

**Banco Monex, S.A., Institución de
Banca Múltiple, Monex Grupo
Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero,
S.A. de C.V.)

Consolidated Financial Statements for
the Years Ended December 31, 2015,
2014 and 2013, and Independent
Auditors' Report Dated February 25,
2016

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)**

Independent Auditors' Report and Consolidated Financial Statements for 2015, 2014 and 2013

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Independent Auditors' Report to the Board of Directors and Stockholders of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and Subsidiaries

We have audited the accompanying consolidated financial statements of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission of Mexico (the "Commission") set forth in the "General Provisions Applicable to Credit Institutions" (the "Provisions"), and for such internal controls as the management of the Institution determine is necessary to enable the preparation of consolidated financial statements that are free of 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 International Standards on Auditing. Those standards require that we comply with 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 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 Institution's preparation 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 on the effectiveness of the Institution's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 accompanying consolidated financial statements of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and subsidiaries for the years ended December 31, 2015, 2014 and 2013, have been prepared, in all material respects, in accordance with the accounting criteria set forth in the Provisions.

Other matter

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

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



C.P.A. Ricardo A. García Chagoyán

February 25, 2016

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)

Consolidated Balance Sheets

As of December 2015, 2014 and 2013
(In millions of Mexican pesos)

Assets	2015	2014	2013
Funds available	\$ 15,607	\$ 16,148	\$ 12,416
Margin accounts	379	521	676
Investment in securities:			
Trading securities	16,804	7,421	9,527
Securities available for sale	<u>1,503</u>	<u>17</u>	<u>-</u>
	18,307	7,438	9,527
Repurchase agreements	3,728	3,332	33
Derivatives:	<u>1,400</u>	<u>1,889</u>	<u>540</u>
Held for trading	1,400	1,889	540
Performing loan portfolio:			
Commercial loans -			
Commercial or financial activity	10,898	6,982	2,801
Financial entities loans	1,456	888	527
Government entities loans	<u>-</u>	<u>-</u>	<u>34</u>
	12,354	7,870	3,362
Housing loans	<u>9</u>	<u>161</u>	<u>948</u>
Total performing loan portfolio	12,363	8,031	4,310
Non-performing loan portfolio:			
Commercial loans -			
Commercial or financial activity	96	3	23
Housing loans	<u>12</u>	<u>6</u>	<u>1</u>
Total non-performing portfolio	<u>108</u>	<u>9</u>	<u>24</u>
Total loan portfolio	12,471	8,040	4,334
Allowance for loan losses	<u>(176)</u>	<u>(112)</u>	<u>(64)</u>
Loan portfolio (net)	12,295	7,928	4,270
Other receivables (net)	13,580	12,197	9,934
Foreclosed assets (net)	1	1	2
Furniture and fixtures (net)	83	86	80
Investments in equity	5	4	13
Long-lived assets held for sale	-	38	-
Deferred taxes and PTU (net)	112	6	41
Other assets:			
Goodwill	986	862	784
Deferred charges, advance payments and intangibles (net)	1,204	1,049	1,121
Short and long-term other assets	<u>11</u>	<u>6</u>	<u>20</u>
	2,201	1,917	1,925
Total assets	<u>\$ 67,698</u>	<u>\$ 51,505</u>	<u>\$ 39,457</u>

Liabilities	2015	2014	2013
Deposits:			
Demand deposits	\$ 8,498	\$ 7,985	\$ 6,410
Time deposits-			
General public	4,984	5,483	3,994
Money market	4,182	936	1,046
Debt securities	<u>1,084</u>	<u>156</u>	<u>370</u>
	18,748	14,560	11,820
Bank and other loans:			
Demand loans	-	200	-
Short-term loans	<u>880</u>	<u>592</u>	<u>473</u>
	880	792	473
Liabilities arising from sale and repurchase agreements	15,577	6,643	6,229
Collateral sold or pledged in guarantee:			
Repurchase	440	-	1
Derivatives:	<u>1,055</u>	<u>1,380</u>	<u>635</u>
Held for trading	1,055	1,380	635
Other payables:			
Income taxes payable	125	35	-
Employee profit sharing payable	89	46	36
Obligations arising from settlement of transactions	20,982	20,362	13,822
Liabilities arising from cash collateral received	1,550	1,288	495
Sundry creditors and other payables	<u>1,443</u>	<u>1,194</u>	<u>1,662</u>
	24,189	22,925	16,015
Deferred charges and income received in advance	<u>112</u>	<u>86</u>	<u>38</u>
Total liabilities	61,001	46,386	35,211

Stockholders' equity

Capital contributed:			
Capital stock	2,125	1,525	1,525
Additional paid-in capital	<u>616</u>	<u>200</u>	<u>-</u>
	2,741	1,725	1,525
Earned capital:			
Capital reserves	413	367	313
Retained earnings	1,691	1,677	1,202
Result from valuation of securities available for sale, net	(13)	-	-
Translation effects of foreign operations	354	173	37
Net income	<u>562</u>	<u>460</u>	<u>542</u>
	3,007	2,677	2,094
Non-controlling interest	<u>949</u>	<u>717</u>	<u>627</u>
Total stockholders' equity	<u>6,697</u>	<u>5,119</u>	<u>4,246</u>
Total liabilities and stockholders' equity	<u>\$ 67,698</u>	<u>\$ 51,505</u>	<u>\$ 39,457</u>

Memorandum accounts (See Note 27)

	2015	2014	2013
Loan commitments	\$ 8,361	\$ 3,407	\$ 2,647
Goods in trust or mandate -			
Held in trusts	78,600	68,528	55,859
Collateral received by the Institution	7,661	3,845	392
Collateral received and sold or pledged as guarantee by the Institution	4,375	518	358
Uncollected interest earned on non-performing loan portfolio	6	1	7
Other record accounts	<u>3,106</u>	<u>2,707</u>	<u>2,435</u>
	<u>\$ 102,109</u>	<u>\$ 79,006</u>	<u>\$ 61,698</u>

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries**
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)

Consolidated Statements of Income

For the years ended December 31, 2015, 2014 and 2013

(In millions of Mexican pesos)

	2015	2014	2013
Interest income	\$ 1,374	\$ 970	\$ 1,076
Interest expense	<u>(758)</u>	<u>(590)</u>	<u>(619)</u>
Financial margin	616	380	457
Provision for loan losses	<u>(60)</u>	<u>(48)</u>	<u>(38)</u>
Financial margin after provision for loan losses	556	332	419
Commission and fee income	209	217	187
Commission and fee expense	(144)	(165)	(195)
Gains/losses on financial assets and liabilities (net)	3,797	3,244	3,108
Other operating income (expenses)	178	149	(4)
Administrative and promotional expense	<u>(3,657)</u>	<u>(3,036)</u>	<u>(2,725)</u>
Operation result	939	741	790
Equity in income of unconsolidated associate companies	<u>1</u>	<u>-</u>	<u>-</u>
Income before income taxes	940	741	790
Current income taxes	(353)	(197)	(185)
Deferred income taxes (net)	<u>83</u>	<u>(23)</u>	<u>(15)</u>
Consolidated net income	<u>\$ 670</u>	<u>\$ 521</u>	<u>\$ 590</u>
Non-controlling interest	<u>\$ (108)</u>	<u>\$ (61)</u>	<u>\$ (48)</u>
Controlling interest	<u>\$ 562</u>	<u>\$ 460</u>	<u>\$ 542</u>

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Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2015, 2014 and 2013

(In millions of Mexican pesos)

	Capital contributed		Earned capital				Net income	Non-controlling interest	Total stockholders' equity
	Capital Stock	Additional paid-in capital	Capital reserves	Retained earnings	Result from valuation of securities available for sale	Translation effects of foreign operations			
Balances at December 31, 2012	\$ 1,525	\$ -	\$ 229	\$ 1,007	\$ -	\$ 9	\$ 841	\$ 560	\$ 4,171
Entries approved by stockholders -									
Capital reserve	-	-	84	(84)	-	-	-	-	-
Transfer of prior year results	-	-	-	841	-	-	(841)	-	-
Dividends paid	-	-	-	(427)	-	-	-	-	(427)
Total entries approved by stockholders	-	-	84	330	-	-	(841)	-	(427)
Comprehensive income-									
Net income	-	-	-	-	-	-	542	48	590
Cumulative effect from conversion of foreign subsidiaries	-	-	-	-	-	28	-	19	47
Adjustment for adoption of new methodology of commercial portfolio rating	-	-	-	(135)	-	-	-	-	(135)
Total comprehensive income	-	-	-	(135)	-	28	542	67	502
Balances as of December 31, 2013	1,525	-	313	1,202	-	37	542	627	4,246
Entries approved by stockholders -									
Capital reserve	-	-	54	(54)	-	-	-	-	-
Transfer of prior year results	-	-	-	542	-	-	(542)	-	-
Contributions for future capital increase, formalized by governing bodies	-	200	-	-	-	-	-	-	200
Total entries approved by stockholders	-	200	54	488	-	-	(542)	-	200
Comprehensive income -									
Net income	-	-	-	-	-	-	460	61	521
Cumulative effect from conversion of foreign subsidiaries	-	-	-	-	-	136	-	41	177
Other adjustments	-	-	-	(13)	-	-	-	(12)	(25)
Total comprehensive income	-	-	-	(13)	-	136	460	90	673
Balances as of December 31, 2014	1,525	200	367	1,677	-	173	460	717	5,119
Entries approved by stockholders -									
Capital reserve	-	-	46	(46)	-	-	-	-	-
Transfer of prior year results	-	-	-	460	-	-	(460)	-	-
Dividends paid	-	-	-	(400)	-	-	-	-	(400)
Contributions for future capital increase, formalized by governing bodies	-	616	-	-	-	-	-	-	616
Subscription of shares	600	(200)	-	-	-	-	-	-	400
Reduction of non-controlling interest in Monex Europe through capital reduction	-	-	-	-	-	-	-	(122)	(122)
Sale to non-controlling interest in Tempus	-	-	-	-	-	-	-	121	121
Total entries approved by stockholders	600	416	46	14	-	-	(460)	(1)	615
Comprehensive income -									
Net income	-	-	-	-	-	-	562	109	671
Result from valuation of securities available for sale, net	-	-	-	-	(13)	-	-	-	(13)
Cumulative effect from conversion of foreign subsidiaries	-	-	-	-	-	181	-	124	305
Total comprehensive income	-	-	-	-	(13)	181	562	233	963
Balances as of December 31, 2015	<u>\$ 2,125</u>	<u>\$ 616</u>	<u>\$ 413</u>	<u>\$ 1,691</u>	<u>\$ (13)</u>	<u>\$ 354</u>	<u>\$ 562</u>	<u>\$ 949</u>	<u>\$ 6,697</u>

The accompanying notes are part of these consolidated financial statements.

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Consolidated Statements of Cash Flows

For the years ended December 31, 2015, 2014 and 2013

(In millions of Mexican pesos)

	2015	2014	2013
Net income	\$ 670	\$ 521	\$ 590
Adjustment for items that do not require cash flows:			
Depreciation and amortization	63	70	51
Current and deferred income taxes	270	220	200
Others	3	-	-
	<u>1,006</u>	<u>811</u>	<u>841</u>
Operating activities:			
Change in margin accounts	142	155	(232)
Change in investments in securities, net	(10,888)	2,088	924
Change in repurchase agreements, net	8,538	(2,885)	(2,113)
Change in derivatives, net	164	(605)	116
Change in loan portfolio, net	(4,367)	(3,657)	223
Change in other operating assets, net	(1,848)	(2,311)	1,161
Change in deposits	4,186	2,739	4,776
Change in bank and other loans	88	319	(2,675)
Change in collateral sold or pledged in guarantee	440	-	-
Change in other operating liabilities	<u>911</u>	<u>6,762</u>	<u>(4,630)</u>
Net cash flows from operating activities	(2,634)	2,605	(2,450)
Investing activities:			
Proceeds from sale of furniture and fixtures	11	3	1
Investment in shares	-	9	-
Purchase of furniture and fixtures	(45)	-	-
Proceeds from disposal of long-lived assets held for sale	(32)	(41)	(40)
Payments for acquisition of intangible assets	<u>(22)</u>	<u>(32)</u>	<u>(16)</u>
Net cash flows from investing activities	2	(61)	(55)
Financing activities:			
Proceed for issuance of shares	400	-	-
Dividends paid	(400)	-	(427)
Contributions for future capital increases	616	200	-
Proceeds from disposal of non-controlling interest in subsidiary (Tempus)	<u>164</u>	<u>-</u>	<u>-</u>
Net cash flows from financing activities	<u>780</u>	<u>200</u>	<u>(427)</u>
Net (decrease) increase in funds available	(846)	3,555	(2,091)
Effects from changes in value of funds available	305	177	47
Funds available at the beginning of the year	<u>16,148</u>	<u>12,416</u>	<u>14,460</u>
Funds available at the end of the year	<u>\$ 15,607</u>	<u>\$ 16,148</u>	<u>\$ 12,416</u>

The accompanying notes are part of these consolidated financial statements.

**Banco Monex, S.A., Institución de Banca Múltiple,
Monex Grupo Financiero and Subsidiaries
(Subsidiary of Monex Grupo Financiero, S.A. de C.V.)**

Notes to Consolidated Financial Statements

**For the years ended December 31, 2015, 2014 and 2013
(In millions of Mexican pesos)**

1. Activities, regulatory environment and significant events

Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero (hereinafter, the “Institution”) is a subsidiary of Monex Grupo Financiero, S.A. de C.V. (hereinafter the “Financial Group”) which holds 99.99% of its stockholders’ equity. The Institution is regulated by, among others, the Law of Credit Institutions, the National Banking and Securities Commission (the “Commission”) and Banco de México (“Central Bank”). Its purpose is to perform full-service banking operations including, granting loans, performing securities transactions, receiving deposits, accepting loans, performing currency purchase-sale transactions and executing trust contracts.

The Treasury Department (SHCP) issued minimum capital requirements for credit institutions, which establish a minimum capital ratio for market, credit and operational risks incurred by financial institutions. Also, financial authorities imposed limits on liabilities, demand deposits in foreign currency as well as charges to paid-in capital and capital reserves. This information is presented in Note 24. As of December 31, 2015, 2014 and 2013, the Institution determined a capital ratio of 16.62%, 15.95% and 18.45%, respectively, which includes the total of market, credit and operational risk, which exceeds the 8% required by the authorities by 8.62%, 7.95% and 10.45%, respectively.

The main macroeconomic indicators underwent certain changes in 2015. During that year, cumulative inflation was 2.13%, as compared with 4.08% in 2014; Gross Domestic Product (“GDP”), which was expected to increase by between 1.9% and 2.4% over 2014, increased by 1.1%. Similarly, worldwide conditions including the fall of international oil prices and other economic factors adversely affected the exchange rate, thus resulting in the significant depreciation of the Mexican peso versus the US dollar. The exchange rate of \$14.74 pesos for one US dollar at the December 2014 decreased to \$17.24 at December 31, 2015 for a total depreciation of approximately 17%.

