Bank's need for cash, the greater the amount offered and the higher the debt that the Bank will offer, as well as the acquisition of assets with higher degrees of liquidity, thus increasing the Bank's losses from these events.

For the potential loss resulting from debt renewed under unusual circumstances, the Bank selects debt with maturities of less than one month, determining the interest rates to which the interest premium is applied to obtain the respective pricing premium for the renewal of the debt in unfavorable conditions and assuming the following:

- All debt has different levels of stability, which is based on the feasibility that the debt will be renewed in full upon maturity under market conditions considered acceptable.
- Should the Bank have any problems placing the debt, the counterparties will demand a higher interest rate, thereby increasing the financial cost for the Bank.
- The potential loss due to liquidity risk with regard to the Bank's debt will be based on the interest premium that the Bank needs to provide investors in order to renew the required debt.

#### *4. Market risk*

Market risk is defined as the potential loss triggered by changes in risk factors (such as interest rates, exchange rates, price indexes, among others) relating to the valuation or expected future results of the Bank's operations.

The market risk present in the positions reflected in the Bank's financial instruments is measured using the Value at Risk (VaR) methodology, whose indicator is based on the maximum expected loss in a given timeline and with a certain level of confidence. VaR is directly related to the volatility of the value of each securities portfolio, which is affected by the changes in the factors that affect the value of the positions that comprise the portfolio.

The VaR summarizes the expected loss above the objective timeline within a pre-determined confidence interval.

The most important characteristics of the market risk model are as follows:

- It is based on the use of statistical methods that are similar to the effect of the changes in the risk factors on the market value of the Bank's assets and liabilities.

- They simulated those used in the financial industry, with certain changes to reflect the specific circumstances of the Bank.
- They are periodically assessed by the Corporate Risk Management Office.

In order to measure the market risk, the Corporate Risk Management Office uses the Comprehensive Risk Management System tool to calculate VaR on a daily basis. The Bank performs an estimate of VaR considering the following assumptions:

Model	Historical simulation
Timeline	1 day
Observation period	350 days
Confidence level	95 %

The base assumption in the historical simulation method for the VaR calculation is that the past returns of risk factors are the best estimate available of future returns (statistically). This means that past experience is considered to represent the immediate future when using a unique sampling pattern based on historical data.

To supplement the market risk methodology, the Bank uses sensitivity tests to simulate variances in the risk factors affecting the value of its positions. The Bank also carries out back testing to verify the validity of the model, comparing the results provided by the model to actual results and applying the Kupiec statistical test.

These market risk methodologies are applied to the Bank's money market, foreign exchange market and derivatives market position, and the Bank's own financial instrument position, irrespective of the respective accounting classifications (i.e., for trading, available-for-sale, or held-to-maturity).

All positions, irrespective of their accounting classification, are considered in the determination of the market risk described above, which, accordingly, includes for trading, available-for-sale, and held-to-maturity securities.

Non-discretionary risks

#### *1. Operational risk*

Operational risk is defined as the potential loss resulting from inadequate or failed internal controls, errors in transaction processing, data entry or transmission back to sources, as well as adverse administrative and court rulings, fraud, or theft. Among other aspects, operational risk encompasses the Bank's IT and legal risks

92.

The Bank has methodologies, policies and procedures in place that allow it to sufficiently mitigate its exposure to operational risks.

A brief description of the methodologies and operational risk control that the Bank uses is as follows:

#### Quantitative methods

In order to be able to appropriately rely on and supplement the review, validation and identification of the operational risk in the Bank's processes (including technological and legal risk), the Comprehensive Risk Management Unit has implemented a statistical model for estimating the Bank's operational Value at Risk (VaR) using advanced methodologies with an aggregate loss approach. These methodologies are reviewed and approved by the Comprehensive Risk Management Committee.

The Bank's operational VaR represents the Bank's expected losses over a target time horizon using a confidence interval determined based on a statistical analysis of the Bank's historical operational tolerance levels, which is calculated using a confidence level of 99% starting in the base year.

The associated operational risk tolerance level is determined considering the Bank's core capital of the immediately preceding quarter and its previously determined operational VaR. Based on the Bank's historical tolerance levels, the Bank determines its Operational Risk Limit, which is followed up on by the Comprehensive Risk Management Committee on a monthly basis. This Operational Risk Limit is analyzed and when appropriate, it is revised annually with prior authorization from the Board of Directors.

To supplement its operational VaR methodology, the Bank uses sensitivity tests to determine the effects of stress on the main variables considered in the operational risk model, and it also applies stress tests to measure vulnerability in extreme scenarios that are unlikely to occur. The Bank also carries out back testing to verify the statistical reliability of the method. These test results are submitted to the Comprehensive Risk Management Committee on a monthly basis.

