

ANNUAL REPORT 2015

Transforming with **Value**

FINANCIAL STATEMENTS



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Annual Report of the Audit and Corporate Practices Committee

Mexico City, March 17, 2016

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

In accordance with Articles 58 of the Law Regulating Financial Groups and 43 of the Securities Market Law, the Audit and Corporate Practices Committee presents its annual report of activities for 2015.

The contents of this report refer to Grupo Financiero Banorte (GFNorte) and the following relevant institutions: Banco Mercantil del Norte, S.A., Inter National Bank, Casa de Bolsa Banorte Ixe, S.A. de C.V., Banorte Ixe Tarjetas, S.A. de C.V. SOFOM ER, Arrendadora y Factor Banorte, S.A. de C.V. SOFOM ER, Solida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Seguros Banorte, S.A. de C.V., and Pensiones Banorte, S.A. de C.V.

I. Regarding audit:

- a) With respect to the state of the Internal Control System (SCI) and Internal Audit of GFNorte and its material institutions, deficiencies and deviations, the following elements were considered:
1. Annual reports on Internal Control activities of the relevant entities, elaborated by their Managing Directors.
 2. Reports from Internal Comptrollers and those responsible for Control and Compliance functions of some relevant entities, and their opinion on the functioning of the SCI.
 3. Internal Audit's opinion on the state of the SCI of relevant entities.
 4. Reports on deficiencies and relevant observations of GFNorte and subsidiaries, submitted by Internal Audit and the monitoring of corrective measures.
 5. Reports on observations to the Internal Control made by the External Auditor and its opinion on the GFNorte's and its subsidiaries financial statements.
 6. Inspection reports from competent Authorities.
 7. Reports from the Commissioners of GFNorte's relevant entities.
 8. Reports from other Audit Committees about material events and the minutes of their meetings.
 9. Reports on Internal Audit's management and compliance with its work program.

Considering the aforementioned, GFNorte's and its relevant subsidiaries' SCI works reasonably, and detected deficiencies or deviations were corrected or are in the process of being addressed.

On Internal Audit's functioning, the area has maintained its independence, reasonably met its work program according to best practices, and effectively monitored the implementation of measures to correct observations and identified areas of opportunity.

- b) No significant non-compliances were found to GFNorte's and its relevant subsidiaries' operating and accounting guidelines and policies ; the identified areas of opportunity were reported to policymakers and measures were taken to address them and monitoring to ensure their proper implementation.
- c) Regarding the performance of the firm Galaz, Yamazaki, Ruiz Urquiza, S.c. (Deloitte Touche Tohmatsu member), the legal entity providing external audit services, and the Auditor in charge, the corresponding evaluation reflected the quality of their performance and relationship with the Management and the Committee.

The content of their reports are considered to be of good quality and useful in supporting the Committee, and their results and opinions do not disagree with those of the Management.

Annual Report of the Audit and Corporate Practices Committee



- d) On the description and assessment of additional or complementary services provided by the External Auditor, during the fiscal year it was approved to hire it to review technical aspects of risk management, evaluate FATCA processes and procedures, as well as review the sustainability report, transfer pricing for intercompany transactions and reports of local taxes.

As a result of the corporate restructuring process, the External Auditor was hired to conduct a limited review of financial statements and review fiscal costs of the companies' stocks, as well as to design and document a management and operation model for a Security Operations Center.

The Committee ensured that there was no conflict of interest when hiring these services.

- e) GFNorte's and Subsidiaries' financial statements as of December 31, 2015 were reviewed. Furthermore, the External Auditor's report confirmed these were prepared, in all material aspects, in compliance with the applicable accounting principles, and it was recommended to be approved by the Board of Directors. The Committee also reviewed interim financial statements for the fiscal year on a quarterly basis.
- f) On main modifications to accounting policies and criteria used during the year, it was reported that modifications were made to comply with changes in the applicable provisions, which are described in Note 4 of the financial statements "Main Accounting Policies", containing a detailed explanation of such and their effects.

It is worth mentioning that in 2015 the Board of Directors approved changes to Banco Mercantil del Norte's accounting policy on write-offs for SME, Middle-market and Corporate banking clients, without implying additional cost of reserves.

- g) No relevant observations were received during the fiscal year from shareholders, Board members, directors, employees or any third party, with respect to accounting, internal controls or internal and external audit, or allegations of irregular events. In accordance with best practices there is an anonymous complaints system and the Committee follows it up.
- h) In regards to monitoring the agreements of the Shareholders' Assembly and the Board of Directors, such bodies did not request the Committee to monitor any agreement in particular.
- i) During the fiscal year, various visits were received from CONDUSEF, IPAB, Banxico and CNBV. It is worth mentioning the CNBV visit on issues related to the credit process specially focused on payroll loans, information security and remuneration system for which modifications to manuals, processes and technological adaptations were requested. The aforementioned was reported to the Board of Directors in the session held on October 22, 2015.

Most of the observations resulting from such visits were attended or are in the process of being attended.

- j) Other relevant activities carried out by the Committee include the approval of changes to the Internal Audit structure, the evaluation of work guidelines on the minimum aspects to be considered in a review of the Technology area and the approval to incorporate materiality as a measure for the possible economic impact of observations.

In terms of credit, the functions of the Credit, Legal, Operations, Accounting and Internal Audit departments were analyzed to comply with Articles 20, 21 and 31 of the General Provisions applicable to credit institutions, criteria for the Acceptance of Risk (CARs) for specific-purpose projects were reviewed, and the methodology to promote the culture of proper record integration was authorized in order to minimize the reprocessing presented in the standard review.

The state of loans granted to Corporate, Middle-market, SME, Agricultural and home developers was reviewed and the process for payroll loan and mortgage products was analyzed.

We reviewed the progress of corrective measures for observations from Internal Audit reviews qualified as "Unacceptable", including the revocation of authority process for officials and employees who ceased to work for GFNorte, and approved the bonus methodology, based on revision results of responsible branch-based officials and employees.

The progress of the projects: "Adding value for the customer" and "Markets, Broker Dealer and Investments Transformation" was followed-up and the relaunch of Ixe branch plan was analyzed.

Regarding relevant regulatory changes, the Committee reviewed the impacts of the Volcker rule and the responsibilities of the Comptroller in the insurance and annuities companies as the Insurance and Bonding Institutions Law became effective.

Annual Report of the Audit and Corporate Practices Committee



II. Regarding corporate practices:

- a) The Human Resources Committee reported that during the fiscal year there were no observations on the performance of relevant managers acting outside the established policies.
- b) Transactions with related parties were approved by the Board of Directors and as of December 31, 2015 loans granted through Banco Mercantil del Norte to related parties amounted to Ps 7.552 billion, less than the limit set by the corresponding regulation. Intercompany transactions were carried out at market prices, which was verified by the External Auditor who did not report findings.

In relation to unusual or non-recurring operations, during the fiscal year the Board of Directors approved the capitalization of Corporación GEO S.A.B. de C.V. for up to Ps 3,000 million, through Sólida Administradora de Portafolios.

- c) With respect to emolument packages for the CEO and relevant directors, there is a compensation system approved by the Board of Directors, which divides their remuneration in ordinary and extraordinary, and includes rules to defer the latter according to established risk indicators and in compliance to policies. The aforementioned was applied consistently during the fiscal year considering the results of the Internal Audit review and reports submitted by the Human Resources and Risk Policies Committees to the Board of Directors.
- d) Finally, it is reported that during the fiscal year the Board of Directors granted a dispensation to the Board member Juan Carlos Braniff to take advantage of a business opportunity; considering he holds a stake in Capital I Reserva, S.A. de C.V., which contributed Ps 500 million for GEO' financial and operational restructuring.

Sincerely,

Héctor Reyes Retana y Dahl
Chairman of the Audit and Corporate Practices Committee

Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries



We have audited the accompanying consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the "Financial Group"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the reasonable preparation and fair presentation of these consolidated financial statements in accordance with the accounting criteria set forth by the National Banking and Securities Commission (the Commission) in the "General Provisions Applicable to Banking Institutions" (the Provisions), and for such the internal controls as Management deems necessary to enable a preparation of the consolidated financial statements free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Financial Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion about the effectiveness of the Financial Group's internal control. An audit also includes an assessment of the suitability of the accounting policies that were applied and reasonability of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended, in accordance with the accounting practices prescribed by the Commission.

Other matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Daniel Castellanos Cárdenas
Recorded in the General Administration
of Federal Tax Audit Number 17195
February 23, 2016

Consolidated Balance Sheets

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries
As of December 31, 2015 and 2014
(In millions of Mexican pesos)

ASSETS	2015	2014
CASH AND CASH EQUIVALENTS	Ps. 107,848	Ps. 73,838
MARGIN SECURITIES	91	45
INVESTMENTS IN SECURITIES		
Trading securities	244,945	248,976
Securities available for sale	113,465	104,937
Securities held to maturity	83,115	77,736
	441,525	431,649
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	493	871
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	19,068	16,510
For hedging purposes	79	86
	19,147	16,596
VALUATION ADJUSTMENTS FOR ASSET HEDGING	128	143
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	208,066	191,189
Financial institutions' loans	3,331	3,316
Government loans	130,118	118,962
Consumer loans	76,721	68,383
Mortgage loans	99,952	89,918
TOTAL PERFORMING LOAN PORTFOLIO	518,188	471,768
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	7,923	10,649
Financial institutions' loans	-	1
Consumer loans	2,908	2,370
Mortgage loans	1,072	1,274
TOTAL PAST-DUE LOAN PORTFOLIO	11,903	14,294
LOAN PORTFOLIO	530,091	486,062
(Minus) Allowance for loan losses	(13,813)	(15,287)
LOAN PORTFOLIO, net	516,278	470,775
ACQUIRED COLLECTION RIGHTS	2,218	2,984
TOTAL LOAN PORTFOLIO, net	518,496	473,759
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	1,888	1,934
PREMIUM RECEIVABLES, net	4,414	4,502
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	5,874	5,967
RECEIVABLES GENERATED BY SECURITIZATIONS	185	587
OTHER ACCOUNTS RECEIVABLE, net	31,544	26,646
MERCHANDISE INVENTORY	462	922
FORECLOSED ASSETS, net	2,259	2,732
PROPERTY, FURNITURE AND EQUIPMENT, net	14,537	12,845
PERMANENT STOCK INVESTMENTS	13,805	13,916
DEFERRED TAXES, net	2,785	2,311
OTHER ASSETS, net		
Deferred charges, advance payments and intangibles	28,860	24,697
Other short-term and long-term assets	4,135	4,022
TOTAL ASSETS	Ps. 1,198,476	Ps. 1,097,982

MEMORANDUM ACCOUNTS (Note 36)

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above.

As of December 31, 2015, the stockholders' equity amounts to Ps. 9,651.

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2015	2014
DEPOSITS		
Demand deposits	Ps. 348,816	Ps. 298,852
Time deposits		
General public	207,940	185,220
Money market	4,606	8,444
Senior debt issued	100	5,406
	561,462	497,922
INTERBANK AND OTHER LOANS		
Demand loans	1	-
Short-term loans	16,481	21,082
Long-term loans	14,551	9,002
	31,033	30,084
TECHNICAL RESERVES	80,945	73,693
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	315,155	306,602
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	1	154
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	19,940	17,271
For hedging purposes	5,004	4,020
	24,944	21,291
ACCOUNTS PAYABLE TO REINSURERS, net	1,735	1,619
OTHER ACCOUNTS PAYABLES		
Income tax	1,922	5,380
Employee profit sharing	374	373
Creditors from settlements of transactions	7,541	3,224
Sundry creditors and other payables	17,458	15,041
	27,295	24,018
SUBORDINATED DEBENTURES	17,385	16,468
DEFERRED CREDITS AND ADVANCED COLLECTIONS	1,169	1,459
TOTAL LIABILITIES	1,061,124	973,310
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,606	14,632
Additional paid-in capital	36,424	36,201
	51,030	50,833
OTHER CAPITAL		
Capital reserves	5,765	6,657
Retained earnings from prior years	62,860	50,407
Result from valuation of securities available for sale	(1,552)	634
Result from valuation of instruments for cash flow hedging	(828)	(762)
Cumulative foreign currency translation adjustment	1,069	(75)
Net income	17,108	15,228
	84,422	72,089
MINORITY INTEREST	1,900	1,750
TOTAL STOCKHOLDERS' EQUITY	137,352	124,672
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,198,476	Ps. 1,097,982

Act. José Marcos Ramírez Miguel
CEO

C.P. Isaías Velázquez González
Managing Director - Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

Ing. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance

C.P.C. Mayra Nelly López López
Executive Director - Accounting

Consolidated Income Statements

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In millions of Mexican pesos)

	2015	2014
Interest income	Ps. 70,239	Ps. 72,579
Premium revenue, net	19,074	18,692
Interest expense	(23,747)	(27,861)
Increase in technical reserves	(7,131)	(9,655)
Casualty rate, claims and other contractual obligations, net	(11,027)	(9,659)
NET INTEREST INCOME	47,408	44,096
Provisions for loan losses	(10,719)	(11,196)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	36,689	32,900
Commission and fee income	14,714	12,820
Commission and fee expense	(4,847)	(4,267)
Brokerage revenues	2,991	4,420
Other operating income (expenses)	3,001	3,260
Non-interest expense	(30,295)	(29,232)
OPERATING INCOME	22,253	19,901
Equity in earnings of unconsolidated subsidiaries and associated companies	1,201	1,220
INCOME BEFORE INCOME TAX	23,454	21,121
Current income tax	(5,720)	(8,040)
Deferred income taxes, net	(386)	2,372
	(6,106)	(5,668)
INCOME BEFORE NONCONTROLLING INTEREST	17,348	15,453
Minority interest	(240)	(225)
NET INCOME	Ps. 17,108	Ps. 15,228


These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the Consolidated Income Statement dates above.


The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated financial statements.


Act. José Marcos Ramírez Miguel
CEO

C.P. Isaías Velázquez González
Managing Director – Internal Audit


Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller


Ing. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance


C.P.C. Mayra Nelly López López
Executive Director - Accounting

Consolidated

Statements of Changes in Stockholders' Equity

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
 (In millions of Mexican pesos)

	PAID-IN CAPITAL				OTHER CAPITAL						
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging	Cumulative foreign currency translation adjustment	Net income	Total majority interest	Total majority interest	Total stockholders' equity
Balances, January 1, 2014	Ps. 14,652	Ps. 35,219	Ps. 5,811	Ps. 39,303	Ps. 667	Ps. (1,420)	Ps. (1,083)	Ps. 13,508	Ps. 106,657	Ps. 2,034	Ps. 108,691
TRANSACTIONS APPROVED BY STOCKHOLDERS:											
Share repurchase for executive shares' plan payable in equity instruments	(20)	438	(357)	1	36	-	-	-	98	-	98
Transfer of prior year's result	-	-	-	13,508	-	-	-	(13,508)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	314	(314)	-	-	-	-	-	-	-
Creation of reserves for share repurchase	-	-	889	(889)	-	-	-	-	-	-	-
Dividends declared at the General Stockholders' meetings on:											
October 14, 2013	-	-	-	(544)	-	-	-	-	(544)	-	(544)
October 22, 2014	-	-	-	(674)	-	-	-	-	(674)	-	(674)
Total transactions approved by stockholders	(20)	438	846	11,088	36	-	-	(13,508)	(1,120)	-	(1,120)
COMPREHENSIVE INCOME:											
Net income	-	-	-	-	-	-	-	15,228	15,228	-	15,228
Result from valuation of securities available for sale	-	-	-	-	(69)	-	-	-	(69)	-	(69)
Effect of subsidiaries, affiliates and mutual funds	-	544	-	16	-	-	1,008	-	1,568	-	1,568
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	658	-	-	658	-	658
Total comprehensive income	-	544	-	16	(69)	658	1,008	15,228	17,385	-	17,385
Minority Interest	-	-	-	-	-	-	-	-	-	(284)	(284)
Balances, December 31, 2014	14,632	36,201	6,657	50,407	634	(762)	(75)	15,228	122,922	1,750	124,672
TRANSACTIONS APPROVED BY STOCKHOLDERS:											
Share repurchase for executive shares' plan payable in equity instruments	(26)	251	(892)	-	(38)	-	-	-	(705)	-	(705)
Transfer of prior year's result	-	-	-	15,228	-	-	-	(15,228)	-	-	-
Dividends declared at the General Stockholders' meetings on:											
January 21, 2015	-	-	-	(675)	-	-	-	-	(675)	-	(675)
April 24, 2015	-	-	-	(1,351)	-	-	-	-	(1,351)	-	(1,351)
November 19, 2015	-	-	-	(761)	-	-	-	-	(761)	-	(761)
Total transactions approved by stockholders	(26)	251	(892)	12,441	(38)	-	-	(15,228)	(3,492)	-	(3,492)
COMPREHENSIVE INCOME:											
Net income	-	-	-	-	-	-	-	17,108	17,108	-	17,108
Result from valuation of securities available for sale	-	-	-	-	(2,148)	-	-	-	(2,148)	-	(2,148)
Effect of subsidiaries, affiliates and mutual funds	-	(28)	-	12	-	-	1,144	-	1,128	-	1,128
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(66)	-	-	(66)	-	(66)
Total comprehensive income	-	(28)	-	12	(2,148)	(66)	1,144	17,108	16,022	-	16,022
Minority Interest	-	-	-	-	-	-	-	-	-	150	150
Balances, December 31, 2015	Ps. 14,606	Ps. 36,424	Ps. 5,765	Ps. 62,860	Ps. (1,552)	Ps. (828)	Ps. 1,069	Ps. 17,108	Ps. 135,452	Ps. 1,900	Ps. 137,352

These statements of changes in stockholder's equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. These consolidated statements of changes in stockholder's equity were approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated financial statements.

Act. José Marcos Ramírez Miguel
 CEO

C.P. Isaías Velázquez González
 Managing Director - Internal Audit

Lic. Jorge Eduardo Vega Camargo
 Deputy Managing Director - Controller

Ing. Rafael Arana de la Garza
 Managing Director - COO, Administration and Finance

C.P.C. Mayra Nelly López López
 Executive Director - Accounting

Consolidated

Cash Flow Statements


Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In millions of Mexican pesos)


	2015	2014
	Ps. 17,108	Ps. 15,228
Net income		
Items not requiring (generating) resources:		
Depreciation and amortization	1,372	1,262
Technical reserves	7,131	9,655
Other provisions	(3,570)	6,005
Current and deferred income tax	6,106	5,668
Equity in earnings of unconsolidated subsidiaries and associated companies	(961)	(995)
	27,186	36,823
OPERATING ACTIVITIES:		
Changes in margin accounts	(46)	13
Changes in investments in securities	(8,709)	(15,802)
Changes in debtor balances under repurchase and resale agreements	379	(669)
Changes in asset position of derivatives	(2,543)	(1,696)
Change in loan portfolio	(43,178)	(44,888)
Changes in acquired collection rights	767	537
Changes in accounts receivable from insurance and annuities, net	46	(653)
Changes in debtor premiums, (net)	88	(1,455)
Changes in reinsurance and surety agencies (net) (asset)	95	(2,404)
Changes in receivables generated by securitizations	403	151
Change in foreclosed assets	482	61
Change in other operating assets	(10,258)	(5,881)
Change in deposits	60,141	51,799
Change in interbank and other loans	931	10
Change in creditor balances under repurchase and sale agreements	8,553	2,580
Collateral sold or pledged	(152)	145
Change in liability position of derivative financial instruments	2,669	2,444
Change in technical reserves (net)	121	1,831
Changes in reinsurance and surety agencies (net) (liability)	116	860
Change in subordinated debentures	865	(1,567)
Change in other operating liabilities	10,777	(5,291)
Change in hedging instruments related to operations	991	488
Income tax	(10,027)	(3,584)
Net cash flows (used in) provided by operating activity	39,697	13,852
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,003	2,002
Payments for acquisition of property, furniture and equipment	(3,961)	(4,006)
Charges on acquisitions of subsidiaries and associated companies	-	409
Payment on acquisitions of subsidiaries and associated companies	(71)	-
Charges for cash Dividends	1,419	1,134
Net cash flows used in investment activity	(1,610)	(461)
FINANCING ACTIVITIES:		
Dividends paid	(2,787)	(1,218)
Repurchase of shares	(1,551)	(549)
Net cash flow (used in) provided by financing activity	(4,338)	(1,767)
Net increase (decrease) in cash and cash equivalents	33,749	11,624
Effects from changes in the value of cash and cash equivalents	261	236
Cash and cash equivalents at the beginning of the year	73,838	61,978
Cash and cash equivalents at the end of the year	Ps. 107,848	Ps. 73,838

These Cash Flow Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "The accompanying Consolidated Cash Flow Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them". The attached Notes are an integral part of these consolidated financial statements.