Significant events in 2015, 2014 and 2013-

a. Sale of shares of Tempus -

On October 30, 2015, Monex Negocios Internacionales, S.A. de C.V. (a subsidiary of the Institution) executed a share purchase-sale contract to transfer 17% of the total shares of its subsidiary, Tempus Inc. (“Tempus”) to Holding Monex (a related party of the Institution). The transaction was carried out at market prices based on a study prepared by an independent consultant. This transaction was authorized by the Commission through Document No. 312-3/14049/2015.

b. Issuance of securitization certificates -

The Institution made its first public offering of securitization certificates under the ticker symbol “BMONEX15”, which were registered with the National Securities Registry and listed with the Mexican Stock Exchange under the program created for long-term revolving securitization certificates for an amount of up to \$8,000.

The first issuance took place on July 14, 2015 for the amount of \$1,000, which is represented by 10 million securitization certificates with a face value of 100 pesos each. The issuance was authorized by the Commission through Document No. 153/5535/2015. The securitization certificates were issued for a period of 1,092 days, which is equal to three years, and placed at the TIIE 28-day rate + 90 basis points.

c. *Sale of subsidiary Monex Servicios-*

On October 15, 2014, the Institution signed a share purchase and transfer contract to transfer 100% of the shares of Monex Servicios, S.A. de C.V., which was subject to the regulatory authorization as of December 31, 2014. This transaction was authorized by the Commission through Document No. 312-3/13774/2015 dated as of March 27, 2015, on which date the sale became effective for legal, accounting and tax purposes.

d. *Sale of the credit portfolio to AdmiMonex-*

Through the transfer agreement dated December 23, 2013, the Institution sold its entire loan portfolio due from housing constructors to AdmiMonex, S.A de C.V., (AdmiMonex) (related party) for the amount of \$31. At the transaction date, the gross value of the transferred loans was \$215, for which the Institution recognized an allowance for loan losses of \$184. AdmiMonex paid the agreed sales price at the contract execution date. The price was determined based on market values.

The transaction was authorized by the Board of Directors of the Institution and reported to the Central Bank in accordance with the provisions of Circular 15/2012.

e. *Tax reforms-*

On November 1, 2013, Mexican Congress approved a series of tax reforms which were effective starting January 1, 2014. These reforms include amendments to the Income Tax Law, Value Added Tax Law and Federal Tax Code. They also resulted in the elimination of the Business Flat Tax Law and Cash Deposit Tax Law. The main effects of these tax reforms are detailed in Note 22.

2. **Basis of presentation**

Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting criteria prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

Monetary unit of the financial statements - The financial statements and notes as of December 31, 2015, 2014 and 2013 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

Consolidation of financial statements - The consolidated financial statements include the financial statements of the Institution and those of its subsidiaries over which it exercises control. The shareholding percentage in their capital stock of such entities is shown below:

Company	Percentage			Activity
	2015	2014	2013	
1. Monex Servicios, S.A. de C.V. (Monex Servicios)	-	99.99%	99.99%	Provides supplemental and ancillary services to the Institution as per Article 88 of the Law for Credit Institutions. Monex Servicios is currently sub-leases to the Institution the premises and fixed assets of the 60 branches. (1)
2. Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios)	99.99%	99.99%	99.99%	Parent Company of Tempus and Monex Europe Holdings LTD.
2.1 Tempus Inc. (Tempus)	83.00%	100%	100.00%	Indirect subsidiary of the Institution. Entity located in Washington D.C., USA, whose purpose is the purchase and sale of currencies. Its customers are mainly located in the United States.
2.1.1 Tempus Nevada, Inc.	100%	100%	100.00%	Entity founded in 2010 in the state of Delaware in the United States.
2.1.2 Monex Canada, Inc.	100%	100%	-	Entity founded in Toronto, Canada. Currently without operations.
2.2 Monex Europe Holdings Limited (Monex Europe LTD)	50.10%	50.10%	50.10%	Parent company of Monex Europe and Schneider Fx, entities located in the United Kingdom.
2.2.1 Monex Europe (Monex Europe)	100%	100%	100.00%	Indirect subsidiary of the Institution. Entity is dedicated to foreign trading in the European market.
2.2.2 Schneider Foreign Exchange Limited (Schneider FX)	100%	100%	100.00%	Indirect subsidiary of the Institution. Entity without operations.

Significant intercompany balances and transactions have been eliminated.

- (1) Pursuant to the event discussed in Note 1, subsection c), as of November 2014 until April 2015, the Institution recognizes its interest in Monex Servicios based on the equity method.

Other the permanent investments in the entities in which the shareholding exceeds 50% are consolidated in these financial statements because control is deemed to exist. The investment is classified in the balance sheet in long lived assets available for sale.

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

- 1) The closing exchange rate in effect at the balance sheet date for assets and liabilities;
- 2) Historical exchange rates for stockholders' equity, and
- 3) The rate on the date of accrual of revenues, costs and expenses and translation
- 4) Effects are recorded in stockholders' equity

At December 31, 2015, 2014 and 2013, the exchange rates used in the different translation processes are as follows:

Company	Currency	Exchange rate to translate Mexican pesos		
		2015	2014	2013
Tempus, Inc. (Consolidated)	U.S. dollar	17.2487	14.7414	13.0843
Monex Europe LTD. (Consolidated)	Pound sterling	25.4366	22.9847	21.6689

The Institution's functional currency is the Mexican peso. Investments in foreign subsidiaries, whose functional currencies are other than the Mexican peso, expose the Institution to foreign currency translation risk. In addition, the Institution has monetary assets and liabilities denominated in foreign currencies, mainly in U.S. dollars, Pounds sterling and Euros; resulting in exposure to foreign exchange risks arising from transactions entered into over the normal course of business. (Refer to discussion of comprehensive risk management in Note 31 for further details).

3. Summary of significant accounting policies

The significant accounting policies applied by the Institution comply with the accounting criteria established by the Commission in the "General Provisions Applicable to Credit Institutions" (the "Provisions"), in its rulings, which require management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Institution's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances.

Under accounting criteria A-1 issued by the Commission, the Institution is required to apply Mexican Financial Reporting Standards ("MFRS" or "NIF's") promulgated by the Mexican Board of Financial Reporting Standards (CINIF), except with regard to topics for which the Commission has issued specific accounting guidance on the basis that the entities subject to its regulations and carry out specialized operations.

Changes in accounting policies

Changes in NIF issued by CINIF applicable to the Institution

Improvements to NIF

The aim of these improvements is to incorporate into NIF changes and clarifications in order to establish more appropriate standards. Improvements to NIF are classified between those which arise in accounting changes in valuation, presentation or disclosure in the consolidated financial statements and those improvements that are modifications to NIF that help to clarify the standards, and which do not arise in accounting changes to the consolidated financial statements.

As of January 1, 2015, the Institution adopted the following improvements to NIF 2015 which result in accounting changes:

NIF B-8, Consolidated or Combined Financial Statements— Clarifies the criteria to be evaluated in order to identify an investment entity and indicates that given the nature of the primary activity of an investment entity, it may be difficult for such an entity to exercise control over the entities in which it has invested; therefore, an analysis should be carried out in order to conclude whether the entity exercises control over its investees. If control is not exercised, the accounting treatment will be based on the corresponding NIF that is applicable to the type of investment held.

Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments– Clarifies and modifies the accounting treatment for liabilities arising from customer advances denominated in foreign currency. When an entity receives advance collections for sales or services denominated in foreign currency, the changes in exchange rates between the functional currency and the transaction currency do not affect the amount of the advance collection. Accordingly, the balance of the customer advances liability should not be modified as a result of such changes in exchange rates.

As of January 1, 2015, the Institution adopted the following improvements to NIF 2015 which do not result in accounting changes:

NIF B-13, Events Subsequent to the Date of the Financial Statements and Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments –NIF B-13 includes in a footnote the disclosures in the financial statements of an entity that are not prepared on a going concern basis in accordance with NIF A-7, Presentation and Disclosure. Such requirement was included as part of the regulatory text in the disclosure standards section of NIF B-13, and as part of Bulletin C-9 to disclose the contingencies arising from the fact that the entity is not operating on a going concern basis. Consequently, Circular 57 Sufficient Disclosure is repealed as a result of the Commercial Bankruptcy Law.

NIF B-15, Conversion of Foreign Currencies – The definition of foreign operations was modified to clarify that it not only refers to a legal entity or a cash generating unit whose operations are based on or carried out in an economic environment or currency different from those of the reporting entity, but also includes legal entities or cash generating units that operate in the same country as the reporting entity (parent or holding company), but use a currency different from that of the reporting entity.

The adoption of these improvements did not have a material effect on the Institution's financial information.

Changes to accounting estimates applicable in 2015

Methodology for determining the allowance for loan losses for loans granted under the terms of the Bankruptcy Law

On August 27, 2015, the Commission issued a Ruling to modify the Provisions, which defines the period during which credit institutions may continue to utilize the methodology established for calculating allowances for loan losses for loans granted to borrowers that have declared bankruptcy based on a prior restructuring plan. This ruling establishes that once an agreement has been reached between the borrower and its acknowledged creditors, or the borrower's insolvency is determined in accordance with the Bankruptcy Law, the aforementioned methodology may no longer be applied.

The Ruling also states that authorization can be requested from the Commission to continue using the methodology established for calculating allowances for loan losses for loans granted to borrowers that have declared bankruptcy with a previous restructuring plan for a period not exceeding six months following the adoption of the agreement.

The changes brought by the Commission's ruling did not have a material effect on the Institution's consolidated financial statements at December 31, 2015 were not subject to any material effects as a result of this change in estimate.

The significant accounting policies of the Institution are as follows:

Recognition of the effects of inflation - Cumulative inflation rates over the three-year periods ended December 31, 2015, 2014 and 2013 were 10.18%, 11.62% and 12.26%, respectively. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2015, 2014 and 2013 were 2.13%, 4.08% and 3.97%, respectively.

Beginning on January 1, 2008, the Institution suspended the recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007. Such effects are derecognized during the same period and in the same manner that the related asset, liability or component of equity are derecognized. The consolidated financial statements as of December 31, 2015, 2014 and 2013, include inflationary effects recorded in previous periods that have not yet been derecognized.

Funds available - Consist mainly of bank deposits valued at face value and the income derived therefrom is recognized as earned; foreign currency funds available are valued at fair value using the year end exchange rates.

Acquisitions of foreign currency that will be settled on a date subsequent to the purchase-sale transaction is recognized as restricted funds available (foreign currency receivable). Foreign currency sold is recorded as a credit to funds available (foreign currency deliverable). The offsetting entry is recorded in a debit or credit settlement account when a sale or purchase is performed, respectively.

For financial statement presentation purposes, foreign currency settlement accounts receivable and payable are offset by contract and term and are presented under other accounts receivable (net) or obligations arising settlement of transactions, as applicable.

Other funds available such as regulatory monetary deposits and other liquid notes are also included in this line item.

Margin accounts - Margin accounts (guarantee deposits) for transactions with derivative financial instruments in recognized markets are recorded at face value.

Guarantee deposits are used to ensure compliance with the obligations related to the derivatives executed in recognized markets and refer to the initial margin, and subsequent contributions and withdrawals made during the term of the respective contracts.

Trading securities - Trading securities represent investments in debt and equity securities, in proprietary position and pledged as guarantee, which are acquired with the intention of selling them to realize gains arising from changes in fair value. Upon acquisition, they are initially recorded at fair value (which includes any applicable discount or premium). They are subsequently valued at fair value, determined by a price vendor contracted by the Institution, in accordance with the Provisions of the Commission. The cost is determined using the average cost method. The difference between the cost of investments in debt securities plus their accrued interest and the cost of equity instruments relative to the respective fair values of such instruments is recorded in the income statement under the caption "Gains/losses on financial assets and liabilities (net)". The effects of valuation are classified as unrealized and therefore, cannot be distributed to stockholders until the securities are sold.

Fair value is the amount at which an asset may be exchanged or a liability may be settled by informed, willing and interested parties in an arm's length transaction.

Transaction costs incurred in connection with the acquisition of trading securities are recognized in results on the acquisition date.

Cash dividends of share certificates are recognized in results for the year in the same period in which the right to receive such payment arise.

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in results for the year.

Trading securities also include transactions pending settlement, which refer to sale and repurchase transactions of securities not settled. These transactions are valued and recorded as trading securities, recording the receipt and expense (debit or credit balance) of the securities subject to the transaction against the respective debit or credit settlement account, when the transaction is agreed upon.

The accounting criteria of the Commission allow for certain reclassifications in and out of the trading securities classification, conditional upon the prior express authorization of the Commission.

As of December 31, 2015, 2014 and 2013, no reclassifications were made.

Securities available for sale - Securities available for sale are debt instruments and shares that are not held for purposes of obtaining gains on sales transactions derived from increases in value and, in the case of debt instruments, those that the Institution neither intends or is able to hold to maturity and, therefore, represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the Institution intends to trade such securities in the future prior to their maturity.

Upon acquisition, the securities are initially recorded at fair value plus the acquisition transaction cost (including the discount or markup, as applicable), and are subsequently valued at fair value.

The Institution determines the increase or decrease in the fair value using prices provided by the price vendor, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security and is recognized in the consolidated statement of income under "Interest income". Unrealized gains or losses from changes in fair value as reported by pricing vendors are recorded in other comprehensive income under Result from valuation of securities available for sale net of deferred relative taxes, except when such securities are hedged in a fair value hedging relationship, in which case they are recognized in results for the year.

Cash dividends on shares are recognized in results for the year during the same period in which the right to receive the dividend arises.

The accounting criteria of the Commission allow the transfer securities from held to maturity to as available for sale when the Institution does not have the intention or the ability to hold them to maturity, as well as reclassifications from trading to securities available for sale, with the prior express authorization of the Commission.

At December 31, 2015, 2014 and 2013, the Institution's management did not reclassify any investments between categories.

Impairment in the value of a credit instrument - The Institution must evaluate whether there is objective evidence that a credit instrument is impaired as of the balance sheet date.

A credit instrument is deemed to be impaired and an impairment loss is recognized, only if there is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the credit instrument, which had an impact on its estimated future cash flows that can be determined reliably. It is highly unlikely that one event can be identified that is the sole cause of the impairment, and it is more feasible that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of the probability that such events might occur.

Objective evidence that a credit instrument is impaired includes observable information such as, among others, the following events:

- a) Significant financial difficulties of the issuer of the instrument;
- b) It is probable that the issuer of the instrument will be declared bankrupt or another financial restructuring will take place;
- c) Noncompliance with the contractual clauses, such as default on payment of interest or principal;
- d) Disappearance of an active market for the instrument in question due to financial difficulties, or
- e) A measurable decrease in the estimated future cash flows of a group of securities since the initial recognition of such assets, even though the decrease cannot be matched with the individual securities of the group, including:
 - i. Adverse changes in the payment status of the issuers in the group, or
 - ii. Local or national economic conditions which are correlated with defaults on the securities of the group.

Management has not identified objective evidence of impairment of a credit instrument held as of December 31, 2015.

Repurchase agreements - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and undertakes, in the agreed-upon term and upon a payment of the same price plus a premium, to transfer ownership of similar securities to the seller. Unless otherwise agreed, the premium is for the benefit of the buying party.

For legal purposes, repurchase transactions are considered as a sale in which an agreement to repurchase the transferred financial assets is executed. Notwithstanding, the economic substance of repurchase transactions is that of a secured financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as collateral in the event of default.