#### a. Qualitative methods

As part of its operational risk management activities, the Bank continuously identifies and logs loss incidents, loss events and potential risk, and it uses this information to create a historical operational risk data base (including technological and legal risk) to facilitate the measurement, oversight, and follow up on these risks.

The Comprehensive Risk Management Unit analyzes the information it receives regarding probability of occurrence and severity of loss events and together with the relevant areas, it formulates loss risk and incidence and loss event mitigation plans. The Bank also informs its corporate governance body, the Bank's general director, the heads of each business line, and all decision-makers about the Bank's primary operational risk indicators.

The Bank also evaluates and reports the possible consequences of materialization of the operational risks that have been identified in order to determine the most appropriate operational risk control measures to adopt.

## *2. Legal risk*

Legal risk is defined as the potential loss from the Bank's non-compliance with the legal and administrative laws and regulations to which it is subject, as well as from any adverse administrative and legal rulings it receives from the courts and authorities related to its business activities and any related penalties.

The treatment and follow up of cases of legal risk are performed considering the activities set forth in the operational risk management procedures discussed above and the following activities are also carried out:

1. The legal area performs specific processes and procedures to oversee the Bank's contracts and to identify potential irregularities in the execution of those contracts.
2. The Bank's internal audit area performs internal legal audits.
3. The Bank identifies situations that potentially represent a legal risk for the Bank, as well as loss events arising from the Bank's violations of any of the laws and regulations to which it is subject, and from any administrative and legal rulings issued against it by the courts and authorities related to its business activities and the effects of any related penalties.
4. A findings report for the reporting period is generated together with an overview of any incidents that occurred and the general causes of those incidents, and this information is reviewed by the Comprehensive Risk Management Committee.

## *3. Technological risk*

Technological risk is defined as the potential loss from damages, business interruption, alterations and failures arising from the use and reliance on hardware, software, systems, applications, networks and any other information distribution channel used by the Bank to provide its services.

The treatment and follow up of cases of technological risk are performed considering the activities set forth in the Bank's operational risk management procedures discussed above.

The following activities are also performed as part of the Bank's technological risk management procedures:

1. An analysis of the incidents occurring during the period is obtained from the incident logging system managed by the IT area.

94.

2. The number of incidents reported by each system is obtained.
3. The Bank analyzes incidents whose root causes are determined based on an analysis of the related evidence and documentation and which makes it possible to differentiate real technological risks, including those related to hardware, software, and telecommunications failures, from operational risks caused by human error.
4. The Bank's management meets with personnel from the IT, Internal Audit and Information Security Areas to discuss the follow up on incidents.
5. A findings report for the reporting period is generated together with an overview of any incidents that occurred and the general causes of those incidents, and this information is reviewed by the Comprehensive Risk Management Committee.

## II. Unquantifiable Risks

### Reputational risk

To mitigate its reputational risk, the Bank has a specialized area that continuously monitors the Bank's media coverage and which reports any incidents, loss events and potential risks. Based on this information, a findings report for the reporting period is generated together with an overview of any incidents that occurred and the general causes of those incidents, and this information is reviewed by the Comprehensive Risk Management Committee.

The Bank does not have a statistical model in place to calculate its reputational Value at Risk (VaR). As a result, the Bank's tolerance level for reputational risk is determined considering the operational risks tolerance levels applying a tolerance limit equal to 1% of the Bank's core capital.

Should the established limit be exceeded due to materialization of these risks, the Bank has a financial insurance policy to absorb the resulting losses.

Quantitative information (amounts in thousands of Mexican pesos)

### Credit risk

An analysis of the calculation for potential losses from counterparty risk in respect of the Bank's derivative transactions, as well as an estimate of the expected and unexpected losses in the loan portfolio in Q4 2015 is as follows:

The calculation of risk that the counterparty fails to meet its contractual obligations under derivative transactions as at December 31, 2015 is as follows:

## Counterparty risk exposure in derivatives

Counterparty	Day expiring	Limit	Amount reported	Cash and cash equivalents	Percentage
Counterparty 1 CAP 1	306	131	11	120	8%
Counterparty 1 FX FWD 1	223	143	-	143	-%
Counterparty 1 FX FWD 2	252		-		-%
Counterparty 1 FX FWD 3	446		-		-%
Counterparty 1 FX FWD 4	546	171	-	171	-%
Counterparty 1 FX FWD 5	556		-		-%
Counterparty 1 FX FWD 6	626	277	-	277	-%
Counterparty 2 FX FWD 1	97	8	-	8	-%
Counterparty 2 FX FWD 2	116	7	-	7	-%
Counterparty 2 FX FWD 3	116		-		-%
Counterparty 2 FX FWD 4	215		-		-%
Counterparty 2 FX FWD 5	255		-		-%
Counterparty 2 FX FWD 6	272		-		-%
Counterparty 2 FX FWD 7	272	39	-	39	-%
Counterparty 2 FX FWD 8	279		-		-%
Counterparty 2 FX FWD 9	364		-		-%
Counterparty 2 FX FWD 10	378	19	-	19	-%