Act. José Marcos Ramírez Miguel
CEO


C.P. Isaiás Velázquez González
Managing Director - Internal Audit


Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller


Ing. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance


C.P.C. Mayra Nelly López López
Executive Director - Accounting

Notes

to Consolidated Financial Statements



Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. and subsidiaries (the Financial Group) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a holding company under the form and terms established by the Laws Regulating Financial Groups, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission (CNSF) (the Commissions), and the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include the rendering full-banking services, brokerage activities, leasing, factoring, general warehousing services, annuities (pensions) and providing life insurance & casualty insurance, as well as acquiring, disposing of, managing, collecting and, in general, any form of negotiation with credit rights.

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2015.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission, in its capacity as regulator of the Financial Group and its subsidiaries, include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 28, 2016 meeting in accordance with the responsibility assigned to this Organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Follow-up on Loan Exposure in the Housing Development Sector

During 2015, Corporación GEO, S.A.B. de C.V. (GEO) and Desarrolladora Homex, S.A.B. de C.V. (Homex), two of the three main housing developers in the country, concluded their bankruptcy processes which allowed them to restructure their debts with their creditors, among which are some of the subsidiaries of the Financial Group.

Capitalization of liabilities

As part of the GEO and Homex liability restructuring, the Financial Group received, in exchange for the unsecured loans acknowledged by the bankruptcy judges, various assets such as stocks and negotiable instruments of these companies with the option of subscribing shares in a 12-year term. This enabled the Financial Group to eliminate the unsecured loans general balance which totaled Ps. 1,631.

The shares and negotiable instruments with the option of receiving shares that the Financial Group received as payment in kind were recorded initially as "Foreclosed Assets" based on the requirements set for in accounting principle B-7, "Foreclosed Assets."

The Financial Group, according to its intention and business plan, later reclassified such shares and negotiable instruments under Investments in securities (in the "Securities available for sale" category, see Note 6b) and Derivative financial instruments (see Note 8), respectively. The Financial Group records these assets at their fair value.

GEO Capitalization

The Financial Group, through its subsidiary, Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R. Grupo Financiero Banorte (Sólida), performed a capitalization in GEO in the amount of Ps. 3,000, receiving 308,348,302 representative shares of its capital stock.

Sólida recorded the shares it received under Investments in securities in the “Securities available for sale” category at their fair value.

As of December 31, 2015, Sólida holds 234,331,151 shares for a book value of Ps. 2,196 (See Note 6b).

b) Amortization of 2015 Banorte Unsecured Bond

The entire 2015 Banorte Unsecured Bond issued on July 19, 2010 under format 144A/RegS and which was listed in the Luxemburg Stock Market (ISIN USP14008AA79) paying a fixed annual rate of 4.375% was paid in full last July 20, 2015 in the amount of USD 300. The funds were used to refinance liabilities and other general corporate purposes.

3 – BASIS OF PRESENTATION

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish to English for use outside of Mexico. These financial statements are presented on the basis of Mexican Financial Reporting Standards.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended as of December 31, 2015 and 2014 include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2015 and 2014, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2015	2014
Banco Mercantil del Norte, S.A. and Subsidiaries (Banorte)	98.22%	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V.	99.99%	99.99%
Seguros Banorte, S.A. de C.V.	99.99%	99.99%
Pensiones Banorte, S.A. de C.V.	99.99%	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, ER	98.83%	98.83%

Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of Banorte USA, whose recording and functional currency is the American dollar, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates: a) year-end rate for monetary assets and liabilities (17.2487 for 2015), b) historical rate for non-monetary assets and liabilities as well as stockholders’ equity, and c) the weighted average rate of the period for income, costs and expenses (15.8680 for 2015). The conversion effects are presented in the Financial Group’s stockholders’ equity.

Comprehensive Income

This is the change in stockholders’ equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders’ equity and do not affect the Consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2015 and 2014, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the effect of subsidiaries, affiliates and mutual funds; the cumulative conversion effect, and the result from valuation of cash flow hedging instruments.



4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

Changes in accounting policies

As of January 1, 2015, the Financial Group adopted changes regarding the following NIFs:

Improvements to MFRS 2015 - Enhancements issued that cause accounting changes:

NIF B-8, Consolidated or Combined Financial Statements - It clarifies the elements to evaluation in order to identify an investment entity, and indicates that, given its primary business, it will unlikely have control over the entities in which it participates. An analysis should be performed to conclude whether or not there is such control.

Additionally, the following norms were adopted so as not to generate accounting changes:

NIF B-13, Subsequent events and Circular C-9, Liabilities, revisions, contingent assets and liabilities, and commitments- The NIF B-13 mention in a footnote the revelations in an entity's financial statements when such statements are not drawn up based on the current business, as per NIF A-7, Presentation and Disclosure. Said requirement was included as part of the regulatory text in the section regarding disclosure rules in NIF B-13, and as part of Circular C-9 to disclose the contingencies created when an entity is not operating based on the current business. Thereby cancelling Circular 57, sufficient disclosure derived from the Insolvency Law.

NIF B-15, Conversion of foreign currency - The definition of foreign operation was modified to state that it not only refers to a legal entity or cash generating unit whose transactions are based or performed in a financial environment or currency other than that of the reporting entity, but also to the transactions, regarding the reporting entity (its controlling or holding company), that are performed in a currency other than that of the reporting entity even if such transactions are performed in the same country.

As of December 31, 2015, there were no effects of these new standards in the Financial Group's consolidated financial information.

On January 9, 2015 the Commission published in the DOF the General Provisions Applicable to Financial Group Holding Companies that regulate the issues jointly related to the Supervisory National Commissions.

Strengthening these Commissions was contemplated regarding their powers of supervision over Financial Groups. The purpose was for them to use jointly-developed instruments to achieve a consolidated and effective supervision, while establishing a uniform regulation for these entities thereby benefitting the financial system.

In keeping with the above, a regulatory framework was incorporated with the requirements and features that must be fulfilled by the independent external auditors of the Financial Group Holding companies subject to the Supervisory National Commissions oversight, and the contents of their opinions, rules to apply to such Holding Companies, as well as the term for safekeeping their accounting, books and documents.

Recognition of the effects of inflation in financial information

Inflation recognition is done pursuant to NIF B-10 "Inflation Effects" which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2015 and 2014 was 12.34% and 11.76%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2015 and 2014 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2015 and 2014 were 2.10% and 4.18%, respectively.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the Consolidated Balance Sheet.



Trading Securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or held to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in stockholders' equity

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.



Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

- a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
- b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
- c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
- d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the Consolidated Income Statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the Consolidated Balance Sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.



Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Future contracts are recorded initially by the Financial Group in the Consolidated Balance Sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance. Such debtor or creditor balances in the Consolidated Balance Sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the Consolidated Income Statement in the account "Trading results" and the corresponding Consolidated Balance Sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

Management's risk policies regarding hedging contracts is to protect the Financial Group's Consolidated Balance Sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders' Equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year's results.



The Financial Group documents hedging transactions from the moment that derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 72 "Derivatives financial instruments and hedging operations" (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its cash flow's hedging transactions based on the following guidelines:

- a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivatives financial instruments" with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in current earnings.
- b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:
 - i. The accumulated gain or loss of the hedging instrument from its inception.
 - ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation method

Since the derivatives used by the Financial Group are considered as conventional (" Plain Vanilla") standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valued under the Black and Scholes method, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization start as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.



Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5 "Derivatives and hedging transactions" issued by the CNBV. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present, no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.



Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.
- Consumer loans – 180 days or more overdue.
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

In the case of consumer mortgage and commercial loans, the Financial Group applies the Provisions for rating the loan portfolio as issued by the Commission and published in the Official Gazette of the Federation on June 24, 2013.

On June 24, 2013, the Commission issued changes to commercial loan rating provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.



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

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

As a result of acquiring INB Financial Corp. (INB) in 2006, the Financial Group applied the loan rating methodologies established by the Commission to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

General description of rules established by the Commission

Rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve month period.

Such methodologies stipulate the estimate of such loss evaluates the probability default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of Default

- Non-revolving consumer loan – it takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others.
- Revolving consumer loan – it considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used.
- Mortgage loan – it considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance.
- Commercial loans - they consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving
- Consumer loan – depends on the number of outstanding payments.
- Mortgage loan – it considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – they consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.



The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be done by analyzing the risk of projects in the construction and operation stage evaluating the project's cost overrun and cash flows.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method - The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method - The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the Consolidated Income Statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the Consolidated Income Statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment. - The Financial Group carries out an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period's results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Premium receivables

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2015 and 2014, the premiums over 45 days old that have not been cancelled amounted to Ps. 1,012 and 458 , excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

Securitization involving transfer of ownership

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it may publicly issue securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is registered at its fair value under "Receivables generated by securitizations".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. These revenues are recorded under "Other Operating Income (expenses)".

The valuation of the benefits to be received from securitization operations is recorded in the Consolidated Income Statement under "Other Revenues", as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.



The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, recorded when entered into and are settled within 48 hours.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

Investment project value impairment is determined based on the time they are not under development. To be considered under development, an investment project shall have proof of any of the following:

- Infrastructure, urbanization or new housing construction works in progress as per the business plan, or
- Available bridge loan for the investment project, or
- An investment agreement with a third party, who has the required operating and financial capability, other than the developer contemplated on its investment date.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in "Other Operating Income (expenses)" in the Consolidated Income Statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other Operating Income (expenses)".

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset's net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%



The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission’s accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management’s best estimates. On December 31, 2015, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income tax (ISR) is recorded in the year it is incurred. Deferred income taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred income tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the “Deferred Income taxes, net” line.

Intangible assets

Intangible assets are recognized in the Consolidated Balance Sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the annual impairment tests.

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 “Business acquisitions.” As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 “Impairment in the value of long-lasting assets and their disposal.” No indicators of impairment of goodwill have been identified as of December 31, 2015 and 2014.



Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year's earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds' financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical reserves

The CNSF stipulates that all technical reserves shall be certified on an annual basis by independent actuaries who confirm that the amount of the reserves recorded by the Financial Group on December 31, 2015 are reasonably acceptable based on their obligations, within the parameters established by the actuary, and abiding by the relevant criteria established by the competent authorities.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Financial Group used the valuation methods found in the provisions set forth in Chapter 7, "Technical Reserves" in the Insurance Circular published in the DOF on December 13, 2010.

1) Current risk reserve:

The determination of reserves for life insurance transactions is performed according to actuarial formulas considering the characteristics of the policies in effect, which were reviewed and approved by the CNSF.

To value these technical reserves, the following demographic suppositions were used:

- For individual life insurance - Mexican experience study 91-98 CNSF 2000-1.

For the additional benefits:

- For cases of disability, M.R. Cueto disability chart
- For cases of accidents, those calculated for the benefit of the company
- For other benefits, those calculated for the benefit of the company

The current risk reserve is valued as per the following:

I) Life insurance policy in effect for one year or less:

The value of future obligations for the payment of claims and benefits derived from the policies in effect in the period of the valid receipt to be accrued is determined using the valuation method registered at the CNSF and, if applicable, the value of expected future revenues from net premiums is subtracted. This value is compared with the non-accrued risk premium of the policies in effect in order to obtain the sufficiency factor that will be applied to calculate the current risk reserve in each type of insurance policy operated by the Financial Group.

This reserve is obtained by multiplying the non-accrued risk premium of the policies in effect by the corresponding sufficiency factor. Under no circumstances can the sufficiency factor be less than one. Additionally, the current risk reserve is added to the non-accrued portion of administrative expenses.

The allowance for administrative expenses is calculated as the non-accrued part that corresponds to the portion of the annual premium of the policies in effect at the time of the valuation. The administrative expenses percentages established in the technical notes of each plan are used, both in the case of individual life insurance and for each policy in effect.

II) Life insurance policies in effect for over one year:

The current risk reserve is valued according to the actuarial method to determine the minimum reserve amount, only if this method renders an amount greater than the sufficiency method recorded in the technical note authorized by the CNSF.

For insurance policies over one year old, and in the specific case in which the premium payment period is less than the number of years the policy will be in effect, the amount of the balanced administration expense expected to be incurred each year that the policies are in effect is determined by subtracting the current administrative expense value from the expected premiums. The provision is determined by accruing administrative expense amounts that were deducted from the premiums, reduced from administration expenses.



III) The current risk reserves of the policies in effect for accident, health and damage insurance are determined as follows:

Such reserves are recorded and valued by applying the actuarial methods based on the generally accepted standards that the Financial Group had already registered before the CNSF pursuant to the latter's general provisions issued for such purposes.

This reserve represents the amount of the non-accrued premium minus the relative acquisition costs, and will serve to fulfill any possible obligations the Financial Group might face given the stand-alone risk of the policies in effect, considering the sufficiency factor and the administrative expenses.

To determine the sufficiency factor, a comparison will be made between the expected value of future claims and benefits payments, according to the valuation method registered before the CNSF, and the non-accrued risk premium of the policies in effect.

The Financial Group has recorded before the CNSF, in a technical note that specifies the actuarial methods which will constitute and value the current risk reserve on a monthly basis for damage, accident and health policies.

For earthquake and/or volcanic eruption risk coverage, the current risk reserve is calculated with 100% of the withheld risk premium in effect.

2) Contractual obligations:

a) Claims and expirations - Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.

b) Unreported claims - This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the CNSF.

c) Dividends on policies - This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.

d) Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.

e) Security premiums - They are the amounts of segmented collections on the policies.

f) Reserve for claims pending valuation - This reserve corresponds to the expected value of future payments of damage, accident, and health claims that were reported during the year in question or prior years that may be paid in the future. The exact amount of such claims is unknown because there is either no valuation on them or the possibility of future additional payments derived from a previously valued claim.

3) Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

Provisions

Provisions are recognized when the Financial Group has a current obligation resulting from a past event and is likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Financial Group's overall employees, as well as the obligation related to retired personnel.

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against current results, in the case of pension plan, medical service and seniority premiums to retirement.

In the case of seniority premiums related to termination and remuneration at the end of the employment relation, earnings or losses are recognized immediately in the period that are generated, as specified by the NIF D-3, "Employee benefits".



The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Financial Group provided defined contribution pension plan in place. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in "Other assets".

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to NIF D-8 and given that the Financial Group grants its own stock options, the Financial Group records the expense as if the plan were payable in cash. This expense is then restated at a fair value in each reporting period as per the provisions known on such date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group's general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):

It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.



- Loan commitments (unaudited):

The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.

- Assets in trust or mandate (unaudited):

For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.

- Assets in custody or under management (unaudited):

This account records the movement of others' assets and securities that are received in custody or are to be managed by the Financial Group.

- Collateral received:

The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer, and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.
- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.
- Securities purchase-sales results are recorded when performed.
- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.
- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte Ixe

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.
- Income from financial advisory is recorded when accrued as per the contract.
- Securities intermediation results are recorded when performed.
- Income and expenses - are recorded as generated or accrued as per the relative contracts.
- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.
- Permanent stock investments in affiliates – they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the Consolidated Balance Sheet, deducting the total of rents from the potential profit.
- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.



- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:
 - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
 - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.
- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.
- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.
- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Seguros Banorte

Income from premiums – Recognized as follows:

- a. The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.
- b. Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.
- c. The rights on premiums are recognized in the income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractioned in each of the receipts in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.

Sólida Administradora de Portafolios

- a. The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected – the difference between the result and the collected amount affects the account receivable.
- b. Loan interest is recognized as accrued.
- c. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2015 and 2014, this line item was composed as follows:

	2015		2014	
Cash	Ps.	20,171	Ps.	20,188
Banks		87,524		53,422
Other deposits and available funds		153		228
	Ps.	107,848	Ps.	73,838

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 17.2487 and Ps. 14.7414 for 2015 and 2014, respectively, and is made up as follows:

	Mexican pesos		USD		Total	
	2015	2014	2015	2014	2015	2014
Call money	Ps. 10,156	Ps. 5,404	Ps. 8,279	Ps. -	Ps. 18,435	Ps. 5,404
Deposits with foreign credit institutions	-	-	21,836	14,237	21,836	14,237
Domestic banks	297	176	-	-	297	176
Banco de México	46,776	33,452	180	153	46,956	33,605
	Ps. 57,229	Ps. 39,032	Ps. 30,295	Ps. 14,390	Ps. 87,524	Ps. 53,422

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2015 and 2014, the Financial Group had made monetary regulation deposits of Ps. 33,453 and Ps. 33,452, respectively. As of December 31, 2015, the balance with Banco de México is Ps. 13,323 relevant to the deposit auctions.

As of December 31, 2015 and 2014, the total sum of restricted cash and cash equivalents is Ps. 58,332 and Ps. 41,080, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

As of December 31, 2015 and 2014, "Other Deposits and Available Funds" includes:

	2015		2014	
Minted metals in gold and silver	Ps.	28	Ps.	26
Cashable checks received, pending payment at a 3-day term		43		58
Remittances		82		144
	Ps.	153	Ps.	228

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 449.69 and Ps. 272.87, per unit, respectively, in 2015; and Ps. 437.258 and Ps. 257.53, per unit, respectively, in 2014.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2015 and 2014, trading securities are as follows:

	2015			2014		
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value	
CETES	Ps. 1,623	Ps. 3	Ps. -	Ps. 1,626	Ps. 2,656	
Bonds	4,125	13	(1)	4,137	2,360	
Development Bonds	43,827	54	5	43,886	60,891	
Saving Protection Bonds (BPAS)	159,433	440	(23)	159,850	134,213	
Udibonos	1,866	3	(43)	1,826	1,150	
Bank securities	9,066	8	2	9,076	15,699	
Eurobonds	140	1	-	141	165	
Securitization certificates	22,829	27	4	22,860	28,147	
Other securities	54	1	(5)	50	2,779	
Shares	234	-	90	324	379	
Investment funds	1,146	-	23	1,169	537	
	Ps. 244,343	Ps. 550	Ps. 52	Ps. 244,945	Ps. 248,976	

During 2015 and 2014, the Financial Group recognized under "Brokerage revenues" a loss of (Ps. 157) and Ps. 236, respectively, for the fair value valuation of these instruments.