The repurchase transactions are recorded as indicated below:

On the contracting date of the repurchase transaction, when the Institution acts as the selling party, the entry of the cash or asset or a debit settlement account is recognized, as well as an account payable at fair value, which represents the obligation to repay such cash to the buying party. The account payable is valued during the term of the repurchase transaction at its amortized cost, recognizing the interest in results as they are earned.

When the Institution acts as the buying party on the contracting date of the repurchase transaction, the withdrawal of funds available or a credit settlement account is recognized, recording an account receivable at its fair value, which is equal to the agreed price, representing the right to recover the cash delivered. The account receivable is valued subsequently during the useful life of the repurchase agreement at its amortized cost, recognizing the interest on the repurchase agreement.

When the transactions performed are classified as cash-oriented, the seller's intention is to obtain cash financing by using financial assets as collateral while the buying party obtains a return on its investment and, as it does not seek ownership over specific securities, receives financial assets held as collateral which serve to mitigate the exposure to risk face by the party in relation to the selling party. The selling party repays to the buying party the interest calculated based on the agreed rate of the repurchase agreement. Also, the buying party obtains yields on its investment, which is secured by the collateral.

When the transactions performed are considered as securities-oriented, the intention of the buying party is to temporarily access certain specific securities held by the selling party, by granting cash as collateral, which serves to mitigate the exposure to risk faced by the selling party in relation to the buying party. In this regard, the selling party pays the buying party the interest agreed at the repurchase agreement rate for the implicit financing obtained on the cash that it received, in which such repurchase rate is generally lower than that which would have been agreed in a "cash-oriented" repurchase agreement.

Regardless of the economic intent, the accounting for "cash-oriented" or "securities-oriented" repurchase transactions is identical.

Noncash collateral granted and received in repurchase transactions - In relation to the collateral granted by the selling party to the buying party (other than cash), the buying party recognizes the collateral received in memorandum accounts, following the valuation guidelines for the securities established in treatment B-9 "Custody and Management of Assets". The selling party reclassifies the financial asset in its consolidated balance sheets to restricted assets, which follows the valuation, presentation and disclosure standards as applicable.

When the buying party sells or pledges the collateral, the proceeds from the sale are recorded, and a liability for the obligation to repay the collateral to the selling party (measured initially at the fair value of the collateral) and is subsequently valued at fair value in a sale, and at amortized cost if is considered as a pledge in another repurchase transaction (in which case, any difference between the price received and the fair value of the liability is recognized in results of the year). For purposes of presentation, the liability is offset by accounts receivable referred to as Repurchase agreements, which is generated when the purchases are reported. The debit or credit balance is shown under Repurchase agreements or sold collaterals or pledged as security as appropriate.

Similarly, if the buying party becomes a selling party due to another repurchase transaction with the same collateral as the initial transaction, the interest on the second repurchase transaction must be recognized in results for the year as earned, based on the liability valued at amortized cost.

Memorandum accounts recognized for collateral received by the buying party are cancelled when the repurchase transaction matures or when the selling party defaults.

For transactions where the buying party sells or pledges the collateral received (for example, when another repurchase or securities loan transaction is agreed), memorandum accounts are used to control such collateral sold or pledged, which is valued using the standards applicable to custody transactions included in Criterion B-9 “Custody and Assets Management”.

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged by the buying party are cancelled when the collateral sold is purchased to return it to the selling party, or when the second transaction matures or the other party defaults.

Derivative instrument transactions (held for trading) - The Institution initially recognizes all of its derivatives as assets or liabilities (depending on the related rights and/or obligations) in the balance sheet at fair value, which is presumed to be equal to the price agreed in the transaction.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives are valued at fair value without deducting any transactions costs incurred during the sale or any other type of disposal, recognizing the valuation effect in results for the period under “Gains/losses on financial assets and liabilities (net)”.

The rights and obligations of derivatives that are traded in recognized markets or stock exchanges are considered to have matured when the risk position is closed, i.e., when an opposite derivative with the same characteristics is traded in such market or stock exchange.

The rights and obligations of derivatives that are not traded in recognized markets or stock exchanges are considered to have matured when they reach their maturity date, when the rights are exercised by either party or when the parties early exercise the rights in accordance with the related conditions and the agreed consideration is settled.

Forward and future contracts for trading:

Forward and future contracts for trading are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established amount, quality and price on a trading contract. Both forward and futures contracts are recorded by the Institution as assets and liabilities in the consolidated balance sheets at the exchange rate established in the related underlying asset purchase-sale contract, to recognize the right and the obligation to receive and/or deliver the underlying asset, and the right and the obligation to receive and/or deliver cash equivalent to the underlying asset specified in the contract.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

For forward contracts, the exchange difference between the exchange rate agreed in the contract and the monthly forward exchange rate, as well as the valuation effects, are recorded in the statement of income under “Gains/losses on financial assets and liabilities (net)”.

For futures contracts, a margin account is created whose counterparty is a clearing house, so as to minimize counterparty credit risk.

The margin account given in cash, does not form part of the initial net investment of the derivative, which is accounted for separately from the derivative.

For financial statement classification purposes, with respect to derivative instruments that incorporate both rights and obligations, such as futures, forwards and swaps, such rights and obligations are offset and the resulting net debit or credit balances are recognized a derivative asset or liability, respectively.

Option contracts:

Options are contracts that, in exchange for a premium, grant the right, but not the obligation, to buy or sell a specified number of underlying instruments at a fixed price within a specified period. For the rights that grant the options are divided in purchase options (call) and sale options (put).

The holder of a call has the right, but not the obligation, to purchase from the issuer a specified number of underlying assets at a fixed price (exercise price) within a specified period.

The holder of a put has the right, but not the obligation, to sell a specified number of underlying assets at a fixed price (exercise price) within a specified period.

Options may be exercised at the end of the specified period (European options) or at any time during the period (American options); the exercise price is established in the contract and may be exercised at the holder's discretion. The instrument used to set this price is the reference value or underlying asset. The premium is the price paid by the holder to the issuer in exchange for the rights granted by the option.

The Institution records the premium paid/received for the option on the transaction date as an asset or liability. Any fluctuations in the fair value are recognized in the consolidated statements of income under Intermediation income. When an option matures or is exercised, the premium recognized is cancelled against results for the year, also under "Gains/losses on financial assets and liabilities (net)".

Recognized options that represent rights are presented, without offsetting, as a debit balance under the asset line item Derivatives. Recognized options that represent obligations are presented, without offsetting, as a credit balance under the liability line item Derivatives.

Trading option contracts are recorded in memorandum accounts at their exercise price, multiplied by the number of securities, distinguishing between options traded on the stock market from over-the-counter transactions, in order to control risk exposure.

All valuation gains or losses recognized before the option is exercised or before its expiration, are treated as unrealized and are not capitalized or distributed to stockholders until realized in cash.

Swaps:

A swap contract is an agreement between two parties establishing a bilateral obligation for the exchange of a series of cash flows within a specified period and on previously determined dates.

Swaps are initially recognized by the Institution in the balance sheet as an asset or liability, at fair value, which presumably is equal to the agreed-upon price.

The Institution recognizes in the balance sheet an asset and a liability arising from the rights and obligations of the contractual terms, valued at the present value of the future cash flows to be received or delivered according to the projection of the implicit future rates to be applied, discounting the market interest rate on the valuation date using curves provided by the price vendor, which are reviewed by the market risk area.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives other than hedging derivatives are valued at fair value without deducting any transaction costs incurred during the sale or any other type of disposal, recognizing the valuation effect in the results of the year.

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in results of the year. If the impairment situation subsequently disappears, the impairment is reversed up to the amount of the previously recognized impaired loss, recognizing this effect in the results of the period in which this occurs.

A swap contract may be settled in kind or in cash, according to the conditions established.

The result of offsetting the asset and liability positions, whether debit or credit, is presented as part of the Derivatives line item.

Embedded derivatives - An embedded derivative is a component of a hybrid (combined) financial instrument that includes a non-derivative contract (known as the host contract) in which certain cash flows vary in a manner similar to that of an standalone derivative. An embedded derivative causes certain cash flows required by the contract (or all cash flows) to be modified according to changes in a specific interest rate, the price of a financial instrument, an exchange rate, a price or rate index, a credit rating or index, or other variables allowed by applicable laws and regulations, as long as any non-financial variables are not specific to a portion of the contract. A derivative that is attached to a financial instrument but that contractually cannot be transferred independently from that instrument or that has a different counterparty, is not an embedded derivative but a separate financial instrument.

An embedded derivative is separated from the host contract for purposes of valuation and to receive the accounting treatment of a derivative, only if all the following characteristics are fulfilled:

- a. The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract;
- b. A separate financial instrument that has the same terms of the embedded derivative would comply with the definition of a derivative, and
- c. The hybrid (combined) financial instrument is not valued at fair value with changes recognized in results (for example, a derivative that is not embedded in a financial asset or a financial liability valued at fair value should not be separated).

The effects of the valuation of embedded derivatives are recorded under the same line item in which the host contract is recorded.

A foreign currency embedded derivative in a host contract, which is not a financial instrument, is an integral part of the agreement and therefore clearly and closely related to the host contract provided that it is not leveraged, does not contain an optional component and requires payments denominated in:

- The functional currency of one of the substantial parties to the contract;
- The currency in which the price of the related good or service that is acquired or delivered is regularly denominated for commercial transactions around the world;
- A currency which has one or more characteristics of the functional currency for one of the parties.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate in effect on the transaction date. Assets and liabilities denominated in foreign currency are adjusted at the year-end exchange rates determined and published by the Central Bank.

Revenues and expenses from foreign currency transactions are translated at the exchange rate in effect on the transaction date, except for transactions carried out by the foreign subsidiaries, which are translated at the fixed exchange rate at the end of each period.

Foreign exchange fluctuations are recorded in the statements of income of the year in which they occur.

Commissions collected and related costs and expenses - The commissions collected for the initial granting of the loans are recorded as a deferred credit under deferred credits and advance collections, which is amortized against results of the year under Interest income using the straight-line method over the loan term.

The commissions collected for credit restructurings or renewals are added to any commissions recorded at loan origination, and are recognized as a deferred credit which is amortized in results using the straight-line method over the new term of the loan.

Any commissions recognized after the initial granting of the loans are those incurred as part of the maintenance of such loans, or those collected on loans which were not placed and are recognized in results at the time they are incurred or earned.

Incremental costs and expenses associated with the initial granting of the loan are recognized as a deferred charge, which are amortized to results as Interest expense during the same accounting period in which the revenues from commissions collected are recognized.

Any other cost or expense different from those described above, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other secondary activities related to the establishment and monitoring of credit policies, is recognized directly in results of the year as it is accrued and classified in accordance with the nature of the cost or expense.

Performing loan portfolio - The Institution applies the following criteria to classify loans within performing portfolio:

- Loans that are current in the payments of both principal and interest.
- Loans that do not demonstrate the characteristics of non-performing portfolio.
- Restructured or renewed loans, which were previously classified as non-performing loan portfolio, which have evidence of sustained payment.

Non-performing loan portfolio - The Institution applies the following criteria to classify uncollected loans as non-performing:

- a) Loans to borrowers are declared in bankruptcy.
- b) Loans with outstanding principal, interest or both, with the following characteristics:
 - Loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the date of maturity.
 - Loans with a single payment of principal at maturity and with periodic interest payments are classified as non-performing 90 calendar days after interest is due or 30 calendar days after principal is due.
 - Loans, including housing loans whose principal and interest payments have been agreed in periodic installments are classified as non-performing 90 calendar days after they become due.
 - Revolving credits for which the borrower has failed to render payment on two monthly billing periods, or, if the billing period is different from monthly, are 60 or more calendar days overdue.
 - Customer checking accounts and immediate collection documents will be reported in the non-performing portfolio at the date of the overdraft.
 - If the debtors are declared in bankruptcy, except for those loans:
 - i. For which the Institution continues to receive payment under the terms of section VIII of Article 43 of the Bankruptcy Law, or
 - ii. That are granted under Article 75 in relation to Sections II and III of Article 224 of the Law.

The aforementioned loans are transferred to non-performing status when they exhibit any of the other characteristics of non-performing portfolio

- Immediate collection documents referred to Accounting Criteria B-1, Funds available of the Commission if not timely collected (2 or 5 days as appropriate).

Classification of loan portfolio and allowance for loan losses - In accordance with the Provisions, the loan portfolio must be classified as commercial, housing loans and consumer loans. As of December 31, 2015, 2014 and 2013, the Institution has classified its loan portfolio as follows:

- a. Commercial: Direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency, investment units or multiples of the minimum wage, together with any accrued interest, which are granted to corporations or individuals with business activities and are used in connection with commercial or financial activity; includes loans granted to financial entities (other than interbank loans with maturities of less than 3 business days), loans arising from factoring arrangements and leasing transactions executed with such corporations or individuals; loans granted to trustees who act under the protection of trusts, and the credit schemes commonly known as “structured” in which the affected assets to enable individual assessment of the risk associated with the scheme. Also, loans granted to states, municipalities and their decentralized agencies are included when they can be classified in accordance with applicable regulations.
- b. Housing loans: Direct loans granted to individuals denominated in Mexican pesos, foreign currency investment units or changes in minimum wages, together with the respective accrued interest, which are granted to individuals for housing improvements, but not for commercial housing speculation purposes including guaranteed liquidity housing loans and all loans granted to the Institution’s ex-employees.

The Institution recognizes reserves created to cover credit risks in conformity with such provisions, as follows:

Commercial portfolio:

In June 2013, the Commission issued the new regulatory methodology applicable to commercial loan portfolio credit reserves in line with the criteria recently published by the Basel Committee. This methodology is based on the estimation of expected losses as opposed to incurred losses, as was the case under the prior methodology, thereby permitting the early identification of certain sectorial risks.

The Expected Loss (PE) calculation considers the following three elements: $(PE = EI * PI * SP)$, whereby the Default Exposure (EI) is the balance of revocable credit lines plus the unused portion of irrevocable credit lines. The Probability of Default (PI) is the probability of customer default, which considers quantitative and qualitative information. The Loss Severity (SP) is the percentage of the EI that would be lost in the event of credit default and depending on the credit enhancements and portfolio type. Both items are explained in further detail below.

While the application of this methodology to the commercial portfolio was mandatory in December 2013, early application is permitted. The Institution exercised this option and applied the new methodology as of August 2013.

In accordance with the specific accounting criterion issued by the Commission, on August 31, 2013, the Institution recognized a charge to stockholders’ equity under “Result of prior years” in the amount of \$135 derived from the cumulative effect of adopting of this methodology.

At December 31, 2015, 2014 and 2013 the methodology for rating the commercial portfolio is as follows: Before rating the loans included in its commercial credit portfolio, the Institution classifies them into one of the following groups, depending on whether they are granted to: a) states and municipalities; b) Projects with their own payment sources; c) Trustees acting under the auspices of trusts and which are not included in the preceding numeral, as well as “structured” credit schemes; d) Financial entities; e) Companies excluded from the preceding groups and individuals with business activities. In turn, this group is divided into the following sub-groups: b1) Customers with annual net revenues or sales denominated in Mexican pesos less than or equal to the equivalent of 14 million investment units (UDIs) and which can be “certified without delay” which is the case when late payments were not recorded for these borrowers with other institutions during the previous 12 months in credit bureau reports, and when no delays were reported for these customers with the Institution according to available information when the rating is determined. Likewise, the category of “certified with delay” can be used when a late payment not exceeding one day has been recorded for these borrowers with other institutions during the previous 12 months in credit bureau reports, or when a late payment not exceeding one day was recorded for these customers with the Institution according to available information when the rating is determined. b2) Customers with annual net revenues or sales denominated in Mexican pesos equal to or exceeding the equivalent of 14 million UDIs.