The average monthly exposure in derivative transactions in Q4 2015 is shown below:

Instrument	Average exposure			
	Oct-15	Nov-15	Dec-15	Q415
CAP's	Ps. 11,119	Ps. 11,119	Ps. 11,119	Ps. 11,119
FX FWD	7,365	5,661	2,036	5,021
SWAPS	8,706	7,243	80	5,343

Loan portfolio:

An analysis of data relating to the calculation of potential losses due to credit risk in the Bank's loan portfolio at Q4 2015 is as follows:

Loan Portfolio <sup>1</sup>	Loan Portfolio Risk				
	Q315*	Oct 15	Nov 15	Dec 15	Q415*
Amount of the portfolio	Ps.84,444,341	Ps.86,247,621	Ps.89,531,719	Ps.99,362,789	Ps.91,714,043
Expected loss	2,041,248	2,039,375	2,123,422	2,032,549	2,065,115
Unexpected loss	3,901,329	3,852,415	3,887,973	3,892,255	3,877,548
Credit VaR <sup>2</sup>	5,942,577	5,891,790	6,011,396	5,924,804	5,942,663

<sup>2</sup>Considering a confidence level of 99.5%

Amounts in thousands of Mexican pesos

\*Average for the quarter

The calculation of consolidated credit risk (portfolio and financial instruments) at Q4 <sup>1</sup>, 2015 is as follows:

Consolidated credit risk for the Bank					
Loan Portfolio	Q315*	Oct 15	Nov 15	Dec 15	Q415*
Amount of the portfolio	Ps.92,159,959	Ps.95,669,897	Ps.95,956,377	Ps.105,755,774	Ps.99,127,349
Expected loss	2,047,322	2,045,542	2,128,992	2,038,069	2,070,867
Unexpected loss	3,912,368	4,148,571	3,917,774	3,927,514	3,997,953
Credit VaR <sup>2</sup>	5,959,690	6,194,113	6,046,766	5,965,582	6,068,820

<sup>2</sup>Considering a confidence level of 99.5%.

\*Average for the quarter

Amounts in thousands of Mexican pesos

As at December 31, 2015, the Bank has granted 24 loans that exceed 10% of its core capital at September 2015 totaling Ps. 75,273.

Common Risk Group	Total Liability*	% of Core Capital
Borrower 1	Ps.8,338	73.60%
Borrower 3	6,896	60.86%
Borrower 4	6,082	53.68%
Borrower 5	5,822	51.39%
Borrower 6	5,531	48.82%
Borrower 9	4,368	38.55%
Borrower 7	4,341	38.31%
Borrower 8	4,293	37.89%
Borrower 10	3,346	29.53%
Borrower 2	3,125	27.58%
Borrower 11	2,320	20.48%
Borrower 12	2,072	18.28%
Borrower 13	1,921	16.95%
Borrower 14	1,871	16.51%
Borrower 16	1,824	16.10%
Borrower 15	1,817	16.04%
Borrower 17	1,816	16.02%
Borrower 18	1,578	13.93%
Borrower 19	1,400	12.36%
Borrower 22	1,370	12.09%
Borrower 20	1,366	12.06%
Borrower 21	1,364	12.04%
Borrower 23	1,232	10.87%
Borrower 24	1,182	10.43%

The loans granted to the Bank's three largest borrowers by common risk as at 31 December 2015 total Ps. 8,534, while the maximum loan limit is set at Ps. 4,532.



Market risk:

An analysis of the Value at Risk (VaR) for each type of the Bank's portfolios at Q4 2015 is as follows:

Value at Risk (VaR)		
Business Unit	VaR	% of capital
Money market transactions (held-for-trading)	16,671	0.145%
Money market transactions (held-to-maturity)	8,946	0.077%
Money market transactions (available-for-sale)	4,137	0.036%
Foreign currency market	536	0.005%
Derivatives market (trading)	1,220	0.011%
Derivatives market (structural)	4	0.00003%
Own (held-for-trading)	646	0.006%
Own (held-to-maturity)	8,935	0.077%
Own (available-for-sale)	10,878	0.094%
Overall VaR	20,383	0.18%

Amounts in thousands of Mexican pesos

Note: Overall VaR includes portfolios of derivatives market, foreign currency market, liquidation value date transactions, trading and available-for-sale securities.