As of December 31, 2015 and 2014, there are Ps. 237,746 and Ps. 235,555, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2015 and 2014, securities available for sale were as follows:

	2015						2014	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value			
US Government Bonds	Ps. 7,656	Ps. 20	Ps. (139)	Ps. 7,537	Ps. 8,342			
CETES	98	-	-	98	181			
Bonds	393	1	(20)	374	990			
Development Bonds	100	-	-	100	99			
Saving Protection Bonds (BPAS)	70,317	932	(70)	71,179	62,194			
Bank securities	931	3	(11)	923	582			
Shares	3,400	-	(1,020)	2,380	-			
Eurobonds	19,135	522	(999)	18,658	19,166			
Investment funds	3,318	-	82	3,400	7,410			
CBIC	-	-	-	-	38			
Securitization certificates	9,016	25	(225)	Ps. 8,816	5,918			
Other securities	-	-	-	-	17			
	Ps. 114,364	Ps. 1,503	Ps. (2,402)	Ps. 113,465	Ps. 104,937			

As of December 31, 2015 and 2014, there are Ps. 80,431 and Ps. 66,663, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

Derived from the restructuring processes and agreements reached with GEO and Homex, the Financial Group received as payment in kind in exchange shares of such companies in an amount equivalent to the unsecured past due loans and net of reserves, thereby lowering the past-due balance to Ps. 1,631.

Such shares were recorded in investments in securities under securities available for sale and will be valued at market values according to the applicable accounting rules. As of December 31, 2015, the shortfall for market value of such shares was Ps 753, recorded in Stockholders' equity in the Valuation Results account for the valuation of Securities available for sale.

As part of the restructuring agreement with GEO, Sólida received shares as payment in kind in exchange of collection rights for Ps. 189. The shares were recorded in Investments in securities under Securities available for sale. The market valuation result rendered a shortfall of Ps. 183 in Stockholders' Equity in the Valuation Results account for the valuation of Securities available for sale.

During the fourth quarter of 2015 a restructuring agreement with Homex was implemented, by which this company acknowledged a debt with Sólida. The latter received shares in payment in kind of exchange in the amount of Ps. 103, generating an income for the same amount recorded in "Other Operating Income (expenses)". Such shares were recorded in the Securities available for sale category.

In December 2015, Sólida acquired GEO shares for Ps. 3,000 and recorded them in Investments in securities in the Securities available for sale category. It later held three sales on December 16, 17, and 23, 2015 for Ps. 692, Ps. 23 and Ps. 5, respectively, reducing the balance to Ps. 2,280. To do this, Sólida received a contribution of capital from the Financial Group for Ps. 1,272 and funding to cover the difference. As of December 31, 2015, a shortfall of Ps. 84 was recorded when valuing such shares at market value, leaving a sum of Ps. 2,196 as an investment in securities available for sale as of December 31, 2015.

As of such date, the credit exposure associated with the housing developers classified as past-due is Ps. 2,107, net of reserves.

c. Securities held to maturity

As of December 31, 2015 and 2014, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2015		2014	
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 912	Ps. -	Ps. 912	Ps. 886
Bonds	1,603	5	1,608	2,129
Development Bonds	200	-	200	399
CETES	57	-	57	-
Saving Protection Bonds (BPAS)	-	-	-	3,298
Udibonos	58,492	86	58,578	49,810
Bank securities	449	164	613	4,168
Eurobonds	212	2	214	191
Securitization certificates	19,323	1,308	20,631	16,201
Other securities	302	0	302	654
	Ps. 81,550	Ps. 1,565	Ps. 83,115	Ps. 77,736

As of December 31, 2015, the maturities of the securities (expressed at their acquisition cost), are as follows:

	One year or less		More than one and up to 5 years		More and 5 and up to 10 years		More than 10 years		Total
	Ps.		Ps.		Ps.		Ps.		
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. -	Ps. -	Ps. 912	Ps. -	Ps. 912	Ps. -	Ps. 912	912
Bonds	298	984	61	260	1,603				1,603
Development Bonds	200	-	-	-	200				200
Saving Protection Bonds (BPAS)	57	-	-	-	57				57
Udibonos	-	-	242	58,250	58,492				58,492
Bank securities	-	-	449	-	449				449
Eurobonds	-	-	182	30	212				212
Securitization certificates	3,890	2,581	703	12,149	19,323				19,323
Other securities	68	60	-	174	302				302
	Ps. 4,513	Ps. 3,625	Ps. 1,637	Ps. 71,775	Ps. 81,550				

As of December 31, 2015 and 2014, there are Ps. 4,398 and Ps. 7,738, respectively, in restricted trading securities associated mainly with repurchasing operations.

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2015 and 2014 is as follows:

Type of collateral	Instrument category	2015		
		Fair value in millions		
		Pesos	USD	Euros
Cash	-	Ps. 470	536	-
PEMEX bonds	Available for sale	96	63	-
		Ps. 566	599	-

Type of collateral	Instrument category	2014		
		Fair value in millions		
		Pesos	USD	Euros
Cash	-	Ps. -	461	-
PEMEX bonds	Available for sale	-	112	-
		Ps. -	573	-

As of December 31, 2015, the Financial Group had no instruments received as collateral. As of December 31, 2014, the instruments received as collateral totaled Ps. 284.

As of December 2015 and 2014, interest income was Ps. 16,698 and Ps. 16,021, respectively.

Concept	2015		2014	
Trading securities	Ps.	12,327	Ps.	11,585
Securities available for sale		3,996		3,285
Securities held to maturity		375		1,151
	Ps.	16,698	Ps.	16,021

e. Impaired securities

The objective evidence that a negotiable instrument is impaired includes observable information on, among others, the following events:

- a) considerable financial difficulties of the instrument's issuer;
- b) the issuer may be declared bankrupt or in some other financial reorganization;
- c) breach of contractual clauses, such as failure to pay interest or the principal;
- d) unavailability of an active market for the instrument in question due to financial difficulties; or
- e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:
 - i. adverse changes in the payment status of the issuers in the group, or
 - ii. local or national economic conditions that are correlated with the groups defaults.

As of December 31, 2015 the amount recorder for the impairment of securities held to maturity was Ps. 37. As of December 31, 2014, the amount recorded for the impairment of securities available for sale and held to maturity was Ps. 12 and Ps. 60, respectively.

During 2015 and 2014, accrued interest income from impaired instruments was Ps. 1 and Ps. 1, respectively.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2015 and 2014, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument	2015		2014	
CETES	Ps.	4	Ps.	1,611
Development Bonds		41,208		58,326
Bonds IPAB		37,507		27,188
Quarterly IPAB bonds		126,942		115,313
Semi-annual IPAB bonds		60,836		56,251
20-year bonds		3,944		887
UDIBONOS		1,761		140
Government securities		272,202		259,716
Promissory Notes		4,961		6,517
CEDES		3,169		3,940
CEBUR Bank		15,032		18,180
Financial Institution Negotiable Instruments		734		-
Bank securities		23,896		28,637
Short-term CEBUR		16,512		18,185
Mortgage certificates		48		64
Certificates of deposit		2,497		
Private securities		19,057		18,249
	Ps.	315,155	Ps.	306,60

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2015 and 2014 for Ps. 11,135 and Ps. 15,513, respectively, which are presented in the "Interest Expenses heading."

During 2015, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 364 days.

Acting as securities purchaser

Instrument	2015					2014				
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference		
Cetes	Ps. 339	Ps. 339	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -		
Development Bonds	23,412	23,256	156	-	14,735	13,865	870	-		
Bonds IPAB	16,617	16,391	226	-	4,461	4,461	-	-		
Quarterly IPAB bonds	22,971	22,871	101	1	15,829	15,829	-	-		
Semi-annual IPAB bonds	13,021	13,021	-	-	117	117	-	-		
Udibonos	500	500	-	-	500	500	-	-		
20-year bonds	3,716	3,716	-	-	-	-	-	-		
Government securities	80,576	80,094	483	1	35,642	34,772	870	-		
CEDES	2,094	2,094	-	-	-	-	-	-		
Bank bonds	1,697	1,697	-	-	1,094	1,094	-	-		
Securitized bank certificates	496	496	-	-	635	635	-	-		
Bank securities	4,287	4,287	-	-	1,729	1,729	-	-		
Short-term CEBUR	5,127	5,117	10	-	7,797	7,950	1	154		
Private securities	5,127	5,117	10	-	7,797	7,950	1	154		
	Ps. 89,990	Ps.89,498	Ps. 493	Ps. 1	Ps.45,168	Ps.44,451	Ps. 871	Ps. 154		

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2015 and 2014 were Ps. 441 and Ps. 5,462, respectively, which are presented in the "Interest Income" Heading.

During 2015, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days

By December 31, 2015, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 147,797 and Ps. 235,143, respectively, and by December 31, 2014, the totals were Ps. 97,855 in guarantees granted and Ps. 142,005 in guarantees received.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2015, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective

As of December 31, 2015 and 2014, the Financial Group's derivatives positions held for trading purposes are as follows

Asset position	2015		2014	
Forwards				
Foreign currency forwards	Ps.	16	Ps.	557
Options				
Interest rate options		495		638
Stock options		301		-
Swaps				
Interest rate swaps		15,734		14,035
Exchange rate swaps		2,522		1,280
Total trading	Ps.	19,068		16,510
Swaps				
Interest rate swaps		27		37
Exchange rate swaps		52		49
Total hedging		79		86
Total position	Ps.	19,147	Ps.	16,596

Liability position	2015		2014	
Forwards				
Foreign currency forwards	Ps.	74	Ps.	420
Options				
Interest rate options		346		467
Swaps				
Interest rate swaps		15,062		13,932
Exchange rate swaps		4,458		2,452
Total trading		19,940		17,271
Swaps				
Interest rate swaps		1,149		1,551
Exchange rate swaps		3,855		2,469
Total hedging		5,004		4,020
Total position	Ps.	24,944	Ps.	21,291

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2015:

Trading instruments

Instrument		MXN		USD		EUR
Foreign currency forwards	Ps.	1,027	Ps.	64	Ps.	-
Interest rate options		23,284		84		-
Foreign currency swaps (receiving leg)		7,229		40		-
Foreign currency swaps (paying leg)		701		957		20
Interest rate swaps (receiving leg)		1,356,660		35,994		-
Interest rate swaps (paying leg)		1,356,660		35,994		-

Hedging instruments

Instrument		MXN		USD		EUR		GBP
Interest rate options	Ps.	1,000	Ps.	-	Ps.	-	Ps.	-
Foreign currency swaps (receiving leg)		868		-		5		-
Foreign currency swaps (paying leg)		-		171		407		106
Interest rate swaps (receiving leg)		40,848		-		-		-
Interest rate swaps (paying leg)		40,848		-		-		-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR		TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
	LIBOR	LIBOR	EURIBOR
			UDI

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 35

Transactions carried out for hedging purposes have maturities from 2016 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2015 is USD 600,000 thousand, and Ps. 566,000 thousand, while as of December 31, 2014 it was USD 573,000 thousand. Futures transactions are made through recognized markets, and as of December 31, 2015 they represent 1% of the nominal amount of all the derivatives' operations contracts; the remaining 99% correspond to option, swap and fx forwards transactions in Over the Counter (OTC) markets.

As of December 31, 2015 and 2014, the collateral was comprised mainly of cash, PEMEX bonds, and short-term government bonds restricted under the categories of trading and securities available for sale. The restriction maturity date for this collateral is from 2016 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2015, the Financial Group's instruments received as collateral totaled Ps. 49; no received collateral was reported as of December 31, 2014.

During 2015 and 2014, the net earnings from the valuation and realization of derivative financial instruments were Ps. 553 and Ps. 1,222, respectively.

The net amount of estimated gains or losses to date originated by transactions or events that are recorded in cumulative other comprehensive income in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 24.

As of December 31, 2015 and 2014, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2015, there are 97 hedge files related to hedging transactions. Their effectiveness ranges between 91% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives, so as of December 31, 2015, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2015, expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years
Forecast Funding	Ps. 358	Ps. 1,204	Ps. 5,198	Ps. 905
Liabilities denominated in USD	-	46	176	-
Assets denominated in USD	150	150	1,426	207
Assets denominated in Euros	5	171	879	1,149
Assets denominated in USD	156	21	882	488
	Ps. 669	Ps. 1,592	Ps. 8,562	Ps. 2,748

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders equity as of December 31, 2015 and 2014 totaled (Ps. 1,398) and (Ps. 762), respectively. Furthermore, Ps. 16 and (Ps. 18), respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 458 and Ps. 897, on December 31, 2015 and 2014, respectively.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, January 1, 2007	Ps. (58)	Ps. -	Ps. -
Balance, December 31, 2007	Ps. (308)	Ps. (250)	Ps. -
Balance, December 31, 2008	Ps. (1,567)	Ps. (1,259)	Ps. 18
Balance, December 31, 2009	Ps. (1,394)	Ps. 173	Ps. 47
Balance, December 31, 2010	Ps. (2,114)	Ps. (720)	Ps. 42
Balance, December 31, 2011	Ps. (2,935)	Ps. (821)	Ps. 15
Balance, December 31, 2012	Ps. (2,785)	Ps. 150	Ps. 75
Balance, December 31, 2013	Ps. (1,541)	Ps. 1,244	Ps. 75
Balance, December 31, 2014	Ps. (1,284)	Ps. 257	Ps. (18)
Balance, December 31, 2015	Ps. (1,398)	Ps. (114)	Ps. 16

In December 2015, the Financial Group received Negotiable Instruments with the option to subscribe GEO shares as part of the restructuring process (see Note 2). These options were recorded as a derivative financial instrument for an amount of Ps. 330. As of December 31, 2015, a (Ps. 29) shortfall on market valuation and was recorded in Trading Results.

9 - LOAN PORTFOLIO

As of December 31, 2015 and 2014, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2015	2014	2015	2014	2015	2014
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 155,249	Ps. 142,418	Ps. 7,183	Ps. 10,549	Ps. 162,432	Ps. 152,967
Rediscounted portfolio	6,336	6,192	661	-	6,997	6,192
Denominated in USD						
Commercial	42,939	39,120	79	100	43,018	39,220
Rediscounted portfolio	3,542	3,459	-	-	3,542	3,459
Total commercial loans	208,066	191,189	7,923	10,649	215,989	201,838
Loans to financial institutions	3,331	3,316	-	1	3,331	3,317
Consumer loans						
Credit card	25,837	23,209	1,511	1,358	27,348	24,567
Other consumer loans	50,884	45,174	1,397	1,012	52,281	46,186
Mortgage loans						
Denominated in domestic currency	98,236	88,228	1,025	1,207	99,261	89,435
Denominated in USD	1,480	1,404	33	33	1,513	1,437
Denominated in UDIS	236	286	14	34	250	320
Government loans	130,118	118,962	-	-	130,118	118,962
	310,122	280,579	3,980	3,645	314,102	284,224
Total loan portfolio	Ps. 518,188	Ps. 471,768	Ps. 11,903	Ps. 14,294	Ps. 530,091	Ps. 486,062

Restructured loans

The restructured loans on December 31, 2015 and 2014 that modified their terms and rates are shown below:

	2015		2014	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 3,559	Ps. 1,402	Ps. 8,497	Ps. 1,044
Financial institutions' loans	5	-	38	9
Government loans	18,585	-	6,668	-
Consumer loans	11	1	10	2
Mortgage loans	21	45	47	38
	Ps. 22,181	Ps. 1,448	Ps. 15,260	Ps. 1,093

As of December 31, 2015, past-due loans showed the following periods of delinquency:

	From 1 to 180 days		From 181 to 365 days		From 366 days to 2 years		More than 2 years		Total
Commercial loans									
Business loans	Ps. 1,158	Ps. 1,113	Ps. 1,737	Ps. 3,915	Ps. 7,923				
Consumer loans	2,808	96	1	3	2,908				
Mortgage loans	594	478	-	-	1,072				
	Ps. 4,560	Ps. 1,687	Ps. 1,738	Ps. 3,918	Ps. 11,903				

As of December 31, 2014, past-due loans showed the following periods of delinquency:

	From 1 to 180 days		From 181 to 365 days		From 366 days to 2 years		More than 2 years		Total
Commercial loans									
Business loans	Ps. 2,157	Ps. 1,597	Ps. 6,403	Ps. 492	Ps. 10,650				
Consumer loans	2,285	79	2	4	2,370				
Mortgage loans	636	637	2	-	1,274				
	Ps. 5,078	Ps. 2,313	Ps. 6,407	Ps. 496	Ps. 14,294				



Past due loan movements for the years ended on December 31, 2015 and 2014 are shown below:

	2015		2014	
Balance at the beginning of the year	Ps.	14,294	Ps.	13,655
Liquidations		(4,484)		(4,894)
Write-offs*		(9,728)		(7,953)
Renewals		(893)		(932)
Loan portfolio purchases		2,064		600
Discounts		(539)		(715)
Foreclosures		(189)		(322)
Loan Portfolio Sales		(1,302)		-
Consumer loans		(3,537)		(5,887)
Mortgage loans		16,184		20,709
Fluctuation from foreign exchange rate		21		33
Fair value IXE		12		-
Year-end balance	Ps.	11,903	Ps.	14,294

* Corresponds to 100% hedged loans.

As of December 31, 2015, the balance of deferred loan origination fees was Ps. 2,094 and the amount recorded in results was Ps. 1,256. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,359, and the amount recorded in results was Ps. 382. As of December 31, 2014, the balance of deferred loan origination fees was Ps. 2,133, and the amount recorded in results was Ps. 2,206. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,085, and the amount recorded in results was Ps. 367. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of Deferred Loans and Advance Collections within the Consolidated Balance Sheets as well as in Interest Income and Interest Expenses, respectively, in the Consolidated Income Statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

During the periods ended on December 31, 2015 and 2014, the balance of written off loans that had been fully reserved as past due was Ps. 9,728 and Ps. 7,953, respectively.

On December 31, 2015 and 2014, revenues from recoveries of previously written-off loan portfolios were Ps. 966 and Ps. 716, respectively.

The loans granted per economic sectors as of December 31, 2015 and 2014, are shown below:

	2015		2014	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 215,989	40.75%	Ps. 201,838	41.53%
Financial institutions	3,331	0.63%	3,317	0.68%
Credit card and consumer	79,629	15.02%	70,753	14.56%
Mortgage	101,024	19.06%	91,192	18.76%
Government loans	130,118	24.55%	118,962	24.47%
	Ps. 530,091	100.00%	Ps. 486,062	100.00%

Special accounting handling of Banco Mercantil del Norte, S.A.'s hurricane "Odile" flooding aid program in 2014.



Given the negative impact of the floods caused by hurricane "Odile", the Financial Group has decided to assist in the economic recovery of the affected regions declared disaster areas in the Official Gazette of the Federation by the Ministry of Government, by implementing various support programs to the debtors, as per the following:

Support for mortgage, car, payroll and small and medium business (crediactivo –PyMEs) loans, consisting of:

- **Mortgage loan.** Facilities to cover up to 3 mortgage loan payments with a personal loan granted for an amount equal to 3 installments, with terms of 36 and 48 months at the client's discretion, at the same rate as the Mortgage Loan and without an opening fee.
- **Car loans.** Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term 7 additional months.
- **Payroll Loans.** Deferral of up to three monthly installments, which are relocated to the end of the loan term thereby extending the original term 7 additional months.
- **Crediactivo.** Clients may defer the payment of 3 monthly installments by formalizing an agreement. These deferred payments are relocated to the end of the loan term without affecting the original term. That is, the customer will have to pay twice the normal monthly installment during the last three months of the loan term.