The Institution rates, creates and records allowances for loan losses for each of the loans included in its commercial loan portfolio. For this purpose, it utilizes the outstanding balance in effect on the final day of each quarter, which is adjusted to the methodology and information requirements established by the Commission.

The allowance for loan losses of each loan is determined by applying the following formula

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = Amount of the allowance for loan losses to be created for the nth credit.

PI_i = Probability of default of the nth credit.

SP_i = Severity of loss of the nth credit.

EI_i = Exposure to default of the nth credit.

The parameter EI, should be calculated each month, the PI_i; and the SP_i at least each quarter.

a) The probability of default

The Institution estimates the probability of default of each loan (PI_i), using the following formula:

$$PI_i = \frac{1}{1 + e^{\frac{-(500 - TotalCreditScore_i) \times \ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

Quantitative Credit Score i = Is the score obtained for the nth borrower when evaluating the risk factors established in the Provisions, as is applicable.

Qualitative Credit Score i = Is the score obtained for the nth borrower when evaluating the risk factors established in the Provisions, as is applicable.

α = is the relative weight of the quantitative credit score, calculated as established by the Provisions.

The PI_i of loans granted to centralized federal, state and municipal entities and political parties is calculated by utilizing Appendix 21 or 22 of the Provisions, as the case may be. The PI_i of loans granted to state-owned financial entities and those outstanding to the federal public administration are calculated by utilizing Appendix 20 of the Provisions.

The PI_i of loans granted to trusts, excluding projects with their own payment source and in which the resources of the trustor(s) can be clearly separated, and “structured” credit schemes in which the affected assets allow for an evaluation of the related credit risk or resources associated with the scheme concerned can be individually evaluated, is determined by utilizing the following:

- a. The methodology applicable to the underlying loans, when the trust’s net worth is composed by loans for which it can provide the Institution with sufficient information to allow it to calculate the PI_i of each loan in accordance with the current Provisions;
- b. The methodology detailed in Appendix 21 of the Provisions, whenever the assumptions detailed in the preceding numeral a) are not fulfilled.

In the case of trusts in which the trustor provides explicit or implicit support, but when the mechanisms referred to by the Provisions are not available, or structured schemes for which the risk cannot be individually evaluated, the PI_i is calculated by utilizing the general methodology and considering the trustor(s) as the borrower or, if applicable, the structured scheme’s resources and by using the net worth affected by the scheme as collateral, provided it fulfills the requirements established by Appendix 24 of the Provisions. In order to calculate the PI_i of factoring transactions, the Institution determines which party is actually exposed to the credit risk. For this purpose, it considers the party that transfers credit rights to the Institution and which is entitled to receive payment of the respective credit rights from the factoring institution and joint obligor. In this case, the PI_i refers to:

- a) The entity liable for paying the credit rights, depending on the group to which it belongs according to the Provisions.
- b) The PI_i of the entity liable for paying the credit rights can be replaced by the PI_i of the factor when its joint and several liability is established in the document prepared to formalize the factoring transaction.

In any case, only credit rights that are not subject to conditions or controls under which the borrower can contest the payment may be considered.

The Institution uses the same PI, for all the loans due from the same borrowers. In cases in which there is a joint obligor in relation to the borrower’s entire liability, the borrower’s PI_i may be replaced by that of the joint obligor or guarantor, which is determined by applying the respective methodology.

The reserve percentage is equal to 0.5% of the granted loan or represents a fraction of the total amount of each loan covered by a guarantee granted by:

- i. Federal public administration entities under direct budgetary control or programs derived from a federal law forming part of the federal spending budget.
- ii. Public trusts with the capacity of state-owned entities and which form part of the Mexican banking system when the loan is granted, as defined by the Provisions.
- iii. Counter-guarantee trusts.
- iv. The entity “Financiera Rural”.
- v. The national infrastructure fund.
- vi. The national fund for agrarian, forestry, fishery and rural guarantees.

- vii. Trusts specifically created to share the credit risk with the institutions in which they act as trustor, as well as fiduciary development banking institutions with an express federal government warranty.
- viii. Any entity with an express federal government warranty.

The Institution assigns a PI_i of 100 percent to the borrower in the following cases:

- i. When the borrower has a loan with the Institution that has been transferred to the overdue portfolio in accordance with the terms of criterion B-6, “Credit Portfolio”, of the Provisions.
- ii. The above treatment is not applicable to obligations that are not recognized by the customer and for which a claim or clarification process exists. Similarly, it is not applicable to amounts of less than 5% of the borrower’s total debt with the Institution when the rating is determined.
- iii. When it is likely that the borrower will not completely fulfill its credit obligations with the Institution; this assumption is fulfilled when:
 - a) The Institution determines that the loans payable by the borrower constitute a “distressed portfolio” in accordance with criterion B-6, “Credit Portfolio”, of the Provisions, or
 - b) The Institution has requested that the borrower file for bankruptcy or if the borrower voluntarily decides to do so.
- iv. If, for three consecutive months, the Institution fails to report a borrower to the credit bureau or if information related to the balance and behavior of the borrower’s payment, which must be sent to the bureau, is not updated.
- v. If differences arise between the items reported by the Institution to the credit bureau and the data contained in Institutions’ files, which indicates the delayed payments of the Institution during three consecutive months.
- vi. If the Institution fails to report the debt balances due from federal and municipal entities to the credit bureau during three consecutive months.
- vii. If the Institution had access to information that fulfills the maximum aging requirements and definitions detailed in Appendices 18, 20, 21 and 22 of the Provisions to enable it to estimate the probability of default, but systematically utilized ratings pertaining to the “Without Information” range to obtain a probability of default below the level that would have been estimated had all available information been utilized.

For the purposes of numerals iii, iv and v, the Institution provides credit bureaus with data and information for all the identity records of its borrowers and which are attributable to the same borrower.

Regarding the preceding numerals iii, iv, v and vi, once a PI_i of 100 percent has been assigned to the borrower, it must be maintained for a minimum period of one year as of the date on which the record omission or inconsistency is detected or when this information becomes out of date.

b. *Loss severity*

The Loss Severity (SP_i) is 45 percent for loans contained in the commercial loan portfolio and which lack actual or personal guarantees and those derived from the loan itself. Similarly, an SP_i of 75 percent is applied to subordinated and syndicated loans that are contractually subordinated to those of other creditors for payment prioritization purposes. An SP_i of 100 percent is applied to loans with payments that are 18 months or more past-due based on the settlement terms under the originally agreed terms.

The Institution applied the terms of the Provisions to loans covered by actual or personal guarantees and those derived from the loan itself.

c. *Default exposure*

The default exposure of each loan (EI_i) is determined by considering the following factors:

- i) Uncommitted credit lines that can be unconditionally canceled or automatically canceled at any time without the Institution giving prior notice, as long as they demonstrate that they are providing constant follow-up on the borrower's financial position and that their internal control systems allow the credit line to be canceled if the borrower's credit quality becomes impaired.

$$EI_i = S_i$$

- ii) For the other lines of credit which don't comply with any of the requirements of the paragraph before:

$$EI_i = S_i * \text{Max} \left\{ \left(\frac{S_i}{\text{AuthorizedLineofCredit}} \right)^{-0.5794}, 100\% \right\}$$

Where:

S_i : The unpaid balance of the nth credit at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as debt reductions, forgiveness, rebates and discounts granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet, for loans classified in non-performing portfolio.

Authorized Line of Credit: The maximum authorized amount of the line of loan at the classification date.

The allowance for loan losses of commercial loan portfolio of a Multiple Purpose Financial Entity, 0020 in which the institutions held less than 99% of their capital stock, is calculated by multiplying the exposure to default by 0.5% in accordance to the Provisions.

Loans granted under the terms of the Bankruptcy Law

This methodology primarily focuses on credit enhancements provided in accordance with article 75 of the Bankruptcy Law in order to determine the Severity of the Loss by applying certain adjustment factors or discount percentages based on each type of admissible credit enhancement.

In the case of loans granted under the terms of section II of article 224 of the Bankruptcy Law, the Severity of the Loss is subject to the following treatment:

$$SP_i = \text{Max} \left(\text{Min} \left(1 - \frac{\text{CreditEnhancements} + \text{AdjustedNetWorth}}{S_i}, 45\% \right), 5\% \right)$$

In which:

Credit Enhancements = The credit enhancements provided pursuant to article 75 of the Bankruptcy Law by applying, as the case may be, the required adjustment factors or discount percentages based on each type of admissible enhancement.

Adjusted Net Worth = Net Worth, as defined by the Bankruptcy Law, after deducting the amount of obligations referred to by section I of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount.

S_i = The outstanding balance of loans granted under the terms of section II of article 224 of the Bankruptcy Law at the rating date.

In the case of loans granted under the terms of section III of article 224 of the Bankruptcy Law, the Severity of the Loss is subject to the following treatment:

$$SP_i = \text{Max}\left(\text{Min}\left(1 - \frac{\text{Adjusted Net Worth}}{S_i}, 45\%\right), 5\%\right)$$

In which:

Adjusted Net Worth = Net Worth, as defined by the Bankruptcy Law, by deducting the amount of the obligations referred to by sections I and II of article 224 of that Law and applying a 40% discount rate to the resulting amount.

S_i = The outstanding balance of loans granted under the terms of section III of article 224 of the Bankruptcy Law at the rating date.

Housing loan portfolio:

When classifying the housing loan portfolio, the Institution considers the type of loan, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the loan's collateral and the exposure to default.

Furthermore, the Institution rates, calculates and records the allowances for loan losses on the housing loan portfolio as follows:

Due and Payable Amount- Amount which the borrower is obligated to pay in the agreed billing period without considering any previous due and payable amounts that were not paid. If the billing is semi-monthly or weekly, the due and payable amounts of the two semi-monthly payments or four weekly payments in the month, respectively, must be added up so that the due and payable amount reflects a monthly billing period.

The discounts and rebates may reduce the due and payable amount only when the borrower complies with the conditions required in the credit contract for such purpose.

Payment made- Includes total payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the loan or group of loans are not considered as payments.

If the billing is semi-monthly or weekly, the two semi-monthly payments or four weekly of a month, respectively, must be added up so that the payment made reflects one full monthly billing period. The variable "payment made" must be greater than or equal to zero.

Value of the Home V_i - The value of the home at the time of the credit origination, restated in accordance with the following:

I. For loans originated dated prior to January 1, 2000 in two stages:

a) First stage, through of General Minimum Wage (SMG)

$$\text{Value of Home 1st stage} = \frac{\text{SMG 31 - Dec - 1999}}{\text{SMG month of origination}} \times \text{Value of Home at Origination}$$

In which:

Value of the home in the origination corresponds to the value of the home known by the valuation at the time of loan origination.

- b) Second stage, through of the monthly National Consumer Price Index (INPC)

$$\text{Value of Home} = \frac{\text{INPC month of classification}}{\text{INPC 01/Ene/2000}} \times \text{Value of Home at Origination}$$

II. For loans origination dated from January 1, 2000 pursuant to subsection b) of numeral I above.

$$\text{Value of Home} = \frac{\text{INPC month of classification}}{\text{INPC month of origination}} \times \text{Value of Home at Origination}$$

In any case, the home value at the time of the origination may be restated based on a formal appraisal.

Credit Balance S_i - The unpaid balance at the classification date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less any insurance payments which were financed, collections of principal and interest, as well as reductions, amounts forgiven, rebates and discounts granted, as the case may be.

In any case, the amount subject to rating shall not include accrued interest receivable recognized in memorandum accounts on the balance sheet of non-performing loans.

Days in Arrears - Number of calendar days at the classification date during which the borrower did not fully settle the due and payable amount under the terms originally agreed.

This variable should be expressed as an integer and must be greater than or equal to zero.

Credit Denomination (MON) - This variable will take the value of one (1) when the housing loan is denominated in UDI's, minimum wages or a currency other than Mexican pesos, and zero when it is denominated in pesos.

Completion of File (INTEXP) - This variable will take the value of one (1) if the selling party of the real estate property participated in obtaining the proof of income or in contracting the appraisal, and zero in any other case.

The total amount of reserves to be created by the Institution will be equal to the reserves for each loan, as follows:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = Amount of reserves to be created for the nth credit.

PI_i = Probability of default on the nth credit.

SP_i = Severity of the loss on the nth credit.

EI_i = Exposure to default on the nth credit.

Evidence of sustained payment:

When the loans are recorded as non-performing loans, the Institution maintains such loans at this level until it obtains evidence of sustained payment, which occurs when at least three consecutive installments covering the required amounts of principal and interest are received on a timely basis, or, in case of loans with amortizations covering periods longer than 60 calendar days, the payment of one installment.

In all cases, it must be established that the borrower has the capacity to pay based on the following: the probability of intrinsic default of the borrower, the credit enhancements granted to restructured or renewed loans, payment preference over other creditors and liquidity of the borrower before the new structure of the financing.

Distressed portfolio:

For disclosure purposes in the financial statements, the Institution considers distressed portfolio commercial loans for which it is determined that, based on current information and events as well as the results of the loan review process, there is significant possibility that the outstanding principal and interest balances of the loan may not be recovered in full in accordance with the terms and conditions originally agreed. Both the performing and non-performing portfolio are likely to be identified as distressed portfolio.

Restructuring processes and renewals - A restructuring process is a transaction derived from any of the following situations:

- a) The extension of the guarantees covering the loan in question, or
- b) The modification of the original loan conditions or payment scheme, including the following:
 - The modification of the interest rate established for the remaining loan period;
 - The change of currency or unit of account, or
 - The concession of a grace period regarding the payment obligations established according to the original loan terms, unless this concession is granted following the conclusion of the originally agreed period, in which case it is considered as a renewal.

Restructuring processes are not considered as those which, at the restructuring date, indicate the full settlement of payable principal and interest and only modify one or more of the following original loan conditions:

Guarantees: only when they imply the extension or substitution of guarantees for others of better quality.

Interest rate: when the agreed interest rate is improved.

Currency: as long as the respective rate is applied to the new currency.

Payment date: as long as the change does not mean exceeding or modifying payment periodicity. The change of payment date must not, under any circumstances, allow the omission of payments in any period.

A renewal is a transaction that extends the loan period either during that period or at maturity, or when a loan is settled at any time by using the proceeds generated by another loan contracted with the same entity in which the same debtor or another party with which it has equity relationships is involved and constitutes a common risk. A loan is not considered to have been renewed when resources are utilized during the period of a preestablished credit line.

Overdue restructured or renewed loans remain in the overdue portfolio until evidence of sustained payment is obtained; i.e., the borrower makes at least three consecutive installments on a timely basis which covers the total due amount of principal and interest, or, in the case of loans with payments covering periods exceeding 60 calendar days, one payment, as established by the accounting criteria issued by the Commission.