An analysis of the level of market risk exposure in the Bank's overall VaR compared to the limit established for the Bank is as follows. The limit is 0.5% of the Bank's core capital.

	Q315	Oct 15	Nov 15	Dec 15	Q415*
VaR Bank	Ps. 17,084	Ps. 19,085	Ps. 20,524	Ps. 21,487	Ps. 20,358
Limit	53,786	55,032	56,649	57,911	56,525
Percentage	32%	34.68%	36.23%	37.10%	36.02%

\*Average for the period

An analysis of the actual VaR for foreign currency and derivative transactions, and the Bank's overall VaR is as follows:

Bank Market Risk Indicators					
	Q315	Oct 15	Nov 15	Dec 15	Q415*
VaR Bank	Ps. 17,084	Ps. 19,085	Ps. 20,524	Ps. 21,487	Ps. 20,358
Foreign currency VaR	48	174	97	389	226
Derivatives (Fx Forward) VaR	851	1,014	1,189	1,190	1,128
Derivatives (Caps) VaR	16	3	3	3	3
Derivatives (IRS) VaR	62	455	367	78	297
Treasury VaR	14,157	14,565	14,128	13,452	14,045
Money market VaR	11,065	14,551	16,255	17,655	16,149

\*Average for the period

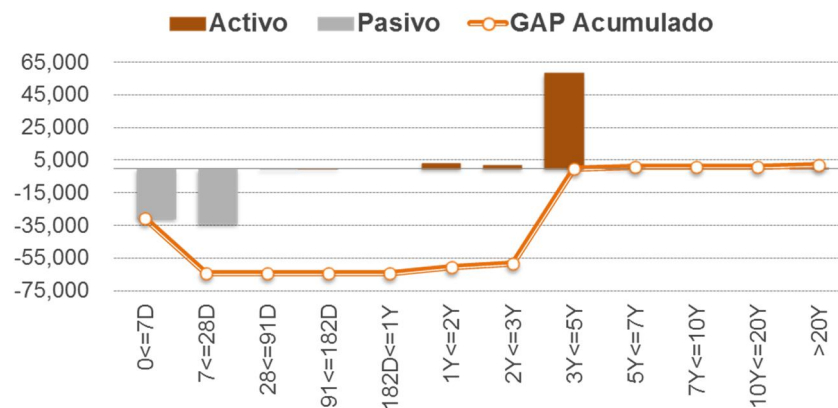
98.

Liquidity risk:

An analysis of the duration gap of the Bank's loan portfolio at Q4 2015 is as follows:

	Duration gap (years)			
	Sep-15	Oct 15	Nov 15	Dec 15
Loan portfolio	3.70	3.81	3.68	3.44
Tender	1.58	1.62	1.56	1.51
Duration GAP	2.11	2.19	2.12	1.93

A graph of the maturity gaps in the Bank's securities positions as at December 31, 2015, which is the basis for the Bank's reported liquidity risk, is as follows:



Amounts in thousands of Mexican pesos

The potential loss from the forced sale of the entire asset portfolio was as follows in Q4 2015:

Potential loss from the forced sale of assets

	Oct 15	Nov 15	Dec 15	Q415*
Bank	Ps.308	Ps.298	Ps.300	Ps.302

Amounts correspond to the last day of the month

Amounts in millions of Mexican pesos

\*Average for the quarter

The Bank also prepares an estimate of its potential loss from renewing debt under extraordinary conditions based on the difference between the cost of debt under normal market conditions and the cost of debt under extraordinary market conditions. An analysis is as follows:

Potential loss from debt renewals

	Oct 15	Nov 15	Dec 15	Q415*
Bank	93	95	83	90

Amounts correspond to the last day of the month

Amounts in millions of Mexican pesos

\*Average for the quarter

## Risk management for derivatives

### Changes in the exposure to principal risks identified

The Bank's strategy regarding derivative transactions at all times considers the Bank's principal objectives and are in line with its risk profile. This strategy is also based on the Bank's policies and approach that emphasize prudence. The types of the transactions carried out by the Bank during the year include forwards foreign exchange transactions (Mexican peso-U.S. dollar) as part of the Bank's synthetic funding strategy and new cap option transactions provided to the Bank's institutional investors. Such transactions are hedged using long-term transactions of a similar nature and with similar characteristics of the issued instruments. During 2015, the Bank has followed up, maintained and updated its systems, processes and resources in place to manage the risks assumed when it enters into the aforementioned derivative contracts.

### Disclosure of events

The Bank's current outstanding transactions are no longer within the scope of its hedging strategies, in accordance with the accounting rules applicable to credit institutions. As a result, the Bank has not needed to assess the efficiency of these financial instrument structures. However, provided below are descriptions of some of the models that would be used by the Bank were it to implement this type of strategy in the future.