By virtue of the above, the Commission issued a special accounting standard in document number P110/2014 applicable to the Financial Group from September 19 to 120 days following the disaster date, which authorized the Financial Group not to consider as restructured loans the ones which payment of the principal and interest was deferred for according to the Plan, as per paragraph 56 of criterion B-6, "Loan portfolio" and to keep them in the current loans during such period. These loans were considered as performing loans to determine the allowance for loan losses.

If such special standards had not been authorized, the Financial Group would have presented the following loan amounts in the December 31, 2014 Consolidated Balance Sheet:

PERFORMING LOAN PORTFOLIO

Commercial loans	
Business loans	Ps. 191,187
Financial institutions' loans	3,316
Government loans	118,962
Consumer loans	68,328
Mortgage loans	89,918
TOTAL PERFORMING LOAN PORTFOLIO	471,711

PAST-DUE LOAN PORTFOLIO

Commercial loans	
Business loans	10,651
Financial institutions' loans	1
Consumer loans	2,425
Mortgage loans	1,274
TOTAL PAST-DUE LOAN PORTFOLIO	14,351

LOAN PORTFOLIO	486,062
(Minus) ALLOWANCE FOR LOAN LOSSES	(15,287)
LOAN PORTFOLIO, net	470,775
ACQUIRED COLLECTION RIGHTS	2,984
TOTAL LOAN PORTFOLIO, net	Ps. 473,759

Granting such assistance to the borrowers would not modify the year's results.

The amount of deferred payments derived from such plans by December 31, 2014 is as follows:

	Deferred amount
Commercial loans	Ps. 1
Consumer loans	Ps. 8

Policies and Procedures for Granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

- I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer Banking), primarily through the branch network.
- II. Operations Areas
- III. General Comprehensive Risk Management
- IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

- a) Product design
- b) Promotion
- c) Evaluation
- d) Formalization
- e) Operation
- f) Administration
- g) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission Circular B6, "Loan Portfolio", the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past due portfolios are susceptible to be identified as a distressed portfolio. D and E risk degrees of the commercial loans rating are shown below as distressed portfolio :

	2015	2014
Distressed commercial loans	Ps. 9,196	Ps. 11,306
Performing	1,442	938
Past-due	7,754	10,368
Commercial loans	382,305	350,599
Performing	382,139	350,329
Past-due	166	270
Total rated commercial loans	391,501	361,905
Total portfolio	Ps. 572,237	Ps. 523,922
Distressed commercial loans/total portfolio	1.61%	2.16%

The Financial Group's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2015 and 2014, the Financial Group has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

On June 30, 2010, the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (punto final and UDIS trusts) (the Agreement); consequently as of January 1, 2011, the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015 which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2015, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 912 with maturities between 2017 and 2027.

During 2015, Ps. 3 in support reserves to punto final were recognized.

11 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

Risk category	2015							Total
	Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio		
Risk A1	Ps. 416,795	Ps. 836	Ps. 384	Ps. 168	Ps. 374	Ps. 138	Ps. 1,900	
Risk A2	68,672	316	238	6	383	43	986	
Risk B1	23,515	120	87	1	559	9	776	
Risk B2	22,104	85	32	-	759	18	894	
Risk B3	13,076	242	1	3	358	11	615	
Risk C1	6,882	115	45	1	274	42	477	
Risk C2	5,089	91	-	2	527	68	688	
Risk D	12,409	3,075	-	-	1,590	295	4,960	
Risk E	3,717	882	-	-	1,345	77	2,304	
Unclassified	(22)	-	-	-	-	-	-	
	Ps. 572,237	Ps. 5,762	Ps. 787	Ps. 181	Ps. 6,169	Ps. 701	Ps. 13,600	
Less: Recorded allowance	-	-	-	-	-	-	13,813	
Reserve supplement*							Ps. 213	

Risk category	2014							Total
	Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio		
Exempted portfolio	Ps. 29	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	
Risk A1	375,354	768	487	162	331	108	1,856	
Risk A2	58,211	254	229	7	318	38	846	
Risk B1	23,457	170	40	6	781	11	1,008	
Risk B2	23,162	107	30	11	723	22	893	
Risk B3	13,776	263	13	4	326	8	614	
Risk C1	6,764	165	26	3	239	39	472	
Risk C2	5,326	199	-	1	473	76	749	
Risk D	13,749	3,545	-	-	1,472	328	5,345	
Risk E	4,133	2,028	-	-	1,072	107	3,207	
Unclassified	(39)	-	-	-	-	-	-	
	Ps. 523,922	Ps. 7,499	Ps. 825	Ps. 194	Ps. 5,735	Ps. 737	Ps. 14,990	
Less: recorded allowance	-	-	-	-	-	-	15,287	
Reserve Supplement*							Ps. 297	

* The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau.

As of December 31, 2015 and 2014, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 9,252 and Ps. 5,671, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 32,894 and Ps. 32,189 were also added for loans to related parties.

As of December 31, 2015 and 2014, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2015 and 2014, the allowance for loan losses represents 116% and 107%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2015 and 2014.

Pursuant to the regulation in effect, as of December 31, 2015 the Financial Group rated the commercial (except loans intended for investment projects having their own source of payment), mortgage, revolving and non-revolving consumer loans using the methodologies based on expected losses.

Exposure to Default, Probability of Non-Compliance and Severity of the Loss are shown below for each type of loan as of December 31, 2015.

Type of Loan		Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps.	332,528	6.4%	29.0%
Mortgage		99,511	2.6%	26.4%
Non-revolving consumer		52,150	9.7%	64.2%
Revolving Consumer loan		36,965	10.1%	78.8%

* Loans to financial intermediaries and loan intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2015		2014	
Balance at the beginning of the year	Ps.	15,287	Ps.	14,289
Increase charged to results		10,382		10,933
Discounts and write-offs		(11,911)		(9,811)
Rebates granted to housing debtors		(7)		(8)
Loan portfolio sales		-		(165)
Others		62		49
Year-end balance	Ps.	13,813	Ps.	15,287

As of December 31, 2015, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 10,719 and is presented net of (Ps. 399) paid to Other income (or expense), and due to the variation of the USD \$62 exchange rate, such amounts are affected against results is comprised of Ps. 10,382 credited directly to the estimate. As of December 31, 2014, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 11,196, and is presented net of (Ps. 311) paid to Other income or expenses; due to the variation of the USD \$48 exchange rate, such amounts are affected against results is comprised of Ps. 10,933 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

As of December 31, 2015 and 2014, the acquired collection rights are comprised as follows:

Valuation Method	2015		2014	
Cash basis method	Ps.	824	Ps.	1,889
Cost recovery method		1,336		1,024
Interest method		58		71
	Ps.	2,218	Ps.	2,984

As of December 31, 2014 and 2013, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 641, coupled with the corresponding amortization of Ps. 484, the effects of which were recognized under the "Other income (expense)" heading in the Consolidated Income Statement. For the year ended December 31, 2014, the Financial Group recognized income of Ps. 584, together with the respective amortization of Ps. 406.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 – PREMIUM RECEIVABLES, NET

This item is made up as follows:

	2015		2014	
Liability	Ps.	-	Ps.	155
Maritime and transportation		1		51
Fire		-		1
Automobile		1,229		1,321
Various		1,904		1,427
Accidents and health		565		445
Life		383		323
Pensions		50		505
		4,132		4,228
Federal public administration agencies' indebtedness		282		274
	Ps.	4,414	Ps.	4,502

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2015		2014	
Insurance and annuities	Ps.	1,745	Ps.	1,528
Reinsurers' participation for pending claims		2,692		2,524
Reinsurers' participation for current risk		1,416		1,898
Other participations		21		17
	Ps.	5,874	Ps.	5,967

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2015		2014	
Loans to officers and employees	Ps.	2,440	Ps.	2,683
Debtors from liquidation settlements		5,106		2,623
Debtors from cash collateral		9,733		6,522
Real estate property portfolios		851		1,038
Fiduciary rights*		8,732		9,265
Sundry debtors in Mexican pesos		3,559		3,368
Sundry debtors in foreign currency		1,038		928
Others		368		631
		31,827		27,058
Allowance for doubtful accounts		(283)		(412)
	Ps.	31,544	Ps.	26,646

* The Financial Group has participation in trusts jointly with GEO, URBI Desarrollos Urbanos, S.A.B. de C.V. and Homex. Such trusts were constituted for housing developments construction. Moreover the Financial Group recognizes an income from the trust's return on its participation based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract, as described in Note 4. As of December 31, 2015 and 2014, the Financial Group recorded impairment of Ps. 170 and Ps. 33, respectively, in investment projects.

Loans to officers and employees mature in 3 to 30 years, and accrue an interest rate from 3.55% to 6.5%.

16 - FORECLOSED ASSETS, NET

As of December 31, 2015 and 2014, the foreclosed assets balance is as follows:

	2015		2014	
Moveable property	Ps.	116	Ps.	182
Real estate property		3,593		3,791
Goods pledged for sale		16		24
		3,725		3,997
Allowance for losses on foreclosed assets		(35)		(49)
Allowance for losses on foreclosed real estate assets		(1,425)		(1,205)
Allowance for losses on assets pledged for sale		(6)		(11)
		(1,466)		(1,265)
	Ps.	2,259	Ps.	2,732

As of December 31, 2015, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	12 to 18	18 to 24	More than 24	Total
Moveable property	Ps. -	Ps. -	Ps. 35	Ps. 35

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 38	Ps. 85	Ps. 39	Ps. 50	Ps. 337	Ps. 876	Ps. 1,425
Goods pledged for sale	-	-	-	-	-	6	6
	Ps. 38	Ps. 85	Ps. 39	Ps. 50	Ps. 337	Ps. 882	Ps. 1,431

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2015		2014	
Furniture and equipment	Ps.	12,313	Ps.	10,894
Property intended for offices		8,376		6,931
Installation costs		4,970		5,254
		25,659		23,079
Less - Accumulated depreciation and amortization		(11,122)		(10,234)
	Ps.	14,537	Ps.	12,845

Depreciation recorded in the results of 2015 and 2014 was Ps. 1,372 and Ps. 1,262, respectively.

The average estimated useful lives of the Financial Group's assets subject to depreciation are listed below:

	Useful Life
Furniture and equipment	From 4 to 10 years
Real estate	From 4 to 99 years
Installation costs	10 years

18 - PERMANENT STOCK INVESTMENTS

Investments in associated companies and venturers are valued according to the equity method, as detailed below:

	Share %	2015		2014	
Afore XXI-Banorte, S.A. de C.V.	50%	Ps.	13,160	Ps.	13,318
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%		15		32
Capital I CI-3, S.A.P.I. de C.V.	50%		43		28
Maxcom Telecomunicaciones, S.A.B. de C.V.	8.11%		256		259
Controladora PROSA, S.A. de C.V.	19.73%		73		50
Sociedades de Inversión Ixe Fondos	Various		92		90
Fondo Chiapas, S.A. de C.V.	8.96%		13		15
Others	Various		153		124
		Ps.	13,805	Ps.	13,916

The Financial Group exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of the Afore are directed by both the Financial Group and the Mexican Institute of Social Security [Instituto Mexicano del Seguro Social], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 2,785 and Ps. 2,311 as of December 31, 2015 and 2014, respectively, as detailed below:

	2015		2014	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect
Temporary Differences -_Assets				
Allowance for loan losses	Ps. 3,729	Ps. 1,135	Ps. 3,811	Ps. 1,156
Tax loss carryforwards	5,786	1,736	5,979	1,794
Tax losses in foreclosure sales	270	94	265	93
Tax losses in stock sales	8	2	71	21
Surplus preventive allowances for credit risks over the net tax limit	9,337	2,801	7,803	2,341
Excess of tax over book value of foreclosed and fixed assets	2,960	880	2,893	861
PTU	370	111	372	112
Fees collected in advance	2,937	881	2,813	844
Accounting provisions	3,065	919	2,768	831
Financial instruments valuation	-	-	441	132
Other assets	248	78	619	189
Total assets	Ps. 28,710	Ps. 8,637	Ps. 27,835	Ps. 8,374

	2015		2014	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect
Temporary Differences_- Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 331	Ps. 99	Ps. 8	Ps. 2
Portfolios acquired	1,300	390	1,431	429
Capitalizable projects' expenses	6,478	1,943	4,782	1,435
Provisions	239	72	397	119
Financial instruments valuation	4,671	1,401	-	-
Contributions to pension funds	3,608	1,082	3,640	1,092
Intangible assets	1,645	467	1,631	493
Deferred from the IXE purchase method	906	272	1,012	304
Other	417	126	7,289	2,189
Total Liabilities	19,595	5,852	20,190	6,063
Net Accumulated Asset	Ps. 9,115	Ps. 2,785	Ps. 7,645	Ps. 2,311
Deferred tax, net		Ps. 2,785		Ps. 2,311

As explained in Note 29, for 2015 and 2014 the applicable ISR rate is 30%.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, as of December 31, 2015 and 2014 a net amount of Ps. 137 and 120, respectively, was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

20 - OTHER ASSETS

This item is made up as follows:

	2015		2014
Net asset forecast from labor obligations and savings fund	Ps. 3,653	Ps.	3,674
Payments to amortize	14,634		10,455
Accumulated payment amortization	(1,654)		(1,181)
Goodwill	16,362		15,771
	Ps. 32,995	Ps.	28,719

As of December 31, 2015 and 2014, goodwill is as follows:

	2015		2014
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps.	11,537
INB Financial Corp.	3,746		3,202
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727		727
Uniteller Financial Services	335		286
Generali México Compañía de Seguros, S.A.	17		19
	Ps. 16,362	Ps.	15,771

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2015 and 2014.

21 - DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2015 and 2014, the Financial Group generated a liquidity requirement of USD 381,288 thousand and USD 337,487 thousand, respectively, and held investments in liquid assets of USD 908,846 thousand and USD 820,718 thousand, representing a surplus of USD 433,934 thousand and USD 483,231 thousand, respectively.

Deposits

The liabilities derived from core deposits are made up as follows:

	2015		2014
Demand deposits			
Non-interest bearing checking accounts:			
Cash deposits	Ps. 153,616	Ps.	128,079
Checking accounts in US dollars for individual residents on the Mexican border	1,780		1,241
Demand deposits accounts	20,522		17,713
Interest bearing checking accounts:			
Other bank checking deposit	80,096		70,436
Savings accounts	3		3
Checking accounts in US dollars for individual residents on the Mexican border	1,792		1,457
Demand deposits accounts	91,007		79,923
	348,816		298,852
Time deposits			
General public:			
Fixed-term deposits	24,334		16,625
Retail time deposits	181,148		163,967
Promissory note with interest payable at maturity PRLV primary market for individuals	2,111		4,332
Foreign residents deposits	13		20
Provision for interest	334		276
	207,940		185,220
Money market:			
Over the counter promissory notes	4,603		8,430
Provision for interest	3		14
	4,606		8,444
Senior debt issued	212,546		193,664
	100		5,406
	Ps. 561,462	Ps.	497,922

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

Foreign exchange	2015				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.47%	0.52%	0.54%	0.54%	0.56%	0.60%	0.54%	0.51%
Foreign currency	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.03%	0.02%
Banorte USA (INB)								
Demand deposits accounts	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Money market	0.03%	0.03%	0.02%	0.02%	0.03%	0.03%	0.04%	0.04%

Time deposits:

Foreign exchange	2015				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIS	2.42%	2.56%	2.59%	2.59%	2.80%	2.77%	2.46%	2.44%
Foreign currency	0.51%	0.51%	0.55%	0.53%	0.58%	0.60%	0.62%	0.65%
Money market	3.09%	3.15%	3.24%	3.29%	3.68%	3.58%	3.29%	3.05%
Banorte USA (INB)	0.33%	0.31%	0.27%	0.18%	0.33%	0.34%	0.34%	0.34%

As of December 31, 2015 and 2014, the terms set for these deposits are as follows:

	2015				2014			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public								
Fixed-term deposits	Ps. 22,589	Ps. 1,346	Ps. 399	Ps. 24,334				
Retail time deposits	177,856	3,172	120	181,148				
Promissory note with interest payable at maturity								
PRLV primary market for individuals	1,936	174	1	2,111				
Foreign residents deposits	13	-	-	13				
Provision for interest	304	29	1	334				
	202,698	4,721	521	207,940				
Money market:								
Promissory notes	-	-	4,603	4,603				
Provision for interest	-	-	3	3				
	-	-	4,606	4,606				
Senior debt issued	-	-	100	100				
	Ps. 202,698	Ps. 4,721	Ps. 5,227	Ps. 212,646				
General public:								
Fixed-term deposits	Ps. 15,103	Ps. 1,013	Ps. 509	Ps. 16,625				
Retail time deposits	162,213	1,578	176	163,967				
Promissory note with interest payable at maturity								
PRLV primary market for individuals	3,392	320	620	4,332				
Foreign residents deposits	20	-	-	20				
Provision for interest	239	33	4	276				
	180,967	2,944	1,309	185,220				
Money market:								
Promissory notes	-	-	8,430	8,430				
Provision for interest	-	-	14	14				
	-	-	8,444	8,444				
Senior debt issued	-	-	5,406	5,406				
	Ps. 180,967	Ps. 2,944	Ps. 15,159	Ps. 199,070				

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2015 and 2014 are as follows:

	Mexican pesos				Denominated in USD				Total			
	2015		2014		2015		2014		2015	2014		
Immediately due:												
Domestic banks (Call money)	Ps.	1	Ps.	-	Ps.	-	Ps.	-	Ps.	1	Ps.	-
Short-term:												
Commercial banking		8,925		10,383		101		65		9,026		10,448
Development banking		541		1,373		484		572		1,025		1,945
Public trusts		5,812		7,753		611		930		6,423		8,683
Provision for interest		2		2		5		4		7		6
		15,280		19,511		1,201		1,571		16,481		21,082
Long-term:												
Commercial banking		7,166		4,929		1,725		-		8,891		4,929
Development banking		-		-		2,330		2,017		2,330		2,017
Public trusts		3,057		1,728		273		328		3,330		2,056
		10,223		6,657		4,328		2,345		14,551		9,002
	Ps.	25,504	Ps.	26,168	Ps.	5,529	Ps.	3,916	Ps.	31,033	Ps.	30,084

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2015				2014			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Foreign exchange								
Call money								
Mexican pesos and UDIS	2.87%	2.90%	2.88%	3.14%	3.39%	3.26%	2.99%	2.91%
Other bank loans								
Mexican pesos and UDIS	4.20%	4.03%	4.19%	4.15%	4.77%	4.68%	4.40%	4.19%
Foreign currency	2.03%	2.01%	1.81%	1.88%	1.40%	1.26%	1.71%	1.95%

Banorte USA liabilities accrue interest at an average rate of 0.59% and 0.64% as of December 2015 and 2014, respectively. Moreover, Arrendadora y Factor Banorte's loans accrue an average interest rate of 4.53% and 4.45% in Mexican pesos and 1.60% and 1.82% in U.S. dollars as of December 31, 2015 and 2014, respectively.