The loan payments referred to by the preceding paragraph must cover at least 20% of principal or the total amount of any kind of accrued interest in accordance with the restructured or renewal payment scheme. For this purpose, the accrued interest recognized in memoranda accounts will not be considered.

If, in the case of a restructuring process or renewal, different loans granted to the same borrower are consolidated into a single loan, the total debt balance resulting from the restructuring process or renewal must receive the treatment applicable to the lowest rated loan in the Institution.

Current loans other than those with a single principal payment and interest payments that are either periodic or made at maturity and are restructured or renewed without at least 80% of the original loan period having elapsed, are only classified as current when the borrower has a) paid all accrued interest, and b) paid the original loan principal amount that was payable at the renewal or restructuring date.

If any of the conditions described in the preceding paragraph are not fulfilled, loans are considered as non-performing when they are restructured or renewed and until such time as evidence of sustained payment is obtained.

Current loans other than those with a single principal payment and interest payments that are either periodic or made at maturity, which are restructured or renewed during the final 20% of the original loan period are only classified as performing portfolio when the borrower has a) paid all accrued interest, b) paid the original loan principal amount which was payable at the renewal or restructuring date, and c) paid 60% of the original loan.

If any of the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing when they are restructured or renewed and until such time as evidence of sustained payment is obtained.

Loans with a single principal payment and interest payments that are either periodic or made at maturity, which are restructured or renewed during the loan period or renewed at any time, are classified as part of the non-performing portfolio until such time as evidence of sustained payment is obtained.

Loans that are initially defined as revolving and which are restructured or renewed at any time are only classified as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and when elements exist to justify the debtor's payment capacity; i.e., when it is highly likely that a debtor will settle this payment.

Other receivables and payable accounts, net - These items primarily represent receivable or payable amounts derived from the purchase-sale of currency in which immediate settlement was not agreed (value date exchange transactions). These transactions are recorded on the day they are agreed and settled within a period of 24, 48 or 96 hours.

The Institution has a policy of reserving in results those receivable accounts identified and not identified within 90 days and 60 days after the initial recognition, respectively.

Furniture and fixtures, net - Furniture and fixtures are recorded at acquisition cost. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful life.

Other permanent investments - Permanent investments made by the Institution in entities where it has neither control, nor joint control, nor significant influence, are initially recorded at acquisition cost. Any dividends received are recognized in current earnings, except when they are taken from earnings of periods prior to the acquisition, in which case, they are deducted from the permanent investment.

Other assets - Other assets are mainly represented by software, advance payments, operational deposit and intangible assets identified in the acquisition of Tempus and Monex Europe.

The amortization of the software and the assets with finite useful lives is calculated using the straight line method over their estimated economic useful life.

Furthermore, the heading "Other assets" includes financial instruments of the pension and retirement fund held in a trust administrated by the Institution. Those investments in the fund are maintained to cover the obligations for severance and seniority premiums of employees.

Investments in securities acquired to cover the severance and seniority premium are recorded at fair value.

For the purposes of presentation in the financial statements, if the investment in securities acquired to cover the pension plan and seniority premium exceed the liability recognized, such excess will be presented under the heading of "Other assets". If assets are less than related obligations, such balance is included in the heading "Sundry creditors and other accounts payable". As of December 31, 2015, 2014 and 2013, the balance applicable to the Institution is presented by decreasing the heading of "Sundry creditors and other payables".

Goodwill - Goodwill is mainly attributable to the excess of the purchase price paid over the fair value of the net assets of Tempus and Monex Europe as of their acquisition date (November 23, 2010 and July 2, 2012, respectively), which is not amortized but is subject to impairment tests at least once a year. The Institution records the goodwill of the non-controlling interest.

Impairment of long-lived assets in use - The Institution reviews the book value of long-lived assets in use for impairment when there are indicators that the net carrying amounts of the assets may not be recoverable. The impairment is recorded to the extent that the book value of the asset exceeds the recoverable amount, which is defined as the higher of the present value of net future cash flows or the estimated sales price. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period which, if combined with a history or projection of losses, depreciation and amortization charged to results as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors.

Deposits - This heading is comprised of call deposits made by the general public, including money market funds, saving accounts and current account deposits. Interest is recognized in results when accrued.

The deposits include, among others, certificates of deposit removable preset days and promissory notes payable at maturity, such deposits shall be broken down into the balance sheet as of the general public and raised through market transactions money, the latter referring to deposits made with other financial intermediaries, as well as treasuries of corporations and government entities.

The debt securities issued will be presented as a separate category, as part of these, bank bonds.

Interest is recognized in results when accrued.

Interbank loans and those from other entities - Direct short and long-term loans received from Mexican banks are recorded under this heading, together with loans obtained from development banks. Interest is recognized in results when accrued.

Obligations arising from settlement of transactions - Represent amounts payable for currency purchase-sale transactions in which no immediate settlement is agreed, (foreign exchange trading value date). They are recorded on the day that are negotiated and settled to within 24, 48 or 96 hours.

Provisions - Provisions are recognized when there is a present obligation derived from a past event, for which the use of economic resources is deemed probable, and can be reasonably estimated.

Employee benefits - Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by the employee, which include all kinds of remuneration earned, as follows:

- i. **Direct employee benefits** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing (PTU) payable, and incentives (bonds).
- ii. **Employee benefits from termination, retirement and other** - The liability for seniority premium, pensions and severance for termination of the employment relationship is recorded as accrued, which is calculated by independent actuaries based on the projected unit credit method using nominal interest rates.
- iii. **Statutory employee profit sharing (PTU)** - PTU is recorded in the results of the year in which it is incurred. As result of the 2014 Tax Reform, as of December 31, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 10 of the Income Tax Law. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

PTU and deferred PTU is presented in the consolidated statement of income under “Administrative and promotional expense”

Income taxes - Income Tax (“ISR”) is recorded in the results of the year in which it is incurred. In order to recognize deferred income tax, financial and tax projections are used to determine whether the Institution and its subsidiaries will incur ISR so as to recognize the respective deferred tax. The Institution determines deferred tax by considering temporary differences, tax losses and tax credits from the initial recognition of these items and until the end of each period. The deferred tax derived from temporary differences is recognized by utilizing the assets and liabilities method, which matches the accounting values of assets and liabilities. This comparison generates deductible and accruable temporary differences which are added to unapplied tax losses and the tax credit derived from the undeducted allowance for loan losses. The tax rate is then applied to the items that will be subsequently reversed. The amounts derived from these three items relate to the recognized deferred tax asset or liability.

The Institution’s Management prepares the deferred tax asset estimate so as to only recognize the deferred tax asset that is highly likely to be recovered in the short-term. This criterion is only based on the effect of the tax benefit derived from the undeducted allowance for loan losses that the Institution estimates will arise, while considering that these differences are temporary based on the financial and tax projections it prepares. Accordingly, the tax benefit is not fully recorded. Deferred tax is recorded on results or stockholders’ equity depending on the item giving rise to prepaid tax (deferred).

Financial margin - The financial margin of the Institution is composed of the difference between total interest incomes less interest expense.

Interest income is composed of the yields generated by the loan portfolio, based on the terms established in the contracts executed with the borrowers, the agreed interest rates, the repayment of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities loans, as well as debt placement premiums, commissions charged on initial loan grants, and net equity instrument dividends.

Interest expense is composed of premiums, discounts and interest on deposits with the Institution, bank loans, repurchase agreements and securities loans. The amortization of costs and expenses incurred during the origination of the loan is also included under interest expense.

Both interest income and expense are periodically adjusted based on the market situation and the economic environment.

Loan interest is recognized in the statements of income as it is accrued and is based on the periods established in contracts executed with borrowers and agreed interest rates, which are normally periodically adjusted in accordance with market and general economic conditions.

Recognition of revenues derived from securities transactions and the result of the purchase-sale of securities - The commissions and tariffs generated by transactions performed with customers' securities are recorded when the transaction is agreed. The results derived from the purchase-sale of securities are recorded when each transaction is performed.

The gains or losses resulting from currency purchase-sale transactions are recorded in the statements of income under the “Gains/losses on financial assets and liabilities (net)”.

Comprehensive income - Comprehensive income presented in the accompanying statements of changes in stockholders’ equity is the result of transactions other than those carried out by the Institution’s stockholders during the period and consists of the effect from the valuation of securities available for sale, adjustment for the change of the financial effect from the new methodology of commercial portfolio rating, the cumulative effects from conversion and the net income.

Expenses - Expenses are recognized as they accrue.

Statement of cash flows - In accordance with D-4 of the criteria of the Commission, the cash flow statement shows the sources of cash and cash equivalents, as well as the disbursements to settle its obligations.

Cash flow together with the rest of the financial statements provides information that allows:

- Analysis of changes in the assets and liabilities of the Institution and in its financial structure.
- Analysis of the amounts and dates of collection and payments to adapt to the circumstances and the opportunities to generate and/or apply cash and cash equivalents.

Memorandum accounts -

- *Credit commitments:*

This item represents the amounts of letters of credit granted by the Institution, which are considered irrevocable commercial credit. It includes the lines granted to clients, not willing.

Items under this account are subject to qualification.

- *Assets in trust or mandate (Unaudited):*

Different management trusts are kept to independently account for assets received. Mandates include the declared value of the assets subject to mandate contracts entered into by the Institution. In the Mandate is recorder the declared value of the assets established by the mandate contracts celebrated by the Institution.

- *Assets in custody or under Administration:*

This account includes the activity of third-party assets and securities received in custody or to be managed by the Institution.

- *Collateral received:*

The balance is composed of all collateral received in repurchase transactions in which the Institution is the buying party.

- *Collateral received and sold or pledged as guarantee:*

The collateral received when the Institution was the buying party, and which was in turn sold by the Institution when it was the selling company, is included.

- *Uncollected interest earned on non-performing loan portfolio (Unaudited):*

Accrued interest is recognized on the date that the credit balance of the amount due is transferred to the non-performing loan portfolio.

- *Other record accounts (Unaudited):*

This account includes credit amounts by determined level of risk and not qualified, as well as securities and derivative operations.

4. Funds available

As of December 31, 2015, 2014 and 2013, funds available were as follows:

Funds Available	2015			2014	2013
	Mexican pesos	Foreign currency	Total	Total	Total
Cash	\$ 10	\$ 29	\$ 39	\$ 99	\$ 75
Deposits in banks	1,121	4,499	5,620	5,642	7,346
Immediate collection documents	-	4	4	4	2
Remittance	-	6	6	6	34
Foreign currency sale 24, 48 and 96 hours (1)	-	(11,154)	(11,154)	(10,067)	(8,913)
	1,131	(6,616)	(5,485)	(4,316)	(1,456)
Restricted funds available:					
Foreign currency purchase 24, 48 and 96 hours (1)	-	20,863	20,863	20,235	13,772
Regulatory monetary deposits (2)	229	-	229	229	100
	229	20,863	21,092	20,464	13,872
Total net	\$ 1,360	\$ 14,247	\$ 15,607	\$ 16,148	\$ 12,416

- (1) This item refers to currency purchase-sale transactions to be settled in 24, 48 and 96 hours and which are considered as restricted until their settlement date. At December 31, 2015, 2014 and 2013, balances denominated in foreign currency (in millions of each currency) and the equivalent amounts in Mexican pesos are comprised as follows:

	2015				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24, 48 and 96 hours (Mexican pesos)	\$ 20,232	\$ 439	\$ 130	\$ 62	\$ 20,863
Sale of foreign exchange to delivered in 24, 48 and 96 hours (Mexican pesos)	(10,457)	(466)	(140)	(91)	(11,154)
Total included in funds available (Mexican pesos)	\$ 9,775	\$ (27)	\$ (10)	\$ (29)	\$ 9,709

The exchange rate as of December 31, 2015 was \$17.2487, \$18.7493 and \$25.4366 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2014				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24, 48 and 96 hours (Mexican pesos)	\$ 19,154	\$ 770	\$ 168	\$ 143	\$ 20,235
Sale of foreign exchange to delivered in 24, 48 and 96 hours (Mexican pesos)	(9,089)	(646)	(176)	(156)	(10,067)
Total in funds available (Mexican pesos)	\$ 10,065	\$ 124	\$ (8)	\$ (13)	\$ 10,168

The exchange rate as of December 31, 2014 was \$14.7414, \$17.8385 and \$22.9847 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2013				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24, 48 and 96 hours (Mexican pesos)	\$ 11,764	\$ 1,131	\$ 863	\$ 14	\$ 13,772
Sale of foreign exchange to delivered in 24, 48 and 96 hours (Mexican pesos)	(7,234)	(773)	(863)	(43)	(8,913)
Total in funds available (Mexican pesos)	\$ 4,530	\$ 358	\$ -	\$ (29)	\$ 4,859

The exchange rate as of December 31, 2013 was \$13.0843, \$18.0301 and \$21.6689 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

- (2) In accordance with the monetary policy established by the Central Bank and in order to regulate its money market liquidity, the Institution must maintain minimum deposits for indefinite periods, which accrue interest at the average bank rate. At December 31, 2015, 2014 and 2013, these deposits amounted to \$229, \$229 and \$100, respectively. Interest income from these deposits is payable every 28 days by applying the rate established by the Central Bank's regulations.

5. Margin accounts

As of December 31, 2015, 2014 and 2013, the margin account is as follows:

	2015	2014	2013
Collaterals delivered as security	\$ 382	\$ 650	\$ 652
Valuation of futures	<u>(3)</u>	<u>(129)</u>	<u>24</u>
	<u>\$ 379</u>	<u>\$ 521</u>	<u>\$ 676</u>

As of December 31, 2015, 2014 and 2013, margin accounts for cash collateral submitted in organized operating markets are remained as follows:

	2015	2014	2013
Scotiabank Inverlat, S.A	\$ 324	\$ 152	\$ 404
Banco Santander México, S.A	27	84	45
BBVA Bancomer, S.A.	-	410	181
Lek Securities	-	-	22
RJO Brien	<u>31</u>	<u>4</u>	<u>-</u>
	<u>\$ 382</u>	<u>\$ 650</u>	<u>\$ 652</u>

Security deposits cover rate futures operations, CPI futures, dollar futures, and national currency and other futures options.