### Foreign currency forwards

The hedge effectiveness of loans or cash flows in foreign currency (USD) with foreign exchange forwards is valued as follows:

In general, at each valuation date, the mark-to-market valuation of foreign exchange forwards is determined using the most appropriate valuation model for this type of transaction and including the elimination of arbitrage in the value of the instrument. In other words, the fair value of these instruments is measured by using a valuation model that is based on non-arbitrage principles. This is a widely accepted valuation model. Just as the model selected meets the requirement discussed above, the Bank also selects the most appropriate parameters for applying the model. These parameters may include the risk-free interest rate for foreign currencies, the implicit risk-free interest for forwards transactions (Mexican peso-U.S. dollar) and the FIX exchange rate published by Banxico.

The aforementioned interest rates are considered the most appropriate for purposes of the valuation, since they were provided by the Bank's price supplier.

The Bank has implemented the Kondor+ valuation for the automation of processes inherent to derivative transactions. Based on the results of these valuations, the Bank measures the changes in the fair value of the instruments and subsequently compares them to the changes in the fair value of the hedged item.

100.

The hedged item consists of cash flows denominated in foreign currencies (USD) and for the issue of term deposits payable at maturity (Mexican pesos). U.S. dollar-denominated cash flows arise from loan transactions or treasury management, where the issue of the term deposits is due to treasury funding requirements. The Bank focuses on the changes in the fair value of the cash flows of its treasury department, considering the USD amounts as assets and the Mexican peso amount as liabilities upon maturity.

The methodologies used to evaluate the aforementioned positions are properly documented in the Risk Management Manual.

The Bank's hedge effectiveness depends on the changes in effectiveness indicators, in terms of Accounting Criteria B-5, described in Attachment 33 of the *Circular Única* for Banks (CUB). In other words, a hedge is considered effective when the changes in the fair value or cash flows of the hedged item are offset by changes in the fair value or cash flows of the hedging instrument within a range of 80% to 125%.

#### Interest rate swap

The effectiveness of interest rate swaps is assessed using the following criteria:

1. Qualitative
  - a. Critical terms
2. Quantitative
  - a. Synthetic instrument method
  - b. Dollar offset method
  - c. Regression analysis

Critical terms match method: The requirements to qualify for this methodology are as follows:

- No upfront payments
- The fixed swap rate is constant
- The floating swap index does not change

Synthetic instrument method: The requirements to qualify for this methodology are as follows:

- No upfront payments
- The fixed swap rate is constant
- The floating swap index does not change
- The maturity date of the instrument to be hedged  $\geq$  swap maturity date
- The actual synthetic rate should be within a range of 90% to 111% of the fixed swap rate.

This method consists of obtaining a value similar to the expected rate through the synthetic instrument (Swap + instrument to be hedged); i.e., the synthetic rate:

Synthetic rate = instrument to be hedged - swap rate paid + swap rate received

Where:

If the synthetic rate / expected rate is between 90% and 111%, then the hedge derivatives are effective.

Dollar offset method: this method is based on the following ratio:

$$80\% \leq \frac{\text{Change in value (swap)}}{\text{Change in value (instrument to hedge)}} \leq 125\%$$

or

$$80\% \leq \frac{\text{Cambio de valor (Instrumento a cubrir)}}{\text{Cambio de valor (Swap)}} \leq 125\%$$

When this ratio is within the range, then the hedge is effective.

Regression analysis method: The conditions for deeming a hedge effective are as follows:

1.  $R^2 \geq 0.80$
2. F-statistic is significant using a 95% confidence level
3.  $0.80 \leq M \leq 1.25$  where  $Y = mX + b$

When all these conditions are met and provided that there is sufficient data, then the hedge derivatives are deemed effective.

#### Options (Interest Rate and Foreign Exchange)

The Bank has carried out short-term cap options transactions at current TIIE rates with different customers, To mitigate the market risk related to such positions, the Bank has purchased cap options at TIIE rates from other counterparties. These transactions are intended to be treated as hedge instruments for accounting purposes, in accordance with the critical terms method. Such method meets the following requirements:

Net monetary liability (sell) position	Condition	Net monetary asset (purchase) position
Maturity date	=	Maturity date
Exercise date	=	Same exercise dates
Strike	=	Same strike
Notional amount	=	Same notional amount
Underlying	Same	Same underlying
Type of option	Same	Purchase vs. purchase and sale vs. sale

#### Sensitivity analysis

A summary of the results of the sensitivity analysis conducted with respect to the risk factors associated with the Bank's derivatives position at the end of Q4 2015, as well as an analysis of the changes in the risk factor percentages used to calculate the scenarios and the results obtained, is provided below:

Risk Factor	Definition of Extreme Scenarios				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Exchange rate	6.8%	13.6%	20.4%	12.1%	23.5%
Interest rate (domestic)	31.3%	62.5%	93.8%	4.5%	36.0%
Interest rate (foreign)	5%	10%	15%	21%	21%

Risk Factor	Stress Test Analysis				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Exchange rate	Ps.192,184	Ps.384,369	Ps.576,554	Ps.341,480	Ps.663,819
Interest rate (domestic)	49,766	100,160	150,553	6,599	150,553
Interest rate (foreign)	4,649	9,051	13,453	18,336	28,242
	Ps.246,599	Ps.493,580	Ps.740,560	Ps.366,415	Ps.842,614

As can be observed above, the exchange rate is most significantly affected by the range of scenarios. This analysis was performed using the variance percentages described in the first table above.

Sensitivity Analysis			
Risk Factor	Scenario 1	Scenario 2	Scenario 3
Exchange rate	Ps.16,015	Ps.32,031	Ps.48,046
Interest rate (domestic)	3,572	7,771	11,971
Interest rate (foreign)	562	980	1,347
Total	Ps.20,149	Ps.40,782	Ps.61,364

Amounts in thousands of Mexican pesos

Non-discretionary risks

Operational risk

In order to assess the impact that the materialization of the identified risks could have on its business, the Bank considers the operational risk (including legal and technological risk) in the processes of the relevant business units. Based on these criteria, the Bank generates close estimates of the operational events that occur within the Bank.

Based on the above and considering the Bank's operational risk tolerance levels, the Bank's 99% operational VAR for Q4 2015 amounted to Ps. 56.09, which is equal to 0.49% of its core capital and 41% of its core capital limit of 1.2%<sup>(1)</sup>.

(1) As established in the Banco Interacciones Risk Statement.

VaR by Operating Risk for Q4 15				
	Oct-15	Nov-15	Dec-15	Q415*
Limit	1.20% Core capital			
VaR	57.06	56.36	54.84	56.09
% of Core capital	0.49%	0.50%	0.48%	0.49%
Percentage	41%	42%	40%	41%

\*Average for the quarter

In view of the above, the Group's operational risk tolerance levels are under control. Should the established limit be exceeded due to materialization of these risks, the Group has a financial insurance policy to absorb the resulting losses.

Unquantifiable risks

As part of the effort to mitigate its unquantifiable risks, the Group contracts specialized insurance policies comprised of bankers blanket bond insurance (BBB), directors and officers liability insurance (D&O), and a civil liability multi-company insurance policy covering all kinds of liabilities.

### Interacciones Casa de Bolsa

The 99% operational VaR determined by Casa de Bolsa using information from the Group's accounting records for loss events from operational risk was Ps. 13.42 million at the end of Q4 2015, which is equal to 0.84% of the Company's core capital and 84% of its 1% core capital limit. An analysis is as follows:

Follow-up on Operational Risk Tolerance Levels				
	Oct-15	Nov-15	Dec-15	Q415*
Limit	1% Core capital			
VaR	13.39	13.64	13.23	13.42
% of core capital	0.85%	0.84%	0.84%	0.84%
Percentage	85%	84%	84%	84%

Amounts in millions of Mexican pesos  
\*Average for the quarter

In view of the above, the Group's operational risk tolerance levels are under control. Should the established limit be exceeded due to materialization of these risks, Casa de Bolsa has a financial insurance policy to absorb the resulting losses.

### Aseguradora Interacciones

The 99.5% operational VaR determined by Aseguradora Interacciones using information from the Group's accounting records for loss events from operational risk was Ps. 35.25 million at the end of Q4 2015, which is equal to 8.01% of the core capital of Aseguradora Interacciones and 50% of its 16% equity limit. An analysis is as follows:

Operational Risk Tolerance Levels				
	Sep-15	Oct-15	Nov-15	Dec-15
Limit	16% of equity			
VaR	33.95	35.26	32.39	35.25
% of equity*	7.70%	8.01%	7.36%	8.01%
Percentage	48%	50%	46%	50%

In view of the above, the operational risk tolerance levels of Aseguradora Interacciones are within the required limits. However, should these established limits be exceeded due to the materialization of these risks, Aseguradora Interacciones has a financial insurance policy to absorb the resulting losses.



Unquantifiable risks:

As part of its efforts to mitigate its unquantifiable risks, the Group contracts bankers blanket bond insurance (BBB), directors and officers liability insurance (D&O), and a civil liability multi-company insurance policy covering all kinds of liabilities.

Variances in interest income and economic value of equity:

The EVA or residual income measures the Bank's shareholder wealth by deducting the Bank's cost of capital from its operating profit.

$$EVA = U - (CC * CK)$$

Where:

<i>EVA</i> =	Economic value added
<i>U</i> =	Net operating profit after taxes
<i>CC</i> =	Equity
<i>CK</i> =	Cost of capital

The Bank's shareholder wealth is created with its net operating assets used to generate its operating income.