23 - TECHNICAL RESERVES

	2015	2014
Current risk:		
Life	Ps. 66,742	Ps. 60,132
Accidents and health	1,405	1,431
Damages	4,110	4,330
	72,257	65,893
Contractual obligations:		
Claims and expirations	3,909	3,528
Unreported claims	1,786	1,601
Dividends on policies	121	119
Insurance funds under management	1	4
Security premiums	213	155
	6,030	5,407
Contingency:		
Catastrophic risk	869	735
Contingencies	1,292	1,157
Special	497	501
	2,658	2,393
	Ps. 80,945	Ps. 73,693

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2015		2014	
Cashier and certified checks and other negotiable instruments	Ps.	2,956	Ps.	1,857
Provision for employee retirement obligations and saving fund		461		519
Provisions for other obligations		6,066		5,778
Deposits under guarantee		515		481
Withholding taxes		1,659		1,623
End of month deposits and collects yet to apply		1,800		1,329
Others		4,001		3,454
	Ps.	17,458	Ps.	15,041

25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method", which considers the benefits accrued at the date of the Consolidated Balance Sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2015 and 2014, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2015							
	Pension plan		Seniority premiums		Medical services		Total	
Projected benefit obligation (PBO)	Ps.	(1,265)	Ps.	(245)	Ps.	(3,439)	Ps.	(4,949)
Fund market value		1,407		354		3,843		5,604
Funded status		142		109		404		655
Unrecognized prior service cost		2		-		183		185
Unrecognized actuarial losses		886		22		1,815		2,723
Net projected asset	Ps.	1,030	Ps.	131	Ps.	2,402	Ps.	3,563

	2014							
	Pension plan		Seniority premiums		Medical services		Total	
Projected benefit obligation (PBO)	Ps.	(1,184)	Ps.	(255)	Ps.	(3,465)	Ps.	(4,904)
Fund market value		1,500		389		3,997		5,886
Funded status		316		134		532		982
Unrecognized prior service cost		-		1		211		212
Unrecognized actuarial losses		724		20		1,702		2,446
Net projected asset	Ps.	1,040	Ps.	155	Ps.	2,445	Ps.	3,640

Moreover, as of December 31, 2015, a separate fund amounting to Ps. 5,604, (Ps. 5,886 in 2014) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

For the years ended December 31, 2015 and 2014, the net periodic pension cost is as follows:

	2015		2014	
Service cost	Ps.	213	Ps.	230
Interest cost		400		354
Expected return on plan assets		(504)		(512)
Amortizations of unrecognized items:				
Profits (actuarial losses)		96		65
Cost of the advance reduction/liquidation of obligations		(165)		-
Plan modifications		11		11
Cost for immediate recognition of P/(G)		17		(26)
Net periodic pension cost	Ps.	68	Ps.	122

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2015 and 2014, are shown below:

Concept	2015 Nominal	2014 Nominal
Discount rate	8.25%	8.00%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	8.75%	8.75%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2015	2014
Defined and projected benefit obligations	Ps. (251)	Ps. (247)
Net projected liability	Ps. (251)	Ps. (247)

For the years ended December 31, 2015 and 2014, the net periodic pension cost is as follows:

Concept	2015	2014
Service cost	Ps. 37	Ps. 33
Interest cost	14	18
Cost / (income) for immediate recognition of P/(G)	(46)	82
Net periodic pension cost	Ps. 5	Ps. 133

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was Ps. 96 in 2015 and Ps. 122 in 2014.

The balance of the employee retirement obligations presented in this Note refers to the Financial Group's Defined Benefit Pension Plan for those employees who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2015 and 2014, equivalent to Ps. 2,290 and Ps. 2,217, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2015 and 2014, the PTU provision was Ps. 374 and Ps. 373, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2015 and 2014, the subordinated debentures in circulation are as follows:

	2015	2014
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	Ps. 3,200	Ps. 3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.	2,750	2,750
Non preferred subordinated nonconvertible debentures BANO28 131021, maturing in October 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity.	3,449	2,948
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,406	2,356
Non preferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	2,070	1,769
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	178	152
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	178	152
Accrued interest	154	141
	Ps. 17,385	Ps. 16,468

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 9 and Ps. 14 in 2015 and 2014, respectively.

27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2015 and 2014, the amount of the loans granted to related parties were as follows:

Institution granting the loan		2015	% over the limit		2014	% over the limit
Banco Mercantil del Norte, S.A.	Ps.	7,552	30.0%	Ps.	3,688	15.5%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

Loan portfolio sales

Sale of loan portfolio packages between related parties (nominal values)

In February 2003 Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,861 was related to past due amounts and Ps. 64 to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, therefore the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. Coupled with the sold loan portfolio, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2015 and 2014:

Type of portfolio	Mexican pesos			Foreign Currency			Total		
	Aug 02	Dec 14	Dec 15	Aug 02	Dec 14	Dec 15	Aug 02	Dec 14	Dec 15
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	22	-	-	-	54	22	22
Total	59	22	22	5	-	-	64	22	22
Past-due loan portfolio									
Commercial	405	251	237	293	111	11	698	362	248
Consumer	81	72	71	-	-	-	81	72	71
Mortgage	1,112	227	214	-	-	-	1,112	227	214
Total	1,598	550	522	293	111	11	1,891	661	533
Total portfolio	1,657	572	544	298	111	11	1,955	683	555
Allowance for loan losses ⁽¹⁾									
Commercial	326	251	236	246	111	11	572	362	247
Consumer	77	72	71	-	-	-	77	72	71
Mortgage	669	238	226	-	-	-	669	238	226
Total allowance for loan loss	1,072	561	533	246	111	11	1,318	672	544
Net portfolio	Ps. 585	Ps. 11	Ps. 11	Ps. 52	Ps. -	Ps. -	Ps. 637	Ps. 11	Ps. 11

⁽¹⁾ Allowances required based on the classification methodology applied in the Financial Group that maintained a 98.83% equity interest in Sólida during 2015 and 2014.

As of December 31, 2015 and 2014, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

	Mexican pesos		Foreign Currency		Total	
	Dec 15	Dec 14	Dec 15	Dec 14	Dec 15	Dec 14
Type of portfolio						
Commercial loans	Ps. 303,835	Ps. 286,398	Ps. 35,435	Ps. 28,387	Ps. 339,270	Ps. 314,785
Consumer loans	49,269	42,321	-	-	49,269	42,321
Mortgage loans	98,493	88,537	-	-	98,493	88,537
Performing loan portfolio	451,597	417,256	35,435	28,387	487,032	445,643
Commercial loans	7,881	10,428	80	196	7,961	10,624
Consumer loans	1,491	1,131	-	-	1,491	1,131
Mortgage loans	1,253	1,480	-	-	1,253	1,480
Past-due loan portfolio	10,625	13,039	80	196	10,705	13,235
Total portfolio	462,222	430,295	35,515	28,583	497,737	458,878
Allowance for loan losses	10,726	12,112	315	360	11,041	12,472
Net portfolio	Ps. 451,496	Ps. 418,183	Ps. 35,200	Ps. 28,223	Ps. 486,696	Ps. 446,406
Allowance for loan losses					103.14%	94.24%
% of past-due portfolio					2.15%	2.88%

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the General Balance Sheet and the Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

	2015					
	Interest		Fees		Total	
	MXP	F.E.	MXP	F.E.	MXP	F.E.
Cash and cash equivalents	Ps. 1,237	Ps. 4	Ps. -	Ps. -	Ps. 1,237	Ps. 4
Margin securities	25	-	-	-	25	-
Investment in securities	16,569	130	-	-	16,569	130
Securities repurchasing and loans	441	-	-	-	441	-
Hedging transactions	2,337	-	-	-	2,337	-
Commercial loans	19,446	627	553	44	19,999	671
Mortgage loans	9,502	120	426	-	9,928	120
Consumer loans	16,945	4	228	5	17,173	9
Others	1,596	-	-	-	1,596	-
	Ps. 68,098	Ps. 885	Ps. 1,207	Ps. 49	Ps. 69,305	Ps. 934

	2014					
	Interest		Fees		Total	
	MXP	F.E.	MXP	F.E.	MXP	F.E.
Cash and cash equivalents	Ps. 1,260	Ps. 5	Ps. -	Ps. -	Ps. 1,260	Ps. 5
Margin securities	28	-	-	-	28	-
Investment in securities	15,874	147	-	-	15,874	147
Securities repurchasing and loans	5,462	-	-	-	5,462	-
Hedging transactions	2,070	-	-	-	2,070	-
Commercial loans	19,128	481	1,634	27	20,762	508
Mortgage loans	8,868	109	362	-	9,230	109
Consumer loans	14,535	5	211	4	14,746	9
Others	2,369	-	-	-	2,369	-
	Ps. 69,594	Ps. 747	Ps. 2,207	Ps. 31	Ps. 71,801	Ps. 778

b. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2015	2014
Banking sector:		
Net income	Ps. 13,518	Ps. 11,936
Stockholders' equity	102,583	94,791
Total portfolio	521,227	477,697
Past-due loan portfolio	11,634	13,912
Allowance for loan losses	(13,334)	(14,718)
Total net assets	917,610	874,908
Brokerage sector:		
Net income	790	931
Stockholders' equity	3,309	2,799
Portfolio balance	724,410	732,713
Total net assets	149,848	102,373
Long term saving sector*		
Net income	5,097	4,443
Stockholders' equity	31,628	30,451
Total net assets	120,194	111,164
Other finance companies sector:		
Net income	496	569
Stockholders' equity	9,563	8,044
Total portfolio**	25,795	25,163
Past-due loan portfolio	269	394
Allowance for loan losses	(478)	(569)
Total net assets	41,096	39,740
Grupo Financiero Banorte (Financial Group)		
Net income	17,093	15,354
Stockholders' equity	133,442	121,191
Total assets	133,445	121,191

* Afore XXI Banorte's results are shown in Banco Mercantil del Norte through the equity participation method. For comparative purposes, Afore XXI Banorte's full net income is included in this section.

** Includes pure leasing portfolio and fixed asset amounting to Ps 28 million registered in property, furniture and equipment (net) for 2015 and Ps. 6 for 2014.

c. The trading results for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Valuation results		
Trading securities	Ps. (154)	Ps. 202
Decrease in securities	(37)	(71)
Derivatives financial instruments	443	881
Total valuation results	252	1,012
Trading results		
Trading securities	717	1,432
Securities available for sale	640	531
Securities held to maturity	(13)	19
Derivatives financial instruments	110	340
Total securities' trading results	1,454	2,322
Spot foreign currency	1,272	1,072
Foreign currency valuation	7	3
Minted metals trading	5	6
Minted metals valuation	1	5
Total foreign currency trading results	1,285	1,086
Total trading results	2,739	3,408
Total trading results	Ps. 2,991	Ps. 4,420



d. The performing loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector	2015		2014	
		%		%
Agriculture	Ps. 6,526	1.3%	Ps. 6,505	1.4%
Commerce	49,442	9.5%	44,046	9.3%
Construction	31,907	6.2%	29,569	6.3%
Manufacturing	31,213	6.0%	27,704	5.9%
Mining	210	0.0%	251	0.1%
Services	7,775	1.5%	14,685	3.1%
Financial and real estate services	38,750	7.5%	31,911	6.8%
Transportation	11,986	2.3%	10,269	2.2%
Government	130,119	25.1%	118,934	25.2%
INB commercial	14,689	2.8%	11,943	2.5%
Mortgage	99,952	19.3%	89,918	19.0%
Credit card	25,838	5.0%	23,209	4.9%
Other consumer loans	50,880	9.8 %	45,168	9.6%
Leasing	9,496	1.8%	8,191	1.7%
Factoring	9,405	1.8%	9,436	2.0%
Government aids	-	0.0%	29	0.0%
	Ps. 518,188	100.0%	Ps. 471,768	100.0%

e. The past-due loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector	2015		2014	
		%		%
Agriculture	201	1.7%	258	1.8%
Commerce	1,503	12.6%	1,930	13.5%
Construction	4,614	38.8%	6,605	46.2%
Manufacturing	615	5.2%	596	4.2%
Mining	9	0.1%	2	0.0%
Services	493	4.1%	680	4.8%
Financial and real estate services	95	0.8%	157	1.1%
Transportation	207	1.7%	229	1.6%
INB commercial	10	0.1%	11	0.1%
Mortgage	1,072	9.0%	1,274	8.9%
Credit card	1,511	12.7%	1,358	9.5%
Other consumer loans	1,398	11.7%	1,012	7.0%
Leasing	99	0.8%	116	0.8%
Factoring	76	0.6%	66	0.5%
	Ps. 11,903	100.0%	Ps. 14,294	100.0%

f. Deposit accounts grouped by product and geographical location are as follows:

Product	2015								Total
	Geographical location								
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Foreign		
Non-interest bearing checking accounts	Ps. 36,065	Ps. 59,325	Ps. 16,214	Ps. 15,730	Ps. 20,488	Ps. 350	Ps. -	Ps. 148,172	
Interest-bearing checking accounts	18,300	57,547	9,403	9,810	21,869	428	-	Ps. 117,357	
Savings accounts	1	1	-	-	-	1	-	Ps. 3	
Current account Ps. and pre-established	8,985	13,881	4,180	4,960	6,027	258	-	Ps. 38,291	
Non-interest bearing demand deposits, USD	4,561	7,098	809	3,855	1,434	526	7,288	Ps. 25,571	
Interest bearing demand deposits, USD	4,914	4,375	687	3,919	739	1	6,384	Ps. 21,019	
Savings accounts in USD	-	-	-	-	-	-	518	Ps. 518	
Retail time deposits	26,130	57,835	12,260	10,548	17,342	337	-	Ps. 124,452	
Time deposits, USD	11,824	6,559	1,403	2,682	712	23	7,981	Ps. 31,184	
Customers Money market	24,268	15,847	4,747	2,748	2,561	21	-	Ps. 50,192	
Financial intermediaries	-	-	-	-	-	4,703	-	Ps. 4,703	
Total deposits	Ps. 135,048	Ps. 222,468	Ps. 49,703	Ps. 54,252	Ps. 71,172	Ps. 6,648	Ps. 22,171	Ps. 561,462	

Product	2014								Total
	Geographical location								
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Foreign		
Non-interest bearing checking accounts	Ps. 31,131	Ps. 53,027	Ps. 13,828	Ps. 14,442	Ps. 17,881	Ps. 290	Ps. -	Ps. 130,599	
Interest-bearing checking accounts	14,394	59,154	8,617	10,156	18,719	334	-	Ps. 111,374	
Savings accounts	2	1	-	-	-	-	-	Ps. 3	
Current account Ps. and pre-established	6,785	10,001	2,954	3,639	4,356	217	-	Ps. 27,952	
Non-interest bearing demand deposits, USD	1,928	3,615	475	2,609	1,083	432	6,002	Ps. 16,144	
Interest bearing demand deposits, USD	3,679	3,558	360	2,409	547	-	6,136	Ps. 16,689	
Savings accounts in USD	-	-	-	-	-	-	430	Ps. 430	
Retail time deposits	22,472	51,352	10,828	9,357	15,430	371	-	Ps. 109,810	
Time deposits, USD	5,858	4,399	1,319	1,731	604	20	8,661	Ps. 22,592	
Customers money market	21,212	15,994	3,424	3,438	3,995	517	-	Ps. 48,580	
Financial intermediaries	-	-	-	-	-	9,326	4,423	Ps. 13,749	
Total deposits	Ps. 107,461	Ps. 201,101	Ps. 41,805	Ps. 47,781	Ps. 62,615	Ps. 11,507	Ps. 25,652	Ps. 497,922	

29 - INCOME TAXES

The Financial Group is subject to Income Tax (ISR).

ISR

Pursuant to the new 2014 ISR Law the rate for 2015 and 2014 was 30% and will continue at the same rate for subsequent years.

As to accounting recording of the concepts included in the 2014 Tax Reform associated with profit tax, the CINIF issued INIF 20 - Accounting Effects of the 2014 Tax Reform, effective as of December 2013.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the profit before ISR and PTU is:

	2015	2014
Legal rate	30%	30%
Tax inflation	(1%)	(2%)
Non-tax accounting write-offs	2%	2%
Other entries	(5%)	(1%)
Effective rate	26%	29%

30 - STOCKHOLDERS' EQUITY

At the Ordinary General Shareholder's Meeting held on October 22, 2014, it was approved to establish an incentive Plan where up to 3% of the representative shares of the Financial Group can be acquire (under market conditions). At first, up to 32 million shares will be purchased over the next 4 years using the Financial Group's available resources, which will be generated mostly by subsidiaries' dividend payments.

The Financial Group's shareholders' common stock as of December 31, 2015 and 2014 is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	2015	2014
"O" Series	2,758,464,252	2,769,343,914

Paid-in Capital	Historical Amounts	
	2015	2014
"O" Series	\$ 9,651	\$ 9,677
Restatement in Mexican pesos through December 2007	4,955	4,955
Total	\$ 14,606	\$ 14,632

As of December 31, 2015 the outstanding shares performed as follows:

Outstanding shares as of January 1, 2015	2,769,343,914
Share repurchase for executive shares' plan payable in equity instruments	(18,297,554)
Liquidation of shares to executives	7,417,892
Outstanding shares as of December 31, 2015	2,758,464,252

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The dividends paid derived from the profits generated as of January 1, 2014 to individuals residing in Mexico and abroad may be subject to additional 10% ISR which will be withheld by the Financial Group.

The following are prior years' results that may be subject to withheld ISR for up to 10% on the paid out dividends:

Year	Amount that may be subject to withholding	Amount not subject to withholding
Profits accumulated up to December 31, 2013	-	Ps. 10,618,800,392
Profit of the year 2014	-	-
Profit of the year 2015	-	-

As of December 31, the stockholders' equity tax account balances are as follows:

	2015	2014
Capital contribution account	Ps. 65,677,022,991	Ps. 24,391,943,796
Net tax profit account at the end of 2013 (CUFIN)	10,618,800,392	6,415,061,870
CUFIN as of 2014	(169,949)	(164,277)
Total	Ps. 76,295,653,434	Ps. 30,806,841,389

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2015, the legal reserve is Ps. 2,933 and represents 20% of paid-in capital.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments". The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

Capitalization Ratio (Banorte)

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2015 sent to Banco de México to review is shown below.