6. Investment in securities

Trading securities - As of December 31, 2015, 2014 and 2013, trading securities were as follows:

	2015				2014	2013
	Acquisition cost	Interest Accrued	Increase (decrease) due to valuation	Total	Total	Total
Debt instruments:						
Government securities						
Federal Government Development Bonds (BONDS)	\$ 1,492	\$ 2	\$ (1)	\$ 1,493	\$ 418	\$ 881
Treasury bills (CETES)	45	-	-	45	-	-
Bonds M, M0 and M7	995	3	(4)	994	135	131
Federal Government Development Bonds in Udis (UDIBONDS)	385	-	(3)	382	71	80
Saving Protection Bonds (BPAT's)	6,762	9	(11)	6,760	505	749
United Mexican States Bonds (UMS)	260	1	(2)	259	127	482
International government securities-						
Debits bonds (NOTES)	20	-	-	20	-	-
Private securities-						
Marketable certificates	4,895	38	(68)	4,865	5,338	4,549
Commercial Paper	178	-	(3)	175	82	74
Foreign Station Titles	62	-	(12)	50	45	403
Private bank issued securities -						
Promissory Note With Yield Payable at Maturity (PRLV)	398	-	-	398	-	853
Marketable Certificates	1,231	7	(7)	1,231	318	1,002
Certificates of Deposit (CEDES)	1,573	2	22	1,597	990	468
Capital market instruments-						
Mutual funds	36	-	1	37	36	-
Value date transactions-						
Government securities -						
Federal Government Development Bonds (BONDS)	2	-	-	2	-	-
Treasury bills (CETES)	6	-	-	6	-	-
Bonds M, M0 and M7	(1,417)	-	-	(1,417)	(457)	-
Federal Government Development Bonds in Udis (UDIBONDS)	(90)	-	-	(90)	(187)	-
Private bank issued securities -						
Traded Bank Certificates	(3)	-	-	(3)	-	(180)
Capital market instruments-						
Mutual funds	-	-	-	-	-	35
Total trading securities	<u>\$ 16,830</u>	<u>\$ 62</u>	<u>\$ (88)</u>	<u>\$ 16,804</u>	<u>\$ 7,421</u>	<u>\$ 9,527</u>

Restricted trading securities -

At December 31, 2015, 2014 and 2013, the securities under repurchase agreement are as follows:

	2015	2014	2013
Government securities -			
Treasury bills (CETES)	\$ 45	\$ -	\$ -
Federal Government Development Bonds (BONDS)	1,378	-	614
Bonds M, M0 and M7	859	-	74
Federal Government Development Bonds in Udis (UDIBONDS)	324	10	79
Saving Protection Bonds (BPAT's)	6,222	-	7
United Mexican States Bonds (UMS)	259	127	482
Subtotal	9,087	137	1,256
Private securities-			
Marketable Certificates	3,831	5,292	4,085
Commercial Paper	175	82	74
Subtotal	4,006	5,374	4,159
Private bank issued securities			
Marketable Certificates	868	156	308
Certificates of Deposit (CEDES)	1,597	990	468
Subtotal	2,465	1,146	776
Total	\$ 15,558	\$ 6,657	\$ 6,191

This position is considered restricted within trading securities.

As of December 31, 2015, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

2015			
Issuer	Maturity date	% rate	Restated valued
SGMEX9113D	16/05/2016	1.32%	\$ 345
SGMEX9112-2	11/10/2017	3.65%	506
TFOVICB9515-2U	26/05/2045	3.51%	906
PEMEX9510-2	27/01/2020	6.23%	302
TFOVIS9514-2U	27/03/2044	3.25%	409
PEMEX9513-2	12/09/2024	8.82%	569
PEMEX9511-3	24/11/2021	8.25%	629
BACOMERF21145	02/04/2021	3.45%	523
BACOMERF22224	26/05/2022	3.15%	1,075
BMULTIVI16061	08/02/2016	3.40%	398
CABEJI2-15	14/01/2020	3.47%	351
Total			\$ 6,013

Securities available for sale-As of December 31, 2015, 2014 and 2013, the securities available for sale are as follows:

	2015				2014	2013
	Acquisition cost	Interest Accrued	Increase (decrease) due to decrease	Total	Total	Total
Debt instruments:						
Government securities						
TREASURY NOTES	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ -
Private securities-						
Marketable Certificates						
PEMEX 13-2 95	42	1	(3)	40	-	-
CEDEVIS 12U 95	4	-	-	4	-	-
CEDEVIS 13U 95	223	1	(5)	219	-	-
TFOVIS 14U 95	633	-	(1)	632	-	-
TFOVIS 14-3U 95	<u>618</u>	<u>-</u>	<u>(10)</u>	<u>608</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,520</u>	<u>\$ 2</u>	<u>\$ (19)</u>	<u>\$ 1,503</u>	<u>\$ 17</u>	<u>\$ -</u>

As of December 31, 2015 and 2014, the securities available for sale didn't show signs of impairment.

7. Repurchase agreements

As of December 31, 2015, 2014 and 2013, repurchase agreements were as follows:

When the Institution acts as purchaser:

	2015		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 1,801	\$ 985	\$ 816
Bonds M, M0 and M7	513	104	409
Federal Government Development Bonds in Udis (UDIBONDS)	29	-	29
Saving Protection Bonds (BPAT's)	<u>3,441</u>	<u>1,000</u>	<u>2,441</u>
Subtotal	5,784	2,089	3,695
Private bank issued securities-			
Certificates of Deposit (CEDES)	457	455	2
Promissory Note With Yield Payable at Maturity (PRLV)	<u>57</u>	<u>57</u>	<u>-</u>
Subtotal	514	512	2
Private securities-			
Marketable Certificates	<u>1,361</u>	<u>1,330</u>	<u>31</u>
Subtotal	<u>1,361</u>	<u>1,330</u>	<u>31</u>
Total	<u>\$ 7,659</u>	<u>\$ 3,931</u>	<u>\$ 3,728</u>

2014			
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 1,064	\$ 133	\$ 931
Saving Protection Bonds (BPAT's)	<u>2,401</u>	<u>-</u>	<u>2,401</u>
Subtotal	3,465	133	3,332
Private bank issued securities-			
Certificates of Deposit (CEDES)	60	60	-
Marketable Certificates	<u>9</u>	<u>9</u>	<u>-</u>
Subtotal	69	69	-
Private securities-			
Marketable Certificates	<u>314</u>	<u>314</u>	<u>-</u>
Subtotal	<u>314</u>	<u>314</u>	<u>-</u>
Total	<u>\$ 3,848</u>	<u>\$ 516</u>	<u>\$ 3,332</u>
2013			
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 61	\$ 28	\$ 33
Subtotal	61	28	33
Private bank issued securities-			
Certificates of Deposit (CEDES)	<u>186</u>	<u>186</u>	<u>-</u>
Subtotal	186	186	-
Private securities-			
Marketable Certificates	<u>145</u>	<u>145</u>	<u>-</u>
Subtotal	<u>145</u>	<u>145</u>	<u>-</u>
Total	<u>\$ 392</u>	<u>\$ 359</u>	<u>\$ 33</u>

As of December 31, 2015 and 2014 the repurchase transactions performed by the Institution, acting as purchaser, were agreed at terms ranging between 2 to 20 days for both years and 2013 between 5 to 12 days.

When the Institution acts as seller:

	2015	2014	2013
	Cash to be delivered	Cash to be delivered	Cash to be delivered
Government securities-			
Treasury bills (CETES)	\$ 45	\$ -	\$ -
Federal Government Development Bonds (BONDS)	1,377	-	614
Bonds M, M0 and M7	858	-	74
Federal Government Development Bonds in UDIS (UDIBONDS)	325	10	79
Saving Protection Bonds (BPAT's)	6,223	-	7
United Mexican States Bonds (UMS)	<u>260</u>	<u>127</u>	<u>482</u>
Subtotal	9,088	137	1,256

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	Cash to be delivered	Cash to be delivered	Cash to be delivered
Private securities-			
Marketable Certificates	3,861	5,280	4,117
Commercial Paper	<u>178</u>	<u>82</u>	<u>74</u>
Subtotal	4,039	5,362	4,191
Private bank issued securities-			
Certificates of Deposit (CEDES)	1,580	990	472
Marketable Bank Certificates	<u>870</u>	<u>154</u>	<u>310</u>
Subtotal	<u>2,450</u>	<u>1,144</u>	<u>782</u>
Total	<u>\$ 15,577</u>	<u>\$ 6,643</u>	<u>\$ 6,229</u>

For the years ended December 31, 2015, 2014 and 2013, accrued interest on sale agreements are \$210, \$155 and \$101, respectively and the accrued interest expenses on purchase agreements are \$350, \$179 and \$322, respectively.

As of December 31, 2015, 2014 and 2013, the repurchase transactions performed by the Institution, acting as seller, were agreed at terms ranging between 4 to 106 days, 2 to 11 days and 2 to 27 days, respectively.

8. Derivative financial instrument transactions

As of December 31, 2015, 2014 and 2013, the position for transactions with financial derivatives is as follows:

	<u>2015</u>		<u>2014</u>		<u>2013</u>	
	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net
Futures-						
Foreign currency futures	\$ 5,686	\$ -	\$ 7,234	\$ -	\$ 9,059	\$ -
Futures indexes	3	-	-	-	24	-
Futures securities	-	-	50	-	-	-
Forwards-						
Foreign currency forwards	8,993	932	102,335	1,315	29,627	336
Forwards Indexes	-	-	4	-	-	-
Options-						
Foreign currency options	15	79	51	270	6	4
Rates options	43	94	49	83	33	48
Options Indexes	-	-	-	-	5	4
Swaps-						
Rates swaps	<u>6,921</u>	<u>295</u>	<u>6,039</u>	<u>21</u>	<u>4,367</u>	<u>148</u>
Total position	<u>\$ 21,661</u>	<u>\$ 1,400</u>	<u>\$115,762</u>	<u>\$ 1,889</u>	<u>\$ 43,121</u>	<u>\$ 540</u>

	2015		2014		2013	
	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net
Futures-						
Foreign currency futures	\$ 56	\$ -	\$ 5,050	\$ -	\$ 293	\$ -
Futures indexes	-	-	330	-	-	-
Forwards-						
Foreign currency forwards	25,431	447	115,641	742	44,553	279
Forwards Indexes	-	-	4	-	26	1
Options-						
Foreign currency options	14	31	60	151	6	5
Rates options	72	101	71	96	22	43
Options Indexes	-	-	-	-	3	2
Swaps-						
Rates swaps	<u>7,102</u>	<u>476</u>	<u>6,209</u>	<u>391</u>	<u>-</u>	<u>305</u>
Total position	<u>\$ 32,675</u>	<u>\$ 1,055</u>	<u>\$127,365</u>	<u>\$ 1,380</u>	<u>\$ 44,903</u>	<u>\$ 635</u>

For the years ended December 31, 2015, 2014 and 2013, the valuation effect of the trading derivative instruments is reflected in the statements of income under “Gains/losses on financial assets and liabilities (net)” (See note 29).

Derivatives and the underlying assets are as follows:

Futures	Forwards	Options	Swaps	Notes
IPC	FX-USD	ORG MXP IPC	IRS-TIE 28	USD/MXN
USD	FX-EUR	OTC MXP IPC	IRS-LIBOR 1M	EUR/MXN
	EQ- IPC	OTC USD/MXN	CCSWAP- TIE LIB	
	EQ-Acciones	OTC EUR/MXN	CCSWAP Fija-Fija	
		IRD CF	USD/MX	

The guarantees and/or collateral received and delivered for the derivative financing transactions as of December 31, 2015, 2014 and 2013, are comprised as follows:

Received					
Heading	Type of collateral	Market	2015	2014	2013
Sundry creditors and other accounts payable	Cash	OTC	<u>\$ 1,550</u>	<u>\$ 1,288</u>	<u>\$ 495</u>
Delivered					
Heading	Type of collateral	Market	2015	2014	2013
Margin accounts	Cash	Recognized markets	<u>\$ 382</u>	<u>\$ 650</u>	<u>\$ 652</u>
Other receivables	Securities	OTC	<u>\$ 530</u>	<u>\$ 879</u>	<u>\$ 470</u>

Upon executing transactions with “Over the counter” (OTC) derivatives, the Institution agrees to deliver and/or receive collateral, to cover any exposure to market risk and the credit risk of such transactions. Such collateral is contractually agreed to with each of the counterparties.

As of December 31, 2015, 2014 and 2013, there are no restricted securities delivered as security for derivative transactions.

Management of derivative financial instrument usage policies

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes. The main objectives of these products are covering risks and maximizing profitability.

The instruments used include forwards, futures, options, interest rate swaps and currency swaps.

The trading markets are listed and OTC markets and the eligible counterparties may be domestic entities that comply with the 31 requirements established by the Central Bank.

The appointment of calculation agents is established in the legal documentation executed with the counterparties. The prices published by price suppliers are used to value derivative instruments in organized markets and are based on the prices generated in derivative markets. OTC derivatives are valued using prices calculated by the derivatives system, using the risk factor information published by the price supplier.

The main terms or conditions of the contracts are based on those of the International Swaps and Derivatives Association, Inc. (ISDA) or the local outline agreement, which is based on the guidelines provided by the ISDA. The specific policies regarding margins, collateral, and lines of credit are detailed in the Derivatives Manual and any changes thereto must be approved by the Risk Committee.

Authorization levels and processes

Per internal regulations, all derivative products or services associated to derivative products traded by the Institution are approved by the Risk Committee. Any amendments or additions to the original authorization of products or services must also be approved by the Risk Committee.

The Risk Committee includes members from all areas that are involved in the operation of the product or service depending on its nature and which are responsible for accounting, legal instruments, tax treatment, risk assessment, etc.

Independent reviews

The Institution is subject to the supervision and oversight of the Commission and the Central Bank, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports. Similarly, internal and external auditors perform periodic reviews.

Generic description of valuation techniques

1. For trading purposes:

- Organized markets- The valuation is made using the closing price of the respective market and the prices are provided by a price vendor.
- “Over The Counter” markets (OTC): OTC derivatives executed with customers are valued by the derivatives system using standard methodologies for the various instruments. The information for the valuation is provided by the price vendor.

The valuation of OTC derivatives that are held with brokers and used to cover those made with customers, are made by the entity designated as the calculation agent for ISDA contract.

The Institution values all of its positions and records the value obtained in conformity with the respective accounting criteria.

2. Reference variables:

The most relevant reference variables are exchange rates, interest rates, shares, baskets and share indexes.

3. Valuation frequency:

Derivative financial instruments for trading purposes are valued daily.

Management of internal and external liquidity sources that may be used for requirements related to financial instruments

Resources are obtained through the Treasury.

Changes in the exposure to identified risks, contingencies, and known or expected events of derivative financial instruments

In relation to financial instruments held for trading at December 31, 2015, 2014 and 2013, management is not aware of any situations or events, such as changes in the value of the underlying asset or reference variables which imply that the use of derivative instruments differ from those that were originally conceived, that could require the Institution to assume new obligations, commitments or changes in cash flow affecting liquidity (margin calls), or contingencies affecting current or future periods.

The amount of margin calls made during 2015, 2014 and 2013 was necessary to cover contributions in both the organized and the required collateral contracts markets.

At December 31, 2015, 2014 and 2013, except as mentioned in the previous paragraph, there is no evidence of deterioration in credit risk (counterparty) that requires modifying the carrying amount of derivative financial instruments.

Impairment of financial derivatives -

At December 31, 2015, 2014 and 2013, there is no indication of impairment in credit risk (counterparty) that requires modifying the carrying amount of financial assets from the rights in derivative financial instruments.

Sensitivity analysis -

Identification of risks - The sensitivity of derivative financial instruments is calculated in accordance with the market value variance according to certain variances in the base scenario. Based on the variances, there are different sensitivities.

The risk factors that may generate losses on transactions with derivative financial instruments due to changes in market conditions are interest rate, exchange rate, and changes in share indexes. A sensitivity analysis shows that the consumption in these risks is not relevant.

The sensitivity is assessed using the effect of variances in risk factors on the market value of the positions in effect at a certain date; such position considers the derivatives with customers and the hedging transactions in spot markets and with OTC derivatives with financial intermediaries, i.e., the net position in terms of delta.