Negative EVA indicates that the Bank's return on invested capital is less than its cost of capital, and does not necessarily indicate a loss in equity capital.

An analysis of the variances in the Bank's interest income and EVA over the last quarter of 2015 and 2014 is as follows:

	October 2015	November 2015	December 2015*
EVA (millions of Mexican pesos)	Ps. 810	Ps. 891	Ps. 1,021
Variance in EVA (%)	19.45%	10.09%	14.50%
	October 2014	November 2014	December 2014
EVA (millions of Mexican pesos)	Ps. 36.37	Ps. 24.24	Ps. 18.51
Variance in EVA (%)	1.60%	0.52%	-6.39%
Variance in EVE (%)	(21.17)%	16.00%	23.16%

### Group's net capital and capital adequacy indicators

As part of Mexico's recent tax reform, the Law Regulating Financial Groups was published on January 10, 2014. As a result of this new law, the Ministry of Finance and Public Credit published the General Regulations for Financial Groups on December 31, 2014, and the new regulations came into effect on March 31, 2015.

The aim of these new regulations is to oversee the organization of controlling companies and the operations of financial groups in general. The regulations seek to establish a procedure for calculating net capital that includes capitalization measures for subsidiaries and any related corrective measures deemed necessary. Generally speaking, the new regulations are intended to strengthen Mexico's financial system by providing mechanisms for preventing or correcting problem areas that may reduce the solvency of Financial Groups.

Controlling companies will be required to maintain minimum net capital that may potentially be less than the sum of their equity investments.

This net capital will include:

- Equity
- Plus
- Subordinated debentures mandatorily convertible into capital.
- Less:
- Liabilities excluding subordinated debentures mandatorily convertible into capital.

An analysis of the Group's net capital as at December 31, 2015 is as follows:

Month	Equity	Operating income	Outstanding subordinated debentures	Liabilities	Net capital	Equity investments
December	Ps. 11,688	Ps. 2,278	Ps. -	Ps. 8,107	Ps. 13,966	Ps. 13,634

Therefore,

Month	Net capital	Equity investments
December	Ps. 13,966	Ps. 13,634

The following table shows the indicators and requirements for each subsidiary:

- The indicator for Banco Interacciones is the capitalization index.
- The indicator for Casa de Bolsa is the capital consumption index.
- The indicator for Aseguradora is the solvency requirement.

	BINTER	ICB	AISA
Category I	ICAP > 10.48%	ICC ≤ 69%	AC ≥ (RS*1.25)
Category II	9.2% ICAP ≤ 10.48%	69% < ICC ≤ 85%	(RS*1.1) ≤ AC < (RS*1.25)
Category III	8% < ICAP ≤ 9.2%	85% < ICC ≤ 100%	(RS) ≤ AC < (RS*1.0)
Category IV	ICAP ≤ 8%	ICC > 100%	AC < RS

Where:

AC: computable assets

RS: solvency requirement

ICC: capital Consumption Index

ICAP: capitalization index

Month	ICAP BINTER
December	16.19%

Therefore, the Group falls under Category I, which means that it is not required to apply any corrective measures.

### 30. Subsequent Events

#### Accounting rules applicable in 2016

##### - Credit institutions

On November 9, 2015, the CNBV issued changes to the regulatory accounting framework applicable to credit institutions. These changes will become effective on 1 January 2016. The most relevant of these changes for the Group are as follows:

a) Criterion A-2, *Application of Specific Standards*, eliminates the supplementary application of Mexican FRS B-4, *Comprehensive Income*, since this standard was eliminated when Mexican FRS B-3, *Statement of Comprehensive Income*, and Mexican B-4, *Statement of Changes in Equity*, became effective on 1 January 2014. Mexican FRS C-18, *Obligations Related to Retirements of Property, Plant and Equipment* and Mexican RS C-21, *Joint Arrangements*, have also been incorporated into the CNBV's accounting standards.

This criterion also establishes that overdrafts in the checking accounts of customers who do not have a line of credit with the Group should be classified as overdue debt and the Bank must create a bad debt reserve for the full amount of the overdraft.

b) Criterion B-1, *Cash and Cash Equivalents*, establishes that when a bank's net balance of receivable and deliverable foreign currencies under 24- and 48-hour FOREX transactions is negative, that balance should be included in the Other accounts payable caption.

c) Criterion B-6, *Loan Portfolio*, includes rules regarding the initial recognition of factoring transactions, unaccrued interest income (including its calculation), interest, prepayments and commissions, and fees unrelated to factoring arrangements.