- Banorte's capitalization ratio as of December 31, 2015 was 14.59% of total risk (market, credit and operational), and 20.18% of credit risk, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Net capital as of December 31, 2015

Tier 1 common equity prior to regulatory adjustments.	Ps. 102,473
Goodwill (net of applicable deferred profit taxes)	1,616
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	5,907
Result from valuation of instruments for cash flow hedging	(569)
Benefits on the remainder in securitization transactions	184
Investments in its own shares	110
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Financial Group owns over 10% of the capital stock issued (amount over the 10% threshold)	25,885
National regulatory adjustments	990
Total regulatory adjustments to Tier 1 common equity	34,123
Tier 1 common equity (CET1)	68,348
Additional Tier 1 equity (AT1)	4,469
Tier 1 Equity (T1 = CET1 + AT1)	72,817
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	7,256
Reserves	436
Tier 2 equity (T2 = CET1 + AT1)	7,692
Total capital (TC = T1 + T2)	Ps. 80,509

Assets subject to risk are detailed below:

Assets subject to market risk

Concept	Positions weighted by risk	Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps. 63,912	Ps. 5,113
Floating rate securities' transactions in Mexican pesos	6,196	496
Real interest rate or UDI denominated securities' transactions in Mexican pesos	1,616	129
UDIS or inflation indexed (INPC) securities' transactions	1	-
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	6,797	544
Positions in foreign exchange or exchange rate indexed securities transactions.	2,681	214
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,710	137
Total	Ps. 82,913	Ps. 6,633

Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group I_B (weighted at 20%)	Ps. 115	Ps. 9
Group III (weighted at 20%)	14,836	1,187
Group III (weighted at 50%)	27	2
Group III (weighted at 100%)	10,513	841
Group IV (weighted at 20%)	12,658	1,013
Group V (weighted at 20%)	16,052	1,284
Group V (weighted at 50%)	1,836	147
Group V (weighted at 115%)	1,027	82
Group V (weighted at 150%)	3,664	293
Group VI (weighted at 50%)	20,238	1,619
Group VI (weighted at 75%)	5,981	478
Group VI (weighted at 100%)	96,452	7,716
Group VII_A (weighted at 20%)	4,470	358
Group VII_A (weighted at 50%)	3,081	247
Group VII_A (weighted at 100%)	123,708	8,897
Group VII_A (weighted at 115%)	2,675	214
Group VII_A (weighted at 150%)	169	14
Group VII_B (weighted at 20%)	1,036	83
Group VIII (weighted at 115%)	4,372	350
Group VIII (weighted at 150%)	910	73
Group IX (weighted at 10%)	2,065	165
Group IX (weighted at 50%)	2,297	184
Group IX (weighted at 100%)	24,651	1,972
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,158	93
Securitizations with a Risk Degree of 2 (weighted at 50%)	1,954	156
Securitizations with a Risk Degree of 3 (weighted at 100%)	213	17
Sum	Ps. 356,158	Ps. 27,494
For permanent shares, furniture and real property, and advance payments and deferred charges	25,890	2,071
Total	Ps. 382,048	Ps. 29,565

Assets subject to operational risk

	Risk Weighted Assets	Capital requirement
Total	Ps. 72,342	Ps. 5,787
	Average of market and credit risk of the last 36 months	Average of positive net annual income of the last 36 months
Total	Ps. 34,441	Ps. 40,728

Management

Pursuant to the current regulations and the CNBV's requirements, Banorte is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations the various areas of business in order to determine their consumption.

For more detail, see (Exhibit 1-O), supplementary information to the fourth quarter of 2015, according to the capitalization ratio's information disclosure obligations. Located in the site www.banorte.com/investor-relations.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2015 and 2014, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 17.2487 and Ps. 14.7414 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2015	2014
Assets	7,463,464	7,274,031s
Liabilities	7,090,311	6,859,798
Net asset position in US dollars	373,153	414,233
Net asset position in Mexican pesos	Ps. 6,436	Ps. 6,106

32 - POSITION IN UDIS

As of December 31, 2015 and 2014, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.381175 and Ps. 5.270368, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2015	2014
Assets	524,085	322,562
Liabilities	455,470	455,376
Net asset position in UDIS	68,615	(132,814)
Net asset position in Mexican pesos	Ps. 369	Ps. (700)

33 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2015 and 2014 are shown below:

	2015		2014	
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 17,108	2,762,470,015	Ps. 6.1929	Ps. 5.4924

Net earnings per share diluted for the years ended December 31, 2015 and 2014 are shown below:

	2015		2014	
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 17,108	2,772,382,997	Ps. 6.1708	Ps. 5.4915

	2015		2014	
	Utilidad	Promedio ponderado de acciones	Utilidad por acción	Utilidad por acción
Utilidad neta por acción	\$ 17,108	2,762,470,015	\$ 6.1929	\$ 5.4924



34 - RISK MANAGEMENT (unaudited)

Authorized bodies

For proper Risk management, the Board of Directors established since 1997 the Risk Policy Committee (CPR) to manage the risk that the Holding company is exposed to as well as to monitor the performance of operations and that it sticks to the objectives, policies and procedures for risk management.

In addition, the CPR monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific risk limits for exposure to different types of risk.

The CPR is integrated with proprietary members of the Board, the CEO, the Directors of the entities, Risk Management and Audit, this last one participates with voice but no vote.

For the adequate performance of its objective, the CPR plays, among others, the following functions:

1. Propose for approval by the Board:
 - The objectives, guidelines and policies for overall risk management.
 - The global limits for risk exposure.
 - The mechanisms for the implementation of corrective actions.
 - The cases or special circumstances which may exceed the overall limits as much as the specifics.
2. Approve and review at least once a year:
 - Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
 - The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the holding company is exposed to.
 - The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.
3. Approve:
 - The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
 - The corrective actions proposed by the drive for comprehensive risk management.
 - Manuals for comprehensive risk management.
 - The technical evaluation aspects of risk management.
4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.
5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.
6. Report to the Board on corrective actions taken.

35 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

Risk management at Grupo Financiero Banorte is a key element in determining and implementing Group's strategic planning. The Group's risk management and policies comply with regulations and market best practices.

1. RISK MANAGEMENT'S OBJECTIVES, SCOPE AND FUNCTION

Institution's Risk Management's main objectives are:

- Provide to different business areas, clear rules that contribute to its correct understanding to minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR).
- Establish mechanisms to monitor the risk taking across the Institution through the use of robust systems and processes.
- Verify the observance of the Risk Appetite to protect the Institution's capital against unexpected losses from market movements, credit bankruptcies, and operational risks.
- Implement pricing models for different types of risks.



- Establish procedures for portfolio optimization and credit portfolio management.

Moreover, the Institution owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and expected losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of positions for active, liabilities or causative of contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or hiring others to the Institution in normal conditions, by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to the Institution's performed operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in the Institution establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

1.1. Risk management structure and corporate governance

Regarding the structure and organization for a Comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- Financial Group's Risk Appetite Framework.
- Comprehensive Risk Management framework
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that the Financial Group is exposed to; in order to monitor the performance of operations; and, to comply with objectives, policies and procedures for Risk Management.

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that the Financial Group is exposed to; in order to monitor the performance of operations; and, to comply with objectives, policies and procedures for Risk Management.

The CPR also monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific limits for exposure to different types of risk.

The CPR is integrated with proprietary and alternate members of the Board, the CEO, the Managing Directors of the Financial Group's Entities, the Risk Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee and the Capital and Liquidity Group, analyze, surveys, and make decisions regarding rate's risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management is in charge of the Risk Management department (DGAR) and among its functions helps to identify measure, monitor, limit, control, report and disclose the different types of risk to which the Financial Group is exposed to.

The DGAR reports to CPR, in compliance with the regulation related to its independence from the business areas.

1.2. Scope and nature of the Financial Group's risk management

The function of the Risk Management extends to all subsidiaries comprising the Financial Group. Depending on each of the businesses' lines, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGAR relies on different information and risks' measurement systems, which comply with regulatory standards and are aligned with best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risks systems are constantly backed up following institutional procedures in IT security matters. Furthermore, risks systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, which are processed and subject to different current models and methodologies, thus generating periodical reports for each one of



these risks.

At the Financial Group, there are policies and procedures for hedging, mitigation and compensation strategies for each risk type in and off balance, same that are enclosed in models, methodologies and procedures of Risk Management. Within these policies and procedures, are detailed among others: features, seating, legal issues, instrumentation and coverage level to be considered to mitigate risk while covering. These policies and procedures also consider running guarantees as a risk compensation mechanism whenever there is any not remedied breach by debtors. As part of the strategies and processes for monitoring the coverage or mitigating effectiveness for each type of risk, there are limits for each of them (Credit, Market, Liquidity and Operational Risks), which are monitored continuously, also there are procedures established for the documentation of excesses and its causes, and corrective actions are implemented to return to acceptable risk levels.

2. CREDIT RISK

It is the risk that clients, issuers or counterparts do not fulfill their payment obligations therefore, proper management is essential to maintain the loan quality of the portfolio.

The objectives of Credit Risk Management at the Financial Institution are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support funding placement and follow-up.
- Create economic value for shareholders by efficient Credit Risk Management.
- Define and keep updated the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities set forth regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.
- Measure institution's vulnerability to extreme conditions and consider those results for decisions making.

Financial Institution's Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Alerts methodologies.
- Monitor and control asset quality through Loan Classification System which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies and Credit Risk models that identifies expected and unexpected losses at specific confidence intervals.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties when taking Credit Risks for the institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

2.1. Credit Risk Scope and Methodologies

2.1.1. Individual credit risk

The Financial Institution separates the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

Individual risk for wholesale loans is identified, measured and controlled through Objective Markets, Criteria for Risk Acceptance, Early Alerts and the Institution's Internal Risk Rating (CIR Banorte).

The Objective Markets, Criteria for Risk Acceptance and Early Alerts are tools that, together with the Internal Risk Rating are part of the Institution's Loan Strategy and support the estimated level of Credit Risk.



The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Alerts are a set of criteria based on borrower information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling the institution to take prompt preventive actions to mitigate Credit Risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIS) in Mexican pesos equivalent on the qualification date.

2.1.2. Portfolio credit risk

The Financial Institution developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to work within the context of the Mexican Financial System.

This Credit Risk methodology provides the current value of the entire loan's portfolio at the Institution, that is, the loan exposure, allowing monitoring of the risk concentration levels per risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and take action to improve diversification, which will maximize profitability with the lowest risk.

Estimating loan exposure implies generating cash flow for each and every loan, of both capital and interests, in order to discount them later. This exposure is sensible to changes in the market, thereby facilitating calculations under different economic scenarios.

The methodology, in addition to contemplating loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by the Financial Institution based on the migration of the debtors through different risk rating levels. The recovery ratio is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to loan and market factors on which his "credit health" depends, as determined by statistical techniques.

The results are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the credit portfolio's loss distribution average, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for the institution is 99.5% and expected loss.

The results obtained are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to the Institution's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically verified and updated in order to include the application of new techniques that may support or strengthen them.

2.1.3. Credit risk of financial instruments

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology of evaluating the Credit Risk of the different types of originators / issuers and counterparts. Credit Risk is assigned by means of a rating obtained with an internal methodology, through evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator / issuer or counterpart, rating and type of operation.

Analysis policies includes the type of information and features considered to analyze transactions with financial instruments when presented to the corresponding committee for authorization, including information on the issuer or counterparty, financial instrument, operation's target within the group and market information.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, the UAIR is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the CPR.

Administration policy for transactions with financial instruments includes procedures, Instrumentation, Regulatory Compliance, Reviewing, Consumer Affairs Monitoring, Administration and Accountability Lines of the areas and organs involved in the operation with financial instruments.

On an individual level, the concentration of loan risk with financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the qualification and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit Risk is measured by means of the rating associated with the issuer, security or counterparty which has assigned a risk level based on two fundamentals:

- 1) The probability of nonfulfillment of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of non-fulfillment and vice versa.
- 2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2. Credit Risk Exposure

As of December 31st, 2015 the total amount of the exposure subject to the Standard Method to calculate the Capital Ratio is the following:

Gross Exposures subject to Standard Method	Arrendadora y		Sólida	Banorte Ixe		Total portfolio
	Banorte	Factor		Tarjetas		
Commercial	Ps. 148,001	Ps. 18,764	Ps. 25	Ps. -	Ps. 166,790	
Revenues or Annual sales < 14 MM UDIS	56,901	1,324	-	-	58,224	
Revenues or Annual sales >= 14 MM UDIS	91,100	17,441	25	-	108,566	
Federal States or Municipalities	81,199	805	-	-	82,003	
Decentralized Government Agencies and State-controlled companies	47,368	754	-	-	48,122	
Projects with their Own Source of Payment	35,107	-	-	-	35,107	
Financial institutions	35,309	300	-	-	35,609	
Mortgage	99,511	-	-	-	99,511	
Consumer	50,689	5	2,550	26,253	79,497	
Credit card	1,095	-	-	26,253	27,349	
Non-revolving	49,594	5	2,550	-	52,149	
Total Portfolio subject to Standard Method	Ps. 497,183	Ps. 20,628	Ps. 2,575	Ps. 26,253	Ps. 546,640	
INB						16,344
Eliminations						(32,893)
Total portfolio						Ps. 530,091

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings and Verum. Only ratings issued by rating agencies are considered, they are not assigned based on comparable assets.

2.2.1. Loan portfolio

The Financial Group's Credit Risk loan portfolios as of December 2015 presented an exposure of Ps. 530,091, growing Ps. 44,030 in the year (+9.1%).

Variations per product of the Financial Group's total portfolio are:

Product / Segment	Total portfolio		Var. Vs. 2014	
	2014	2015	\$	%
Government	Ps. 118,962	Ps. 130,118	Ps. 11,156	9.4%
Commercial	119,256	127,435	8,179	6.9%
Corporate	85,899	91,885	5,986	7.0%
Mortgage	91,192	101,024	9,832	10.8%
Payroll	34,889	39,682	4,793	13.7%
Credit card	24,567	27,349	2,781	11.3%
Automobile	11,297	12,598	1,300	11.5%
Total portfolio	Ps. 486,062	Ps. 530,091	Ps. 44,029	9.1%

As of 2015, the Financial Group's performing loans, past due loans and the distressed portfolio, grouped by subsidiary are detailed below:

Subsidiary	Portfolio				Distressed		Total portfolio	Total Reserves
	Performing		Past-due		Performing	Past-due		
Banorte*	Ps. 452,711	Ps. 2,614	Ps. 1,408	Ps. 7,557	Ps. 464,290	Ps. 10,237		
Banorte-Ixe Tarjetas	24,834	1,420	-	-	26,253	2,756		
Arrendadora y Factoraje	20,452	2	1	173	20,628	303		
INB	16,268	43	33	-	16,344	137		
Sólida	2,481	69	-	25	2,575	167		
Accounting records	-	-	-	-	-	212		
Total portfolio	Ps. 516,746	Ps. 4,148	Ps. 1,442	Ps. 7,755	Ps. 530,091	Ps. 13,813		

* Banorte's total portfolio includes eliminations for (Ps. 32,893).

Total reserves Ps. 13,813 include rating reserves for Ps. 13,600 and accounting records (to reserve 100% overdue interests, valuation, negative debts in the credit bureau and registered in recoveries) for Ps. 212.

The Financial Group's performing, past due and distressed portfolios in 2015, grouped by sector and subsidiary are detailed in the two following tables:

Sector	Portfolio		Distressed		Total portfolio	Reserves 2015	Write-offs 4Q15	Days overdue**
	Performing	Past-due	Performing	Past-due				
Government	Ps. 130,119	Ps. -	Ps. -	Ps. -	Ps. 130,119	Ps. 787	Ps. -	Ps. -
Services*	48,484	30	145	582	49,241	847	56	277
Commerce	42,124	51	354	1,411	43,940	1,147	154	322
Construction	35,122	34	52	4,621	39,828	2,372	47	781
Manufacturing	36,925	19	122	656	37,723	700	56	285
5 Major Sectors	292,774	135	672	7,270	300,851	5,853	314	
Other sectors	32,649	23	736	485	33,893	754	32	
Mortgage	99,952	1,072	-	-	101,024	701	296	
Consumer	51,883	1,488	-	-	53,371	3,412	1,433	
Sofom Card	24,834	1,420	-	-	26,253	2,756	256	
INB Commercial	14,656	10	33	-	14,699	124	2	
Accounting records						212		
Total portfolio	Ps. 516,746	Ps. 4,148	Ps. 1,442	Ps. 7,755	Ps. 530,091	Ps. 13,813	Ps. 2,334	

* Includes financial, real estate and other services.

** Days past due from Non-Performing Loans.

Sector / Subsidiary	Banorte*	Banorte-Ixe Tarjetas	AyF	INB	Sólida	Total portfolio
Government	Ps. 128,567	Ps. -	Ps. 1,552	Ps. -	Ps. -	Ps. 130,119
Services**	45,202	-	4,039	-	-	49,241
Commerce	39,403	-	4,537	-	-	43,940
Construction	36,494	-	3,308	-	25	39,828
Manufacturing	31,819	-	5,904	-	-	37,723
5 Major Sectors	Ps. 281,486	Ps. -	Ps. 19,340	Ps. -	Ps. 25	Ps. 300,851
Rest	182,804	26,253	1,289	16,344	2,550	229,240
Total portfolio	Ps. 464,290	Ps. 26,253	Ps. 20,628	Ps. 16,344	Ps. 2,575	Ps. 530,091

* Banorte's total loans include eliminations for (Ps. 32,893).

** Includes Financial and Real estate Services.

As of 2015, the Financial Group's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

State	Loans				Distressed		Total Loans	Total Reserves
	Performing		Past-due		Performing	Past-due		
1 Federal District	Ps. 141,349	Ps. 888	Ps. 747	Ps. 5,101	Ps. 148,085	Ps. 4,857		
2 Nuevo León	86,964	492	107	270	87,833	1,652		
3 Estado de México	39,499	455	80	557	40,591	1,107		
4 Jalisco	28,895	312	47	244	29,498	686		
5 Tamaulipas	17,669	144	23	125	17,961	404		
6 Sinaloa	14,536	116	41	178	14,871	300		
7 Coahuila	13,796	98	21	84	13,999	244		
8 Veracruz	13,616	176	14	100	13,906	424		
9 San Luis Potosí	11,957	64	8	29	12,058	233		
10 Sonora	11,562	82	19	48	11,711	209		
Top 10	Ps. 379,842	Ps. 2,826	Ps. 1,108	Ps. 6,736	Ps. 390,512	Ps. 10,115		
Other Federal Entities	136,904	1,322	334	1,019	139,580	3,485		
Accounting records						212		
Total Loans	Ps. 516,746	Ps. 4,149	Ps. 1,442	Ps. 7,755	Ps. 530,091	Ps. 13,813		

Entity / Subsidiary	Banorte*		Banorte Ixe Tarjetas		AyF	INB	Sólida	Total Loans
	Banorte*							
1 Federal District	Ps. 136,027	Ps. 7,238	Ps. 3,783	Ps. -	1,037	Ps. 148,085		
2 Nuevo León	75,419	3,970	8,347	-	96	87,833		
3 Estado de México	35,326	3,231	1,853	-	180	40,591		
4 Jalisco	26,617	2,082	776	-	24	29,498		
5 Tamaulipas	16,864	856	158	-	84	17,961		
6 Sinaloa	13,834	488	529	-	20	14,871		
7 Coahuila	12,423	687	844	-	45	13,999		
8 Veracruz	12,771	525	427	-	182	13,906		
9 San Luis Potosí	11,306	551	162	-	40	12,058		
10 Sonora	10,809	313	518	-	72	11,711		
Top 10	Ps. 351,395	Ps. 19,941	Ps. 17,396	Ps. -	Ps. 1,780	Ps. 390,512		
Other Federal Entities	112,895	6,313	3,233	16,344	795	139,580		
Total portfolio	Ps. 464,290	Ps. 26,253	Ps. 20,628	Ps. 16,344	Ps. 2,575	Ps. 530,091		

* Banorte's total loans include eliminations for (Ps. 32,893).

As of 2015, the Financial Group's performing, past due and distressed portfolios grouped by remaining term are detailed below:

Remaining Term	Portfolio		Distressed		Total Loans	Reserves Total
	Performing	Past-due	Performing	Past-due		
0 - 1 year	Ps. 55,365	Ps. 215	Ps. 259	Ps. 5,905	Ps. 61,745	Ps. 3,603
1 - 5 years	87,823	478	491	1,469	90,260	2,311
5 - 10 years	89,195	170	65	182	89,612	587
> 10 years	220,328	1,752	593	0	222,673	3,737
Banorte*	Ps. 452,711	Ps. 2,615	Ps. 1,408	Ps. 7,557	Ps. 464,290	Ps. 10,237
Banorte-Ixe Tarjetas	24,834	1,420	0	0	26,253	2,756
INB	16,268	43	33	0	16,344	137
Factoraje	10,911	0	0	76	10,987	164
Arrendadora	9,541	2	1	97	9,641	139
Sólida	2,481	69	0	25	2,575	167
Accounting records						212
Total portfolio	Ps. 516,746	Ps. 4,149	Ps. 1,442	Ps. 7,755	Ps. 530,091	Ps. 13,813

* Banorte's total portfolio include eliminations for (Ps. 32,893).