The following chart shows the total sensitivity consumption as of December 31, 2015 (unaudited):

Sensibility analysis	Sensitivity (all factors)
Stage one 1%	(0.191)
Stage two 2%	(0.382)

Stress Test -

- **Scenario one:** In this scenario, the risk factors move as follows:
 - The FX risk factors are multiplied by 1.10, i.e., they change 10%.
 - The EQ risk factors are multiplied by 1.20, i.e., they change 20%.
- **Scenario two:** In this scenario, the risk factors move as follows:
 - The FX risk factors are multiplied by 1.20, i.e., they change 20%.
 - The EQ risk factors are multiplied by 1.40, i.e., they change 40%.

As of December 31, 2015 the results for these scenarios are as follows and show the impact on results if they occurred (unaudited):

Risk profile	Stress test (all factors)
Scenario one	\$ <u>(1.9)</u>
Scenario two	\$ <u>(3.8)</u>

9. Loan portfolio

As of December 31, 2015, 2014 and 2013, the performing portfolio and non-performing loan portfolio granted by type of currency are as follows:

	2015		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial with credit enhancement	\$ 4,646	\$ 45	\$ 4,691
Loans to financial institutions	984	-	984
Housing loans-			
Housing loans	9	12	21
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial with credit enhancement	6,252	51	6,303
Loans to financial institutions	<u>472</u>	<u>-</u>	<u>472</u>
Total	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 12,471</u>
	2014		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial with credit enhancement	\$ 3,014	\$ -	\$ 3,014
Loans to financial institutions	888	-	888
Housing loans-			
Housing loans	161	6	167
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial with credit enhancement	<u>3,968</u>	<u>3</u>	<u>3,971</u>
Total	<u>\$ 8,031</u>	<u>\$ 9</u>	<u>\$ 8,040</u>

		2013		
		Performing	Non-performing	Total
Mexican pesos:				
Commercial loans -				
Commercial with credit enhancement	\$	1,554	\$ 15	\$ 1,569
Loans to financial institutions		396	-	396
Government entities		34	-	34
Housing loans-				
Housing loans		948	1	949
U.S. dollars converted to Mexican pesos:				
Commercial loans -				
Commercial with credit enhancement		1,247	8	1,255
Loans to financial institutions		<u>131</u>	<u>-</u>	<u>131</u>
Total	\$	<u>4,310</u>	\$ <u>24</u>	\$ <u>4,334</u>

The Institution grants loans guaranteed by the U.S. Ex-Im Bank, as follows:

Definition of Ex-Im Bank - "*The Export-Import Bank of the United States*", is the U.S. export loan agency. Its mission is to provide financing for the export of U.S. goods and services to international markets.

- a) For long-term loans subject to such guarantees, the Institution receives guarantees covering 100% of the Ex-Im Bank, which is documented in an outline agreement.
- b) For short-term loans with revolving lines of credit guaranteed with loan insurance policies issued by the Ex-Im Bank to the Institution, the policies cover between 90% and 98% of the loan amount.

In the event of default of a loan guaranteed or insured by the Ex-Im Bank, the Institution will claim the settlement and subrogate the collection rights to such bank, which continues collections efforts on the loans.

At December 31, 2015, 2014 and 2013, the portfolio with third participation administered by the Institution. Balances denominated in foreign currency are as follows:

	2015	2014	2013
Short-term	\$ 198	\$ 186	\$ 214
Medium-term	<u>8</u>	<u>16</u>	<u>42</u>
	<u>\$ 206</u>	<u>\$ 202</u>	<u>\$ 256</u>

Risk diversification -

At December 31, 2015, the Institution maintains the following credit risk operations in conformity with the general diversification rules established for active and passive transactions by the Provisions, as follows:

- The Institution has granted seven loans to debtors or groups of individuals or entities with a common risk, the individual amount of which exceeds 10% of its basic capital. The joint commitment of these loans in the quarter before is equal to \$3,317, 87.88% of the Institution's basic capital.
- The total of the loans granted to the Institution's three main debtors is \$1,654 and represents 43.82% of its basic capital.

According to the Provisions, the limits applicable to the diversification of an Institution's credit operations are determined according to its fulfillment of capitalization requirements, while considering the exceptions established by the Provisions, as follows:

- When granting financing to the same individual or entity or group of individuals or entities with a Common Risk, the Institution is subject to the maximum financing limit obtained by applying the following:

Capitalization level	Maximum financing limit calculated according to the Institution's basic capital
More than 8% and up to 9%	12%
More than 9% and up to 10%	15%
More than 10% and up to 12%	25%
More than 12% and up to 15%	30%
More than 15%	40%

- The sum of the financing granted to the Institution's three main debtors must not exceed 100% of its basic capital.
- Financing granted to full-service banking institutions is subject to maximum financing limits, but is nonetheless subject to the maximum limit of 100% of the basic capital of the lending Institution. In the case of foreign institutions in which foreign financial entities hold equity, the aforementioned limit is applicable to the holding company and its subsidiary institutions taken as a whole.
- The financing granted to the state-owned entities and departments of the Federal Public Administration, including public trusts and the productive entities pertaining to the State, must be subject to the maximum limit of 100% of the basic capital of the lending Institution.

These credit limits must be measured quarterly. The applicable limit is calculated by using the basic capital amount and capitalization ratios of the quarter immediately preceding the date on which the calculation is made. These ratios are published by the Commission for each Institution on the following website:
<http://www.cnbv.gob.mx>.

The Commission may reduce the above limits whenever it considers that an institution's Comprehensive Risk Management is inadequate or its Internal Control System has certain weaknesses.

Loans to related parties - As of December 31, 2015 the loan amounts delivered to related parties in accordance with Article 73 of the Law on Credit Institutions is \$207, at December 31, 2014 and 2013 is \$22 for both years, which were approved by the Board of Directors.

Policy and methods used to identify distressed commercial loans - For disclosure proposes in the financial statements, the Institution considers distressed portfolio commercial loans for which it is determined that, based on current information and events as well as in the process of reviewing the credit, there is significant possibility that no can be recovered in full, both its component of principal and interest in accordance with the terms and conditions originally agreed. Both the performing portfolio as non-performing are likely to be identified as distressed portfolio.

Policy and procedures to identify credit risk concentration - Concentration risk is an essential element of risk management. The Institution continuously monitors the degree of concentration of credit risk portfolios by economic group.

Credit lines unused by customers - As of December 31, 2015, 2014 and 2013, unused credit lines authorized to customers for \$6,908, \$1,159 and \$1,281, respectively.

As of December 31, 2015, 2014 and 2013, aging of non-performing portfolio is as follows:

	2015	2014	2013
From 90 to 179 days	\$ 98	\$ 4	\$ 1
From 180 to 365 days	10	4	10
Over 365	<u>-</u>	<u>1</u>	<u>13</u>
	<u>\$ 108</u>	<u>\$ 9</u>	<u>\$ 24</u>

10. Allowance for loan losses

As of December 31, 2015, 2014 and 2013, the allowance for loan losses was \$176, \$112 and \$64, respectively, and is assigned as follows:

2015	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans			
Commercial with credit enhancement	\$ 10,898	\$ 96	\$ 165
Loans to financial institutions	1,456	-	8
Housing loans-			
Housing loans	<u>9</u>	<u>12</u>	<u>3</u>
Total portfolio	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 176</u>
2014	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial with credit enhancement	\$ 6,982	\$ 3	\$ 103
Loans to financial institutions	888	-	6
Housing loans-			
Housing loans	<u>161</u>	<u>6</u>	<u>3</u>
Total portfolio	<u>\$ 8,031</u>	<u>\$ 9</u>	<u>\$ 112</u>
2013	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial with credit enhancement	\$ 2,801	\$ 23	\$ 48
Loans to financial institutions	527	-	5
Government entities	34	-	3
Housing loans-			
Housing loans	<u>948</u>	<u>1</u>	<u>8</u>
Total portfolio	<u>\$ 4,310</u>	<u>\$ 24</u>	<u>\$ 64</u>

As of December 31, 2015, 2014 and 2013, the Institution maintained an allowance for loan losses equivalent to 163%, 1,244% and 267%, of the non-performing portfolio, respectively.

The allowance for loan losses resulting from the loan portfolio classification with responsibilities as of December 31, 2015, 2014 and 2013, reported by the Institution, is as follows:

Degree of risk	2015		2014		2013	
	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded
A-1	\$ 6,397	\$ 32	\$ 4,078	\$ 18	\$ 2,613	\$ 13
A-2	4,483	55	3,356	43	1,584	18
B-1	2,046	34	1,616	26	954	15
B-2	269	7	133	3	85	2
B-3	353	12	338	11	159	6
C-1	91	7	87	6	66	5
C-2	6	1	13	2	9	1
D	72	28	1	-	10	4
E	-	-	3	3	-	-
Base rating portfolio	13,717	<u>\$ 176</u>	9,625	<u>\$ 112</u>	5,480	<u>\$ 64</u>
Less - Letter of credit	<u>(1,246)</u>		<u>(1,585)</u>		<u>(1,146)</u>	
Loan portfolio, net	<u>\$ 12,471</u>		<u>\$ 8,040</u>		<u>\$ 4,334</u>	

Below is the activity of the allowances for loan losses for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Opening balances	\$ 112	\$ 64	\$ 84
Provisions (applications) with debit (credit) to:			
Additions charged to results	60	48	38
Effect due to adoption of new methodology commercial portfolio		-	135
Exchange result	11	4	(1)
Applications	<u>(7)</u>	<u>(4)</u>	<u>(192)</u>
Closing balances	<u>\$ 176</u>	<u>\$ 112</u>	<u>\$ 64</u>

11. Other receivables, net

As of December 31, 2015, 2014 and 2013, the other receivables, are as follows:

	2015	2014	2013
Debtors due to liquidation of operations of money market	\$ 1,612	\$ 731	\$ 173
Debtors by foreign exchange transactions in 24, 48 or 96 hours	11,176	10,223	8,997
Debtors of operation	289	519	440
Intercompany administrative services	-	1	1
Employee loans and other debits	21	9	18
Collateral delivered for the derivative financing transactions	530	879	470
Other debtors	<u>11</u>	<u>19</u>	<u>14</u>
	13,639	12,381	10,113
Allowance for doubtful accounts	<u>(59)</u>	<u>(184)</u>	<u>(179)</u>
Total	<u>\$ 13,580</u>	<u>\$ 12,197</u>	<u>\$ 9,934</u>

12. Furniture and fixtures, net

As of December 31, 2015, 2014 and 2013, furniture and fixtures are as follows:

	2015	2014	2013
Office furniture and equipment	\$ 91	\$ 78	\$ 68
Computers and communications equipment	71	60	96
Vehicles	<u>8</u>	<u>8</u>	<u>8</u>
	170	146	172
Less- Accumulated depreciation	<u>(87)</u>	<u>(60)</u>	<u>(92)</u>
Total, furniture and fixtures (net)	<u>\$ 83</u>	<u>\$ 86</u>	<u>\$ 80</u>

The annual depreciation rates were as follows:

	Percentage
Computers and communications equipment	33%
Vehicles	25%
Office furniture and equipment	10%

For the years ended at December 31, 2015, 2014 and 2013, depreciation expense amounted \$25, \$24 and \$28, respectively.

13. Other assets

As of December 31, 2015, 2014 and 2013, goodwill and other assets were as follows:

	2015	2014	2013
Goodwill:			
Tempus	\$ 407	\$ 407	\$ 407
Monex Europe LTD.	326	326	326
Conversion effect	<u>253</u>	<u>129</u>	<u>51</u>
	986	862	784
Deferred charges, prepayments and intangible:			
Other intangible assets arising from the acquisition of Tempus (1)	176	176	176
Other intangible assets arising in the acquisition of Monex Europe (1)	635	635	635
Conversion effect	<u>161</u>	<u>57</u>	<u>(4)</u>
Intangible assets	972	868	807
Adjustments and improvements	217	209	198
Software	56	25	-
Prepayments	93	57	159
Investment projects	5	-	11
Other deferred charges	<u>8</u>	<u>-</u>	<u>6</u>
	1,351	1,159	1,182
Less - accumulated amortization	<u>(147)</u>	<u>(110)</u>	<u>(61)</u>
	1,204	1,049	1,121
Other assets:			
Operational deposit	<u>11</u>	<u>6</u>	<u>20</u>
	<u>\$ 2,201</u>	<u>\$ 1,917</u>	<u>\$ 1,925</u>

During 2014, the Institution's management identified that the goodwill generated on the acquisition of Monex Europe was understated at acquisition, and reclassified amounts initially allocated to account receivable to goodwill. Such account receivable was a security deposit held in an escrow account for the future payment to the former shareholders', which, based on the original projections, was probable of recovery by Monex. The reclassification was made retrospectively.

In accordance with the contract executed by stockholders, in May 2015, the last of the three payments of \$35 was made to the stockholders of Monex Europe, thereby concluding the acquisition of this entity.

- (1) At December 31, 2015, 2014 and 2013, the Institution has identified intangible assets acquired separately from goodwill from the acquisition of Tempus and Monex Europe, as follows:

	Tempus	Monex Europe	Total		
			2015	2014	2013
Licenses	\$ 71	\$ -	\$ 71	\$ 71	\$ 71
Sales force	42	67	109	109	109
Operating agreements with banks	56	401	457	457	457
Software	7	6	13	13	13
No compete agreements	-	161	161	161	161
Total	176	635	811	811	811
Conversion effect			161	57	(4)
Total assets for the period			972	868	807
Amortization			(63)	(45)	-
Total intangible assets			\$ 909	\$ 823	\$ 807

14. Foreign currency position

As of December 31, 2015, 2014 and 2013, foreign currency assets and liabilities of the Institution were as follows:

	Millions of US Dollars			Millions of Euros			Other foreign currencies in millions of U.S. dollars		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Funds available	USD 718	USD 966	USD 678	€ 23	€ 19	€ 23	USD 85	USD 66	USD 49
Margin accounts	5	3	4	-	-	-	-	-	-
Investment in securities	45	63	85	9	-	-	-	-	-
Derivative (assets not offset)	896	1,572	3,134	17	31	65	31	27	291
Loan portfolio	388	265	104	-	-	-	-	-	-
Other receivables	35	115	67	-	-	-	27	34	143
Furniture and fixtures	-	-	-	-	-	-	-	1	1
Investments in equity	-	-	10	-	-	-	-	-	(10)
Deferred taxes and PTU (net)	-	-	(4)	-	-	-	-	-	-
Other assets	48	48	49	-	-	-	66	70	69
Deposits	(368)	(463)	(158)	(27)	(11)	(9)	(8)	(6)	(6)
Bank and other loans	(11)	(13)	-	-	-	-	-	-	-
Liabilities arising from sale and repurchase agreements	(8)	(60)	(96)	(2)	(2)	(2)	-	-	-
Derivative, (liability not offset)	(1,581)	(2,874)	(3,738)	(18)	(38)	(65)	-	(2)	(279)
Collateral sold or pledged in guarantee	(10)	-	-	-	-	-	(64)	-	-
Sundry creditors and other payables	(63)	(98)	(88)	(3)	(2)	(13)	(39)	(91)	(172)
Deferred credits and prepayments	(2)	(1)	(1)	-	-	-	-	-	-
Liabilities arising from cash collateral received	-	(1)	(2)	-	-	-	-	-	-
Asset (liability) position	USD 92	USD (478)	USD 44	€ (1)	€ (3)	€ (1)	USD 98	USD 99	USD 86
Mexican peso equivalent	\$ 1,587	\$ (7,046)	\$ 576	\$ (19)	\$ (54)	\$ (18)	\$ 1,690	\$ 1,459	\$ 1,125

As of December 31, 2015, 2014 and 2013, the “Fix” (48-hour) exchange rate submitted by the Central Bank and used was \$17.2487, \$14.7414 and \$13.0843 per U.S. dollar, respectively.