Criterion B-6 includes rules for transferring to the past-due portfolio payments that are more than 90 days overdue on home improvement loans granted to individuals that are backed by the individual's so-called housing sub-account. Criterion B-6 also includes disclosure rules related to this matter. Additionally, Criterion B-6 includes specific rules for the accounting of restructured consolidated loans and it broadens the concept of sustained payment to consider the various types and characteristics of a bank's loans, and it provides a definition of renewed loans.

d) Accounting criterion C-5, *Consolidation of Special Purpose Entities*, has been eliminated due to the incorporation of Mexican FRS B-8, *Consolidated and Combined Financial Statements*, into the CNBV's accounting rules.

The Group's management does not believe that the adoption of these accounting criteria will have a significant effect on the Group's financial statements.

- Insurance and bonding companies

The accounting rules for insurance and bonding companies that will take effect as of January 1, 2016 are contained in chapter 22.1, "Accounting and Financial Statements", of Section 22.1, "Accounting Rules for Measuring the Assets and Liabilities of Mutual Insurance and Bonding Companies".

The principal changes contained in the new rules are as follows:

- a) Investment portfolios. The new accounting rules will require insurance and bonding companies to measure all of their investments in securities at fair market value, effectively eliminating the “held-to-maturity” category for financial instruments. Accordingly, all financial instruments currently classified as “held-to-maturity” must be reclassified to one of the two remaining categories and any gains or losses arising from these reclassifications shall be recognized in profit or loss.
- b) Real estate. Insurance companies shall be required to conduct appraisals of their real estate holdings on an annual basis.
- c) Accounts receivable. The new accounting rules will require insurance and bonding companies to conduct analyses of all of their accounts receivable considering the guidelines of Mexican FRS C-3, *Accounts Receivable*, and to create an allowance for bad debt based on the specific terms of each account receivable and the settlement dates of the accounts receivables and loans.
- d) Reinsurance and rebonding companies. Under the new rules, starting in 2016, the captions Share of foreign insurance and reinsurance companies in unearned premiums and Share of reinsurers in IBNR shall be consolidated into a Reinsurance recoverables caption, which shall need to include the amount of expected losses due to non-settlement by reinsurers.
- e) Technical reserves. The accounting changes for technical reserves mostly relate to accounting changes for two technical reserves. The new rules will also require insurance and bonding companies to create and register new technical notes with methodologies that are to be based on current calculations approaches, while also considering these new requirements:

Changes related to unearned premium reserves

Short-term unearned premium reserves:

- To be calculated based on market rates – applicable to direct insurance and reinsurance ceded
- Reinsurance recoverables determined as a result of the market valuation of the reserve shall be recorded as assets

Long-term unearned premium reserves:

- To be calculated based on market rates – applicable to direct insurance and reinsurance ceded

110.

- Reinsurance recoverables determined as a result of the market valuation of the reserve shall be recorded as assets
- The difference between the reserve amount determined considering market interest rates and the reserve amount calculated using the previously established technical rate shall be determined

Insurance and bonding companies shall be required to recognize this difference in other comprehensive income in the Surplus caption (listed in the catalogue of accounts as Surplus/deficit from valuation of the long-term unearned premium reserve”), which shall include the respective deferred tax effect.

The Reserve for claims incurred but not reported and Loss adjustment expenses shall be calculated considering the following aspects:

- I. The determination of best estimate liability (BEL)
  - II. Present value calculated using risk-free interest rate
  - III. The risk margin
  - IV. The recognition of reinsurance recoverables
- f) Earned premium. Earned premiums under insurance contracts must be recognized at the time the respective policies are written for the full amount of the premium. In other words, in the case of the life insurance policies, insurance companies may no longer recognize earned premiums at the time the premiums are paid by the policyholders, unless the payment receipt covers the entire term of the policy (i.e., there is just one payment receipt for the policy).

The new rules also include significant changes in the procedure for calculating the capital requirements of insurance companies, since the rules include measures for calculating capital requirements more accurately by considering the specific risk profiles of each insurance company in the calculation. The new rules also require insurance companies to calculate their capital requirement coverage on a monthly basis using the general formula developed by the CNBV or using internally-developed models, which require approval by the CNBV. Lastly, the new rules indicate that the boards of directors of insurance companies shall be responsible for creating the appropriate mechanisms for monitoring the calculation of the capital requirements of the insurance company on an on-going basis.

Based on the analysis of the new rules conducted by the Group, management has determined that the financial statement captions that will be most affected by the new accounting policies are the following:

- Investments in securities
- Reinsurance recoverables
- Technical reserves
- Premiums
- Income taxes

At the reporting date, the Group is still determining what effect the adoption of the new rules will have on its financial statements.