The total distressed portfolio is Ps. 9,196, below is the 4Q15 balance of loan loss provisions for this book:

Loan Loss Reserves for Impaired Loan Credit Risks	4Q15											
	Banorte		Inter National Bank		Banorte-Ixe Tarjetas		Arrendadora y Factor		Sólida		Total	
Initial Loan Loss Reserves	Ps.	4,647	Ps.	-	Ps.	-	Ps.	135	Ps.	48	Ps.	4,830
Charged to earnings		313		7		-		(6)		3		317
For written off loans		152		-		-		-		-		152
For foreign exchange variations		-		-		-		-		-		-
For credit risk adjustments		161		7		-		(6)		3		164
Payment in kind		(698)		-		-		(13)		(35)		(746)
Write-offs, Cancellations, and Debt forgiveness		(329)		-		-		(17)		-		(346)
Final Loan Loss Reserves	Ps.	3,934	Ps.	7	Ps.	-	Ps.	98	Ps.	15	Ps.	4,054
Loan recoveries	Ps.	40	Ps.	18	Ps.	-	Ps.	-	Ps.	-	Ps.	58

2.2.2. Exposure with financial instruments

As of December 31st, 2015, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 197.54 billion, of which 99.4% is rated higher or similar to A-(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 7% of the Tier 1 Capital as of September 2015. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Net Capital as of September 2015 has similar rating to AAA(mex) and is comprised of (average considered term, amount in billion pesos and rate): market and bond certificates from: Pemex to 6 years and 8 months for Ps 13.99 at 4.8% and Banco Inbursa market certificates for 1 year and 8 months for Ps 6.30 at 3.7%.

For Derivatives operations, the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 3% of the Tier 1 Capital as of September 2015.

The exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte Ixe was Ps 146.19 billion, of which 100.0% is rated higher or similar to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 25% of the Capital as of September 2015. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Capital as of September 2015 has a higher or similar rating to A+(mex) and are comprised of (average considered term, amount in billion/million pesos and rate): market and deposits certificates of Banco Santander Mexicano to 5 months for Ps 2.52 billion at 3.6%; market certificates of Pemex to 2 years and 4 months for Ps 2.45 billion at 3.8%; promissory notes of Banobras to 1 month for Ps 1.97 billion at 3.3%; deposit and market certificates of Bancomer to 1 year and 1 month for Ps 1.60 billion at 3.6%; market certificates of Banco Inbursa to 7 months for Ps 1.33 billion at 3.6%; market certificates of HSBC to 2 years and 11 months for Ps 1.15 billion at 3.8%; market certificates of Banamex to 1 year and 8 months for Ps 905 million at 3.6%; market certificates of Scotiabank Inverlat for 2 years and 3 months for Ps 813 million at 3.7%; bonds of Deutsche Bank to 7 years and 5 months for Ps 507 million at 9.7%; deposit and market certificates of Banco Interacciones to 2 years and 8 months for Ps 290 million at 3.7%; bonds of CABEL to 3 years for Ps 165 million at 3.5%; and market certificates of Banco Monex to 2 years and 7 months for Ps 144 million at 4.5%. There are no operations with derivatives.

Arrendadora y Factor Banorte have no investments in securities. In derivatives, its exposure was Ps. 2 million with private counterparties.

Sólida Administradora de Portafolios had an exposure to securities for Ps 6 million. The 100.0% is distributed in banking instruments. Its exposure to derivatives was Ps 295 million, 100% of them are with private counterparties.

Banorte Ixe Tarjetas had an exposure to securities for a thousand pesos. The 100.0% is distributed in banking instruments. There are no investments in derivatives.

Banorte's exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate of guarantees related to transactions:

Position (at year's end)	2015
Forwards	Ps. (53)
Options	150
Swap Interest Rate (IRS)	(449)
Cross Currency Swap (CCIRS)	(5,364)
Total	Ps. (5,717)
Positive Fair Value (Positive Market Value)	18,852
Netting effect*	24,568
Guaranties Given (-) / Received (+)	Ps. -
Cash	Ps. (8,883)
Securities	10
Total	Ps. (8,873)

* Difference between the positive fair value (not considering the net positions) and the portfolio market value.

Futures for 1.92 are not included as do not represent counterparty risk.

The following table represents the current and potential levels of exposure at the year's end.

Financial Counterparties	Potential Risk	Current Risk
FWD	Ps. 21	Ps. (60)
OPTIONS	552	400
SWAP RATE	6,310	(2,554)
CCS	414	(6,353)
Total	Ps. 7,297	Ps. (8,567)
Clients (Non Financial)		
FWD	13	7
OPTIONS	20	(250)
SWAP RATE	2,430	2,105
CCS	1,002	988
Total	Ps. 3,466	Ps. 2,850

Based on conditions set forth in derivatives agreements, tolerance levels of exposure are considered according to rating of involved entities. The following table lists the amount of guarantees to be delivered, in case of a rating downgrade:

Net Cash Outlays (at year's end)	2015
Cash Outflow with 1-notch Downgrade	Ps. 520
Cash Outflow with 2-notch Downgrade	572
Cash Outflow with 3-notch Downgrade	606

In the following table, the market value is detailed according to the ratings for derivatives' counterparties:

Rating	2015
AAA/AA-	Ps. (191)
A+/A-	(1,319)
BBB+/BBB-	(1,538)
BB+/BB-	(4,054)
B+/B-	(0.1)
CCC/C	-
SC	1,385
Total	Ps. (5,717)

2.3. Credit Guarantee

Guarantees represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Guarantees may be real or personal.

The main types of real guarantees are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Company has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of guarantee at the end of 2015 is as follows:

Guarantee Type	2015									
	Banorte		INB	Banorte-Ixe Tarjetas		Arrendadora y Factor		Sólida	Total*	
	Ps.		Ps.	Ps.		Ps.		Ps.	Ps.	
Total Loan portfolio	497,183		16,344		26,253		20,628		2,575	530,091
Guarantee										
Real Financial Guarantees	11,433		875		-		-		-	12,308
Real Non-Financial Guarantees	272,206		14,410		-		4,677		25	291,318
Pari Passu	23,989		-		-		-		-	23,989
First Losses	22,967		-		-		-		-	22,967
Personal Guarantees	25,034		-		-		5,690		-	30,724
Total Covered Portfolio	355,628		15,285		-		10,367		25	381,305

* Includes eliminations for (Ps. 32,893).

2.4. Expected losses

As of December 31st, 2015, Banco Mercantil del Norte's total portfolio, excluding Banorte-Ixe Tarjetas and INB, was Ps 497.18 billion. The expected loss represents 1.8% and the unexpected loss is 3.1% with respect to the total portfolio. The average expected loss is 1.8% during the period October-December 2015.

Regarding Casa de Bolsa Banorte-Ixe, the credit exposure of investments is Ps 146.20 billion and the expected loss represents 0.01% of the exposure. The average expected loss is 0.01% between October-December 2015.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 23.19 billion. The expected loss represents 0.7% and the unexpected loss is 4.5% of the total portfolio. The average expected loss represents 0.7% during the October-December 2015 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 2.58 billion. The expected loss of the portfolio represents 6.6% and the unexpected loss 10.8%, both with respect to the total portfolio. The average expected loss for the period of October-December 2015 was 7.0%.

The total portfolio of Banorte Ixe Tarjetas is Ps 26.25 billion. The expected loss represents 10.9% and the unexpected loss 9.0% both with regard to the total portfolio. The average expected loss represents 10.7% for the period of October-December 2015.

2.5. Risk diversification

In December 2005, the CNBV issued "General Dispositions Applicable to Credit Institutions regarding to Risk Diversification". These guidelines state that the institutions must carry out an analysis of their borrowers and/or loans to determine the amount of "Common Risk"; also, the institutions must have the necessary information and documentation to prove that the person or group of persons represent common risk in accordance with the assumptions established in those Rules.

In compliance with the risk diversification regulation in asset and liability operations, Banco Mercantil del Norte submits the following information (million pesos):

Tier 1 as of September 30, 2015		Ps. 72,018
I. Financing whose individual amount represents more than 10% of basic capital:		
Loan Operations		
Number of financings		2
Total amount of financings		16,956
% in relation to Tier 1		24%
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 34,322

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Arrendadora y Factor Banorte is provided below (million pesos):

Equity as of September 30, 2015		Ps. 4,153
I. Financing whose individual amount represents more than 10% of equity:		
Loan Operations		
Number of financings		5
Total amount of financings		3,105
% in relation to Equity		75%
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 4,760

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Sólida Administradora de Portafolios is provided below (million pesos):

Equity as of September 30, 2015		Ps. 3,652
I. Financing whose individual amount represents more than 10% of equity (group level):		
Money market /derivatives operations		
Number of financings		1
Total amount of financings		295
% in relation to Equity		8%
Overnight operations		
Number of financings		1
Total amount of financings		97
% in relation to Equity		3%
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 804

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding Banorte-IXE Tarjetas is provided below (million pesos):

Equity as of September 30, 2015		Ps. 5,739
I. Financing whose individual amount represents more than 10% of equity (group level):		
II. Maximum amount of financing with the three largest debtors and common risk groups		
		Ps. 13

3. MARKET RISK

Market Risk Management is managed through a series of fundamental pillars, highlighting the use of models and methodologies such as Value at Risk (VaR), BackTesting and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets.

Risk management is supported by a framework of policies and manuals through which the implementation and follow up on market risk limits, the disclosure of the aforementioned risk metrics and its follow up regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the institution, related to the Market Risk position-taking.

3.1. Exposure to market risk

Exposure of the institution's financial portfolios to Market Risk is quantified using the standard methodology in the industry known as Value at Risk (VaR).

The VaR model considers a one day horizon base, a non-parametric historical simulation with a 99% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives for trading and hedging purposes) classified for accounting purposes as trading and available for sale assets, both on and off the balance sheet.

The average VaR for 4Q15 was Ps. 300 million (Ps. 8 million higher than the average VaR for 3Q15).

The result shows that the Bank's potential loss will be above Ps 300 million in one out of a hundred days.

	4Q14	1Q15	2Q15	3Q15	4Q15
VaR Banorte*	298 ***	354	300	292	300
Banorte net capital**	77,996	78,690	80,450	79,667	80,509
VaR / net capital Banorte	0.38%	0.45%	0.37%	0.37%	0.37%

* Quarterly Average

** Sum of net capital at the end of the quarter

***VaR adjusted by the methodology approved by the CPR in February 2015.

As of the end of the quarter and the average for the quarter, the holding of securities available for sale, included in the VaR, are Ps 60.98 billion and Ps 65.01 billion, respectively.

The average VaR by risk factor for Banorte's portfolio had the following behavior during the fourth quarter of 2015:

Risk factor	1Q15	2Q15	3Q15	4Q15
IPC	4	7	6.7	2.7
Domestic interest rate	97	234	209.7	213.2
Foreign interest rate	112	118	105.0	101.4
Surcharge	-	-	19.7	14.9
FX Rate	212	61	99.3	118.8
Diversification effect	(71)	(119)	(148.3)	(151.2)
Banorte's Total VaR	354	300	292.1	299.8

The proportion by market risk factor excluding the diversification effect is:

Risk factor	1Q15	2Q15	3Q15	4Q15
IPC	0.9%	1.7%	1.5%	0.6%
Domestic interest rate	22.8%	55.7%	47.6%	47.3%
Foreign interest rate	26.4%	28.1%	23.8%	22.5%
Surcharge	0.0%	0.0%	4.5%	3.3%
FX Rate	49.9%	14.5%	22.6%	26.3%

3.2. Sensitivity analysis and tests under extreme conditions (Stress Testing)

Since VaR indicates the potential losses under normal market conditions, Banorte complements its risk analysis by applying tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the institute's positions of extreme movements in risk factors.

3.3. Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Backtesting analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the estimated.

During 2015, there were two surplus events of the forecasted VaR vs. the Actual VaR for the Financial Group's portfolio.

3.4. Value of Risk for Casa de Bolsa (Brokerage House)

The average VaR of the portfolio was Ps. 15 million for the last quarter of 2015.

The result shows that potential loss will be above Ps 15 million in one out of a hundred days.

	1Q15	2Q15	3Q15	4Q15
VaR *	26	19	14	15
Net capital**	2,402	2,362	2,544	2,641
VaR / Net Capital	1.08%	0.79%	0.55%	0.57%

* Quarterly average

** Sum of net capital at the end of the quarter.

The VaR per risk factor is determined by simulating 500 historical scenarios and assessing instruments by their main risk factor. It's important to note that all Casa de Bolsa Banorte-Ixe positions that were taken into account for the analysis were those classified as trading and available for sale, held to maturity positions were excluded.

As of the end of the quarter and the average for the quarter, the holding of securities available for sale, included in the VaR, are Ps 37.61 billion and Ps 34.14 billion, respectively.

Risk factor	1Q15	2Q15	3Q15	4Q15
Domestic interest rate	26	19	13	15
Surcharge	-	-	9	8
Diversification effect	-	-	(8)	(8)
Banorte's Total VaR	26	19	14	15

The proportion by Market Risk factor excluding the diversification effect is:

Risk factor	1Q15	2Q15	3Q15	4Q15
Domestic interest rate	100%	100%	60%	65%
Surcharge	-%	-%	40%	35%

3.5. Sensitivity analysis and tests under extreme conditions (Stress Testing)

Since VaR indicates the potential losses under normal market conditions, Casa de Bolsa Banorte-Ixe complements its risk analysis by applying tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the institute's positions of extreme movements in risk factors.

3.6. Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Backtesting analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the estimated.

4. LIQUIDITY RISK

Financial Institution's Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Liquidity Risk, both supplemented with stress tests and contingency plan that includes corrective measures, as well as the follow-up of the diversification of funding sources.
- Keep the Senior Management properly informed in a timely manner.
- Quantify using different methodologies, exposure to Liquidity Risk.
- Define the maximum risk levels that the institution is willing to maintain.
- Measure Institution vulnerability to extreme market conditions and consider such results for decision making.

Financial Group's liquidity risk policies are:

- Establishment of specific global limits of Liquidity Risk Management.
- Measurement and monitoring of Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to the investment public.

4.1. Liquidity Risk Methodology and Exposure

Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), concentration, funding and stability ratios as well as liquidity stress testing. The latter based on a framework of policies and manuals, including a liquidity contingency plan, and similarly, is enhanced with the follow up on limits and Risk Appetite metrics of Liquidity Risk. The disclosure of metrics and indicators and their compliance with the established limits and the Risk Appetite are reviewed through monthly reports to the CPR, weekly reports to the capital and liquidity management group and quarterly reports to the Board of Directors.

4.2. Profile and Funding Strategy

The composition and evolution of the bank's funding during the quarter is shown in the following table:

Funding Source	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Demand deposits					
Local Currency	Ps. 270,958	Ps. 271,809	Ps. 274,641	Ps. 304,102	12.2%
Foreign Currency	23,439	27,670	34,326	32,918	40.4%
Demand deposits	Ps. 294,397	Ps. 299,479	Ps. 308,967	Ps. 337,019	14.5%
Time Deposits – Retail					
Local Currency ⁽¹⁾	Ps. 114,847	Ps. 120,362	Ps. 122,681	Ps. 126,518	10.2%
Foreign currency	15,428	17,858	21,011	23,215	50.5%
Core Deposits	Ps. 424,672	Ps. 437,700	Ps. 452,659	Ps. 486,752	14.6%
Money market					
Mexican pesos ⁽²⁾	Ps. 63,993	Ps. 59,740	Ps. 62,588	Ps. 54,971	(14.1%)
Foreign currency ⁽²⁾	4,619	4,798	-	-	(100.0%)
Banking Sector Total Deposits	Ps. 493,284	Ps. 502,237	Ps. 515,248	Ps. 541,723	9.8%

¹ Includes eliminations among subsidiaries

² Money Market and Time Deposits

4.3. Liquidity Coverage Ratio

The LCR allows the quantification of Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has the liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding.

The following table shows the average evolution of LCR components in 4Q15.

LCR Components	Bank and Sofomes	
	Unweighted Amount (Average)	Weighted Amount (Average)
COMPUTABLE LIQUID ASSETS		
1 Total Computable Liquid Assets	NA	Ps. 70,347
CASH DISBURSEMENTS		
2 Unsecured retail financing	Ps. 352,486	Ps. 28,317
3 Stable financing	145,231	7,112
4 Less stable financing	210,255	21,026
5 Unsecured wholesale financing	152,721	58,689
6 Operational deposits	85,821	19,557
7 Non-Operational deposits	66,199	35,430
8 Unsecured debt	3,702	3,702
9 Secured wholesale financing	No aplica	17,107
10 Additional requirements:	188,021	25,027
11 Disbursements related to derivatives and other guarantee requirements	17,167	6,698
12 Disbursements related to losses from debt financing	-	-
13 Lines of credit and liquidity	170,854	18,329
14 Other contractual financing obligations	-	-
15 Other contingent financing obligations	807	-
16 TOTAL CASH DISBURSEMENTS	NA	128,960
CASH INFLOW		
17 Cash Inflows for secured operations	Ps. 50,644	Ps. 4,208
18 Cash Inflows for unsecured operations	71,250	58,193
19 Other cash inflows	1,769	1,769
20 TOTAL CASH INFLOW	Ps. 123,635	Ps. 63,717
21 TOTAL COMPUTABLE LIQUID ASSETS	Adjusted amount	
22 TOTAL NET CASH DISBURSEMENTS	NA	Ps. 70,347
23 LIQUIDITY COVERAGE RATIO	NA	Ps. 65,243
		NA 107.77%

During 4Q15 the average LCR for the Bank and Sofomes was 107.78%, and at the end of 4Q15 the LCR was 109.45%, the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. The former results show that Banorte can meet all of its short-term obligations in a crisis scenario.

4.4. Evolution of LCR Components

LCR Component	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Liquid assets	64,672	67,529	68,096	80,576	25%
Cash Inflow*	52,763	75,099	70,220	49,306	(7%)
Cash Outflows*	135,783	146,959	136,736	122,947	(10%)

* See main LCR results.

The Liquid Assets that compute in the LCRs for the Bank and Sofoms during 2015 are distributed as follows:

Type of Asset	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Total	Ps. 64,672	Ps. 67,529	Ps. 68,096	Ps. 80,576	25%
Level I	55,373	60,177	60,986	73,575	33%
Level II	9,299	7,352	7,110	7,001	(25%)
Level II A	9,234	7,310	7,083	6,944	(25%)
Level II B	65	42	27	57	(12%)

¹ The tables show that the Financial Group has not only strengthened its liquid assets position but has accomplished it based on a wealth of better quality assets.

4.5. LCR Results' Main Causes

Given the ongoing activities of Banorte and Sofoms as well as the liquidity management within the institution during 2015, it stands out the increase in Liquid Assets Level I on the funding made by the institution, as well as the implementation of a series of measures for liquidity management.

Additionally, during November 2015, intercompany operations were reclassified, having effect in Cash Inflows and Outflows.

4.6. Liquidity Risk in Foreign Currency

For Liquidity Risk quantification and follow-up, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

4.7. Exposure to Derivatives and possible Margin Calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 2015, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Net cash outflows at market value and for potential exposure	4,068	4,097	4,706	4,047	(1%)
Cash outflows for a 3 notch credit rating downgrade	1,395	659	634	606	(57%)

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 4.65 billion.

4.8. Liquidity Gaps

As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q15 are presented in the following table.

Concept	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Cumulative 30 day Gap	(59,872)	(47,755)	(43,958)	(67,305)	12%
Liquid assets	64,672	67,529	68,096	80,576	25%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets.

4.9. Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte performs tests under extreme liquidity circumstances with internal scenarios to assess the Bank's liquidity adequacy. A total of 9 scenarios, based on 3 sources of risk (systemic, idiosyncratic and combined) with 3 levels of severity (moderate, medium and severe) are used.

4.10. Contingency Funding Plan

For the purpose of having comprehensive liquidity management practices, and to ensure its operation in adverse situations in terms of Liquidity, Banorte has implemented a contingency funding plan, which incorporates elements to identify possible liquidity problems and defines alternate funding sources available to deal with contingencies.

4.11. Interest Rate Risk

The structural risk in the balance sheet or interest rate is managed using tools such as the sensitivity analysis to changes in rates, domestic, foreign and real obtaining the impact thereof on the net interest margin. In the sensitivity analysis, assumptions on deposits, according to a model of stability, are included.

As part of the rate risk mitigation actions, the institution has policies and limits for portfolio hedging fixed rate. The compliance of the above is reported to the CPR on a monthly basis.

In the table below, the effect on net interest income of a movement of 100 basis points over the rates shown.

	1Q15	2Q15	3Q15	4Q15	Var vs. 1Q15
Margin Sensitivity	Ps. 1,128	Ps. 1,147	Ps. 1,201	Ps. 1,323	17.3%

4.12. Subsidiaries

Liquidity Risk Management processes for the Bank and its Sofoms are centralized in GFNorte's Risk Management General Direction (DGAR). To follow-up on Sofoms' liquidity, an analysis of the balance sheet structural behavior is made, as well as to the funding diversification. Furthermore, a maturity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following chart shows the composition of the gap indicators of the Bank's subsidiaries and Sofoms at the end of 4Q15.

Liquidity Ratio	Casa de Bolsa Banorte Ixe	Arrendadora y Factor	Sólida	Banorte-Ixe Tarjetas
Cumulative 30 days Gap	1,250	(2,129)	(3,486)	(3,188)
Liquid assets	1,566	11	111	102

5. OPERATIONAL RISK

The Financial Institution has a formal Operational Risk department headed by the "Deputy Managing Director of Financial and Operational Risk", reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) To allow and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To insure that the existing operational risks and the required controls are duly identified, assessed and in line with the risk strategy established by the organization; and c) To insure that operational risks are duly quantified to make the proper capital allocation per Operational Risk.

5.1. Policies, Objectives and Guidelines

As part of the institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Directorship maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which the proper procedures and controls are established that will mitigate Operating Risk in the processes, and provide follow up through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and follow up of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible directors of each process in order to insure adequate internal control.

5.2. Quantitative and qualitative measuring tools

5.2.1. Operating Losses Database

In order to record operating loss events, the institution owns a system that enables the central information supplier areas to directly record such events online, which are classified by Type of Event in accordance with the following categories:

Internal Fraud: Losses derived from a type of action intended to defraud, unlawfully assets appropriation or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud, unlawfully assets appropriation or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products and Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events: Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures: Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management: Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.



This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution. Moreover, the Database will make it possible in the future to have enough information to calculate the capital requirements as per Advances Models.

5.2.2. Legal and Fiscal Contingencies Database

For the recording and monitoring of legal, administrative and tax issues that may arise from adverse ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of the Financial Institution's legal risk management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to create the necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3. Risk Management Model

The Financial Group and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, operating risk management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if the case, defining tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculating

In accordance with the Capitalization for Operational Risk Regulations in effect, the institution has adopted the Basic Model, which is calculated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processed periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6.0. Technology Risk

At the Financial Group, technology risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV or Technology Risk Management are performed by the Institution under institution regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above cover the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency.

5.7. Legal Risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

6. SECURITIZATIONS EXECUTED BY THE FINANCIAL GROUP

The main objective of the securitization operations carried out by the Financial Group is to transfer risks and benefits of certain financial assets to third parties.

The Financial Group has accomplished the following securitizations:

- On June 21st, 2006, Banco Mercantil del Norte (Banorte) held the irrevocable trust for the issuance of market certificates No. 374, issuer code BNORTCB, whose underlying assets securities were issued abroad by the United Mexican States (UMS), PEMEX, CFE and Bancomext.
- On October 11th, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.
- On December 13th, 2006, Banorte held the irrevocable trust for the issuance of market certificates No. 583, issuer code BNORCB, whose underlying assets are mortgages originated and transferred by Banorte.
- On November 5th, 2007, Banorte held the irrevocable trust for the issuance of market certificates No. 477, issuer code BNTECB, whose underlying assets are loans originated and transferred by Banorte to federal entities, states and municipalities, as well as trusts in which any of such entities act as trustees.

In accordance with criterion C-1 *Recognition and Disposal of Financial Assets*, these assets were written off from the institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The institution is not responsible for assumed or retained risks with respect to trust assets, its sole responsibility is the fulfilment of its obligations in the trust agreement and administration contract.

The institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "unreplaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must be notified and replaced or make the corresponding payment.

Particularly in Trusts 374 and 477 operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

The institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The institution does not participate in securitizations of third party positions.

There are several risk factors for securitizations that may affect trusts. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time it acts as underwriter on each issue, offering bonds to investors. Additionally, the institution also carries out the duties of administrator in each of the trusts.

On the other hand, the Financial Group also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. As of December 31, 2015, the Financial Group had the following position in securities and securitization amounts carried out by the same institution:

Securitization	Banorte		Insurance		Total	
	Securities	Amount	Securities	Amount	Securities	Amount
91_BNORTCB_07	16,796,030	1,368	-	-	16,796,030	1,368
91_BNTECB_07	50,763,776	1,983	500,000	27	51,263,776	2,010
91_BNTECB_07-2	563,059	17	-	-	563,059	17
97_BNORCB_06	4,938,137	52	500,000	5	5,438,137	57
97_BNORCB_06-2	576,011	6	-	-	576,011	6

The following shows the proportion of securities held by Grupo Financiero Banorte, in relation to the total issued for each series:

Securitization	Issued Securities	Banorte	Insurance	Total	Total Clients
91_BNORTCB_07	19,756,030	85.0%	-%	85.0%	15.0%
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	-%	50.6%	49.4%
97_BNORCB_06	19,853,820	24.9%	2.5%	27.4%	72.6%
97_BNORCB_06-2	620,431	92.8%	-%	92.8%	7.2%
97_FCASACB_06U	1,351,386	-%	-%	-%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trusts are as follows:

Securitization	Standard & Poor's		Fitch Ratings		Moody's	
	Local	Global	Local	Global	Local	Global
91_BNORTCB_07			AAA (mex)		Aaa.mx	
91_BNTECB_07					Aa1.mx	Baa2
91_BNTECB_07-2					A3.mx	Ba3
97_BNORCB_06	mxAAA		AAA (mex)		Aaa.mx	A3
97_BNORCB_06-2	mxAA		AA-(mex)			
97_FCASACB_06U	mxAA		A(mex)			

As of December 31, 2015, the amounts of the underlying assets of each securitization were:

Securitization	Amount			Total
	Performing	Past-due		
91_BNORTCB_07*	Ps. 2,410	-	Ps.	2,410
91_BNTECB_07	Ps. 3,103	-	Ps.	3,103
91_BNTECB_07-2				
97_BNORCB_06	Ps. 208	Ps. 104	Ps.	311
97_BNORCB_06-2				
97_FCASACB_06U	Ps. 147	Ps. 146	Ps.	293

There are no impaired assets in any of the securitizations.

Securitization exposure broken down by Credit Risk Weight is shown below:

Concept	Balance	Capital requirement
Securitizations with Risk Level 1 (weighted 20%)	Ps. 1,420	Ps. 23
Securitizations with Risk Level 2 (weighted 50%)	2,000	80
Securitizations with Risk Level 3 (weighted 100%)	6	0
Securitizations with Risk Level 4 (weighted 350%)	0	0
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	0	0

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from basic capital.

The securitizations of Trusts 563, 583 and 477 considers early amortization provisions, while that of Trust 374 does not consider any. The institution has not conducted revolving securitization or re-securitization operations.

There have been no significant changes to the previous quarter's figures.

3.1. Applicable accounting policies

All securitization operations carried out by the institution were recognized as sales in accordance with criterion C-1 *Recognition and Disposal of Financial Assets*. This is because, despite retaining the contractual rights to receive cash flows from financial assets, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets concluded that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

- Eliminate transferred financial assets at the last book value;
- Recognition for the consideration received in the operation;
- Recognition of profit or loss in the income statement, for the difference between the book value of eliminated financial assets, and the sum of (i) compensation received (recognized at fair value) and (ii) the effect (gain or loss) by cumulative valuation recognized in equity.



The BORHIS and GEM Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

- a) BORHIS: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the market certificates, less the monthly administration expenses plus the income from sales of foreclosed properties, if the case.
- b) GEM: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the stock certificates, less expenses for Administration, plus or less the change in the reserve's interests.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trust's Credit Risk. The most important assumptions in the valuation of the certificates are the following:

- a) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
- b) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
- c) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
- d) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
- e) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
- f) Reserve to be rated: the current value of the remaining flows are reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
- g) General account: the current value of the remaining flows are added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
- h) General terms of stock certificates: are estimated to be in accordance with prices published by Valmer.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case,, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof; therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

7. POSITION IN SHARES

At the end of December 2015, Banco Mercantil del Norte held shares amounting to Ps 4.024 billion, with gains of Ps 105 million.

During the fourth quarter, accumulated profits from sales and settlements were Ps 40 million.

For the purpose of calculating the Capital Ratio, only Ps 110 million were deducted for the calculation of the Core Tier 1. For negotiable securities, the capital requirement for Market Risk was Ps 137 million. For Securities available for sale, the capital requirement for Market Risk was Ps 30 million and for Credit Risk Ps 186 million.

Institution	Type of Quotation	Accounting Classification	Capitalization Treatment	Market Value 4Q15	Gain / Losses 4Q15	Accum. Profit / Loss 4Q15
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	Ps. 450	Ps. 15	Ps. (23)
Banorte	sale	w/o public quote	Securities available for sale			
Banorte			Public	Subject to Market and Credit Risk Requirements	3,298	9
Banorte	Public	Public	Securities available for sale			
Banorte	Public	Public	Subject to Market and Credit Risk Requirements	66	(13)	-
Banorte			Securities available for sale			
Banorte	Public	Public	Subject to Core Tier 1 Deduction	110	9	-
Banorte			Securities available for sale			
			Subject to Credit Risk Requirement	100	86	-
Total				Ps.4,024	Ps. 105	Ps. 40

In December 2015, net equity instruments in Casa de Bolsa Banorte - Ixe, amounted to Ps 324 million with a positive valuation of Ps 90 million.

During the quarter, losses were recorded for Ps 1 million from sales and settlements.

For the purpose of calculating the capitalization ratio, investments that are deducted from the Net Capital are not included. For securities available for sale, the capital requirement for Market risk was Ps 98 million.

Institution	Type of Quotation	Accounting Classification	Capitalization Treatment	Market Value 4Q15	Gain / Losses 4Q15	Accum. Profit / Loss 4Q15
Casa de Bolsa Banorte-Ixe	Public	Negotiable Securities	Subject to Market Risk Requirement	Ps. 324	Ps. 90	Ps. (1)
Casa de Bolsa Banorte-Ixe	W/o public quote	Securities available for sale	Subject to Market and Credit Risk requirements	-	-	-
Casa de Bolsa Banorte-Ixe	Public	Securities available for sale	Subject to Market and Credit Risk requirements	-	-	-
Casa de Bolsa Banorte-Ixe	Public	Securities available for sale	Subject to Core Tier 1 Deduction	-	-	-
Casa de Bolsa Banorte-Ixe	Public	Securities available for sale	Subject to Credit Risk Requirement	-	-	-
Total				Ps. 324	Ps. 90	Ps. (1)

36 - MEMORANDUM ACCOUNTS

	2015		2014	
Operations on behalf of third parties				
Banks customers (current accounts)	Ps.	165	Ps.	52
Settlement of customer transactions		45		(21)
Customer securities received in custody		587,734		588,561
Customer repurchase agreements		145,667		98,802
Collateral pledged on account of clients		145,225		97,555
Managed trusts		87,009		76,857
Investment banking transactions on account of third parties, (net)		79,643		90,769
		Ps. 1,045,488		Ps. 952,575
Proprietary transactions				
Contingent assets and liabilities (unaudited)	Ps.	20	Ps.	1
Assets in trust or under mandate (unaudited)		299,148		221,427
Managed assets in custody (unaudited)		438,213		433,473
Credit commitments (unaudited)		160,529		43,023
Collateral received		147,797		97,855
Collateral received and sold or given as a pledge		235,143		142,005
Deposits of assets		3,023		3,346
Interest accrued but not charged of past due loans		482		548
		Ps. 1,284,355		Ps. 941,678

37 - COMMITMENTS

As of December 31, 2015 and 2014, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 160,548 (Ps. 43,024 in 2014), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2015 and 2014, were Ps. 110 and Ps. 111, respectively.

38 - CONTINGENCIES

As of December 31, 2015, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2015, the Financial Group has recorded a reserve for contentious matters of Ps. 627 (Ps. 486 in 2014).

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2015 and 2014, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 2,101 and Ps 1,873, respectively.



40 - NEW ACCOUNTING GUIDELINES

On June 23, 2014, the ruling that modifies the General Provisions Applicable to Banking Institutions was published in the Official Gazette of the Federation on May 19, 2014, and modified by rulings published in the DOF on July 3, 2014, January 9 and February 5, 2015. Such modification became effective as of January 1, 2016. The modifications deal mainly with adjustments about some concepts in Exhibit 33 of the Bank Circular but it will not cause any significant changes in the Financial Group's accounting.

On December 31, 2015, the Official Gazette of the Federation published the specific methodology for rating and calculating the allowance for loan losses for the mortgage portfolio originated and managed by the National Workers' Housing Fund (*Instituto del Fondo Nacional de la Vivienda para los Trabajadores*) to which the collection rights had been partially ceded as well as for the portfolio destined for housing remodeling or improvement originated by the same institutions. They have a guarantee granted by a development banking institution or a public trust constituted by the Federal Government for economic development, as they are loans with special characteristic that enable to distinguish it from the rest of the mortgage loans for the rating and calculation treatment. At the date these financial statements were issued, the Financial Group is in the process of determining the effects of these new rules will have on its financial information.

As of December 31, 2015, the CINIF has enacted the following MFRS that may have an impact on the Financial Group's consolidated financial statements:

a. Effective date: January 1, 2016:

NIF D-3, Employee benefits

Regarding the changes from the reformulation to present in the consolidated financial statements in post-employment benefits, the items pending amortization (PPA) indicated in the repealed NIF D-3 should be treated as follows:

- a) the entire balance of the modifications to the plan (past service) not yet recorded, should be recorded affecting the retained earnings of the oldest period presented;
- b) the accumulated unrecorded Profit or Losses of the Plan (GPP) (for entities that used the broker approach), should be recorded affecting Other Comprehensive Income (ORI) for remedies of the oldest period presented.

The Financial Group choose the option issued by the Commission to record the cited reformulation changes progressively in accounting capital.

Recording the balances indicated in subsections a) and b) of paragraph 81.2 of NIF D-3 calculated with a discount rate of corporate bonds, starts in 2015 recording 20% of the balances of that year and an additional 20% of each of the subsequent years until reaching 100% ,not exceeding a 5 year period.

The balance of modifications to the plan that are not yet recorded will be recorded progressively registering 20% in 2016. It will affect prior years' earnings using as a counterpart "Provision for employee benefits" account that corresponds to the liability "Sundry creditors and other payable accounts."

An annual amount of Ps. 36.5 up to a total balance of Ps. 183 will be recorded. If a discount rate of government bonds had been used, the same amounts would have been recorded as those with corporate interest bonds.

II. In the case of the accumulated balance of profits or losses of the plan pending recording (broker approach) will be registered progressively, recording 20% during 2016, increasing the "Provision for employee benefits" under the liability "Sundry creditors and other payable accounts." "Remedies for benefits defined to employees" under "Earned Capital" will be used as a counterpart.

An annual amount of Ps. 545.8 up to a total balance of Ps. 2,729 will be recorded. If the discount rate of government bonds had been used, an annual amount of Ps. 761.4 up to a total balance of Ps. 3, 807 would be registered.

b. Effective date: January 1, 2018:

NIF C-3, Accounts Payable

NIF C-9, Provisions, contingencies and commitments

Improvements to the NIF 2016 - The following improvements were issued with an effective date as of January 1, 2016 that generate accounting changes:

NIF B-7, Business acquisitions - it clarifies that the acquisition and/or merger of entities under common control, and the acquisition of minority interest or the sale without losing control of the subsidiary are outside the scope of this NIF, regardless of how the consideration amount was determined.



NIF C-7, Investments in associated companies, joint ventures and other permanent investments - it establishes that contributions in kind should be recorded at the fair value that was agreed to among the proprietors or shareholders unless they are the consequence of the capitalization of a debt, in which case, they should be recorded for the capitalized amount.

At the date these financial statements were issued, the Financial Group is in the process of determining the effects of these new rules will have on its financial information.

41 - SUBSEQUENT EVENTS

Banorte

As of the consolidated financial statement opinion issue date, Banorte is waiting for a response to the petition submitted on September 29, 2015, in which it requests the authorization by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) to merge Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R (as the acquired corporation, which ceases to exist) with Banco Mercantil del Norte, S.A. Institución de Banca Múltiple, Grupo Financiero Banorte (as the acquiring corporation and which survives). Such merger will have no effect whatsoever on the figures presented in the consolidated financial statements as it is currently consolidated.

Seguros Banorte

On January 29, 2016, it was received the Commission's authorization to use its own reserve methodologies. Work has been done on the capital requirement calculations with figures of 2015 based on the authorized reserve methodologies. According to the preliminary calculations there is no relevant impact on the Solvency Capital Requirement (RCS). These effects should be reported to the Commission in April.

In January 2016, Seguros Banorte restated the investments that were classified as "Held to Maturity" to "Available for Sale", with a surplus of Ps. 8 in Accounting Capital in the General Balance sheet as of January 31, 2016, pursuant to the provisions in Title 22 (Accounting and Financial Statements) chapter 22.1.2 (of the Accounting Criteria for estimating the assets and liability of the Institutions).

Additionally, the variation in interest of the Long Term Risk Reserve was recorded in Accounting Capital of the General Balance sheet which indicates the following:

The variations presented in the value of Risk Reserves and long term Reinsurance Recoverable Amounts from differences in the interest rates used in their valuation will correspond to losses or unrealized gains, which can be reverted. Therefore they should affect the accounting capital in "Valuation Surplus /Deficit."

Pensiones Banorte

In January 2016, Pensiones Banorte restated the investments that were classified as "Held to Maturity" to "Available for Sale", with a surplus of Ps. 8 in Accounting Capital in the General Balance sheet as of January 31, 2016, pursuant to the provisions in Title 22 (Accounting and Financial Statements) chapter 22.1.2 (of the Accounting Criteria for estimating the assets and liability of the institutions) as established in Circular C-2.