As of December 31, 2015, 2014 and 2013, the “Euro” exchange rate submitted by the Central Bank and used was \$18.7493, \$17.8385 and \$18.0301 per Euro, respectively.

On February 25, 2016, the foreign currency position (unaudited) is similar to the position of the end of the year. The foreign exchange “Fix” at this date is \$18.1680 per U.S. dollar and \$20.0429 per Euro.

The Central Bank sets the ceilings for foreign currency liabilities and the liquidity ratio that the Institution obtains directly or through its foreign agencies, branches or affiliates, which must be determined daily for such liabilities to enable the Institution to structure their contingency plans and promote longer term funding within a reasonable time frame.

The Institution performs a large number of foreign currency transactions mainly in U.S. dollar, Euro, Sterling pound, Canadian dollar, Japanese Yen and other currencies. Given that the parities of other currencies against the Mexican peso are linked to the U.S. dollar, the overall foreign currency position is consolidated into U.S. dollars at each month-end closing.

15. Deposits

As of December 31, 2015, 2014 and 2013, deposits were as follows:

	2015	2014	2013
Demand deposits	\$ 8,498	\$ 7,985	\$ 6,410
Time deposits-			
General public	4,984	5,483	3,994
Money market:			
Deposit certificates	2,033	656	695
Promissory notes with interest payable at maturity (BMONEX) (1)	2,149	280	351
Debt securities			
Debt securities (Bonds)	<u>1,084</u>	<u>156</u>	<u>370</u>
Total deposits	<u>\$ 18,748</u>	<u>\$ 14,560</u>	<u>\$ 11,820</u>

- (1) Short-term maturities which generated interest at an average 3.43%, 2.91% and 6.6% rate, in 2015, 2014 and 2013, respectively.

The Institution made its first public offering of securitization certificates under ticker symbol “BMONEX15”, which were registered with the National Securities Registry and listed with the Mexican Stock Exchange according to the program created for long-term revolving securitization certificates for up to the amount of \$8,000. The securitization certificates were issued for a period of 1,092 days, which is equal to three years, and placed at the TIIE 28-day rate + 90 basis points.

16. Bank and other loans

As of December 31, 2015, 2014 and 2013, bank loans were as follows:

	2015				2014	2013
	Mexican pesos	Foreign currency	Rate	Total	Total	Total
Demand deposits-						
“Call Money” received	\$ -	\$ -	-	\$ -	\$ 200	\$ -
Total demand deposits	-	-		-	200	-
Short term-						
FIRA	22	-	3.82%	22	8	10
Clusters	651	187	3.14%	838	584	462
Digital loans	20	-	5.10%	20	-	1
Total short term	<u>693</u>	<u>187</u>		<u>880</u>	<u>592</u>	<u>473</u>
Total interbank loans and other loans	<u>\$ 693</u>	<u>\$ 187</u>		<u>\$ 880</u>	<u>\$ 792</u>	<u>\$ 473</u>

Loans with Development Bank Institutions - Loans are granted by Nacional Financiera, S.N.C. (NAFIN) and Fideicomiso of Central Bank (FIRA), which represent a direct obligation of the Institution with these entities. Accordingly, the Institution grants loans in Mexican pesos and U.S. dollars to their customers for financial support.

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

17. Comparative maturities of principal assets and liabilities

The maturities of the significant assets and liabilities held as of December 31, 2015 were as follows:

	6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Assets:					
Funds available (1)	\$ 15,378	\$ -	\$ -	\$ 229	\$ 15,607
Margin accounts	379	-	-	-	379
Investment in securities	16,804	-	-	1,503	18,307
Repurchase agreements	3,728	-	-	-	3,728
Derivatives	661	294	222	223	1,400
Loan portfolio (net)	5,711	627	3,543	2,482	12,363
Other receivables (net)	<u>13,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,580</u>
Total assets	<u>56,241</u>	<u>921</u>	<u>3,765</u>	<u>4,437</u>	<u>65,364</u>
Liabilities:					
Deposits	17,741	4	1,003	-	18,748
Bank and loans	838	-	42	-	880
Liabilities arising from sale and repurchase agreements	15,577	-	-	-	15,577
Derivatives	513	16	311	215	1,055
Obligations arising from settlement of transactions	20,982	-	-	-	20,982
Liabilities arising from cash collateral received	1,550	-	-	-	1,550
Other accounts payables	<u>1,285</u>	<u>-</u>	<u>-</u>	<u>158</u>	<u>1,443</u>
Total liabilities	<u>58,486</u>	<u>20</u>	<u>1,356</u>	<u>373</u>	<u>60,235</u>
Assets less liabilities	<u>\$ (2,245)</u>	<u>\$ 901</u>	<u>\$ 2,409</u>	<u>\$ 4,064</u>	<u>\$ 5,129</u>

- (1) The heading of Funds available includes Monetary Regulation Deposits with Central Bank. Such deposits as of December 31, 2015 and 2014 are \$229 for both years and December 31, 2013 are \$100, and cannot be disposed of freely.

18. Related party transactions and balances

Transactions carried out among the companies that are related parties with respect to the Institution include, such as investments, deposits, rendering of services, etc., most of which generate income for one entity and an expense for another. Transactions and balances among consolidating companies were eliminated, while those of unconsolidated entities remain in effect.

As of December 31, 2015, 2014 and 2013, the receivable and payable accounts with related companies are as follow:

	2015	2014	2013
Asset-			
Funds available	\$ 9,710	\$ 9,614	\$ 2,898
Repurchase agreements	\$ -	\$ 1,152	\$ 393
Other receivables	\$ 1,758	\$ 1,506	\$ 1,122
Other assets	\$ 7	\$ 5	\$ 5
Liability-			
Deposits	\$ 129	\$ 162	\$ 1,514
Repurchase agreements	\$ 1,103	\$ 5,490	\$ 4,923
Derivatives	\$ 5	\$ 32	\$ 11
Other payables accounts	\$ 11,454	\$ 11,116	\$ 4,012

As of December 31, 2015, 2014 and 2013, the most significant transactions carried out by the Institution with related and affiliated companies (at face values) were as follows:

	2015	2014	2013
Income by-			
Interest	\$ 178	\$ 154	\$ 59
Corporate services	\$ 7	\$ 19	\$ 50
Expenses by-			
Interest and commissions	\$ 285	\$ 168	\$ 268
Corporate services	\$ 66	\$ 130	\$ 60
Gains/losses on financial assets and liabilities (net)	\$ 1,701	\$ 1,655	\$ 117

Management considers that transactions with related parties were performed according to the terms that would be utilized with or between independent parties for comparable transactions.

19. Labor benefits

Under Mexican Labor Law, the Institution is liable for pensions, severance payments and seniority premiums to employees terminated under certain circumstances.

Each year, the Institution records the net periodic cost to create an obligation from seniority premiums pensions and severance payments as it accrues based on actuarial calculations prepared by independent actuaries, which are based on the projected unit credit method and the parameters established by the Commission. Therefore, the liability is being accrued which at present value will cover the obligation from benefits projected to the estimated retirement date of the Institution's employees.

As of December 31, 2015, 2014 and 2013, the Institution amortizes variances based on the seniority premiums plan, based on the average remaining years of service of the Institution's employees.

As of December 31, 2015, 2014 and 2013, balances and activity reflected in employee benefits, which include, seniority premiums and severance payments, were as follows:

	2015	2014	2013
Defined benefit obligation	\$ 456	\$ 375	\$ 270
Plan assets	(144)	(140)	(134)
Underfunded status	312	235	136
Unamortized:			
Past service cost	(133)	(141)	(149)
Unrecognized actuarial profits	(21)	7	80
Net projected liability	\$ 158	\$ 101	\$ 67

As of December 31, 2015, 2014 and 2013, the net projected liabilities for severance payments at the end of the employment relationship for reasons other than restructuring are \$66, \$53 and \$50, respectively.

Net periodic cost consists of the following:

	2015	2014	2013
Service cost for the year	\$ 35	\$ 26	\$ 27
Financial cost and expected return on plan assets	26	21	19
Expected return on plan assets	(12)	(13)	(8)
Amortization of transition liability, labor cost of past service and actuarial gain	<u>8</u>	<u>1</u>	<u>1</u>
Net cost	<u>\$ 57</u>	<u>\$ 35</u>	<u>\$ 39</u>

The economic assumptions used were as follows:

	2015	2014	2013
Discount rate	7.57%	7.09%	8.18%
Expected rate of return of assets	7.57%	7.09%	8.18%
Rate of wage increases	3.50%	4.00%	4.00%

The changes in net projected obligations were as follows:

	2015	2014	2013
Opening balance (face value)	\$ 101	\$ 67	\$ 77
Payment of benefits and fund conditions	-	(1)	(49)
Provision for the year	<u>57</u>	<u>35</u>	<u>39</u>
Net projected liability	<u>\$ 158</u>	<u>\$ 101</u>	<u>\$ 67</u>

As of December 31, 2015, 2014 and 2013, the Institution had assets related to the defined benefit plan, were invested as follows:

	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
Capital market	\$ 28	20%	\$ 39	28%	\$ 29	22%
Monkey market	116	80%	91	65%	86	64%
Repurchase market	<u>-</u>	-	<u>10</u>	7%	<u>19</u>	14%
Total	<u>\$ 144</u>		<u>\$ 140</u>		<u>\$ 134</u>	

As of December 31, 2015, 2014 and 2013, there is no fund created for severance payments at the end of the employment relationship for reasons other than restructuring.

Changes in the present value of the defined benefits obligation:

	2015	2014	2013
Present value of the defined benefits obligation as of January 1	\$ 375	\$ 270	\$ 280
Actual payment of benefits during the year	(7)	(14)	(7)
Actuarial loss in defined benefit obligation	27	71	(49)
Cost of the year	<u>61</u>	<u>48</u>	<u>46</u>
Present value of the defined benefits obligation as of December 31, of each year	<u>\$ 456</u>	<u>\$ 375</u>	<u>\$ 270</u>

The main items giving rise to a deferred PTU asset (liability) are:

	2015	2014	2013
Deferred PTU asset:			
Provisions	\$ 22	\$ 18	\$ 8
Labor benefits	15	11	7
Gain on derivative financial instrument transaction		-	8
Allowance for loan	17	5	-
Others	<u>9</u>	<u>-</u>	<u>-</u>
Total	63	34	23
Deferred PTU liability:			
Loss on derivative financial instrument transaction	(12)	(15)	-
Advance payments	(4)	-	-
Others	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Total	<u>(16)</u>	<u>(18)</u>	<u>(3)</u>
Total asset	<u>\$ 47</u>	<u>\$ 16</u>	<u>\$ 20</u>

20. Obligations arising from settlements of transactions

As of December 31, 2015, 2014 and 2013, obligations arising from settlement of transactions are as follows:

	2015	2014	2013
Creditors from operations by foreign exchange 24, 48 or 96 hours	\$ 20,862	\$ 20,249	\$ 13,769
Creditors for settlement of transactions of securities loan	110	95	37
Creditors for settlement of transactions of derivatives	<u>10</u>	<u>18</u>	<u>16</u>
Total	<u>\$ 20,982</u>	<u>\$ 20,362</u>	<u>\$ 13,822</u>

21. Sundry creditors and other payables

As of December 31, 2015, 2014 and 2013, sundry creditors and other payables were as follows:

	2015	2014	2013
Employee retirement obligation provision	\$ 302	\$ 241	\$ 201
Funds	<u>(144)</u>	<u>(140)</u>	<u>(134)</u>
	158	101	67
Suppliers	45	30	15
Creditors from operations (1)	451	378	816
Intercompany payables	3	6	-
Payable commissions, bounds and other gratifications	281	140	114
Contingent liabilities (2)	52	-	1
Various taxes and social security contribution	22	35	29
Taxes withheld	43	45	53
Reclassification of creditors bank balances	54	30	182
Others	<u>334</u>	<u>429</u>	<u>385</u>
	\$ 1,443	\$ 1,194	\$ 1,662

- (1) Based on the internal accounting policy from 2014 for the cancellation of unidentified customer deposits, whose aging equals or exceeds three years as of the deposit date, at December 31, 2015 and 2014 the Institution canceled a balance of \$31 and \$92, respectively, recognized in "Other operating income" in the statement of income.
- (2) This balance includes a provision for contingencies by \$52, which is derived from a re operating process which carried out the administration during 2015. As of today, the Institution is in the process of identifying potential beneficiaries' creditors, to carrying out payment or cancellation of the same.

22. Income taxes

The Institution is subject to ISR and through December 31, 2013, to ISR and IETU.

ISR - The rate was 30% in 2015, 2014 and 2013 and as a result of the new 2014 ISR Law (2014 Tax Law), the rate will continue at 30% in 2015 and thereafter.

IETU - IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

Then, the principal tax reforms discussed in Note 1, are identified that affect the Institution:

Principal reforms to the Income Tax Law, Business Flat Tax Law, Cash Deposits Tax Law and Value Added Tax Law

a) Income tax

The definitive rate is left at 30%. The transitory provisions of the income tax law specifying tax rate reductions of 29% to 28%, from 2014 to 2015 were eliminated.

An additional income tax of 10% was established on dividends paid when they are distributed to individuals and residents abroad. The income tax is will be paid by withholding and is considered a final payment owed by the shareholder. In the case of foreign tax payers, the appropriate double taxation treaties may be applied. This tax will be applicable on the distribution of profits generated from 2014.

The tax deduction of payments to workers which are exempt revenues for them was limited to 47% or 53% subject to certain requirements. Furthermore, the deduction for contributions to pension and retirement funds was limited at the same percentages.

The Social Security fees paid by the employer are considered 100% nondeductible.

Special calculation of the PTU. The base is determined by subtracting the allowable deductions taxable income, without incorporating the PTU in the year paid or tax loss carryforwards.

For credit institutions, rules surrounding the deduction of general loss reserves were amended in order to converge with the rules of the Commission were amended. A transitional regime for profits generated in previous years, which limits the deduction to 2.5% of the average portfolio balance in subsequent years, is incorporated.

b) *Business Flat Tax and Cash Deposits Tax*

The Business Flat Tax Law and the Cash Deposits Tax Law are repealed.

c) *Value-Added Tax ("IVA")*

The IVA rate is standardized at the national level, therefore the rate in the border zone increased from 11% to 16%.

Regarding the accounting recognition of items included in the Tax Reform 2014 that are related to income taxes, CINIF issued Interpretation 20, "Accounting for Tax Reform 2014" with effect from December 2013.

As of December 31, 2014 and 2013, the current income tax is the greater of ISR and IETU up to 2014.

Reconciliation of the accounting tax result - The main items affecting the determination of the Institution's tax result were the annual adjustment for inflation, provisions, the difference between depreciation and accounting and tax depreciation and amortization, the difference between the accounting increase of the preventive credit risk estimate and the respective tax deduction, provisions created for the expenses of prior that were settled during the current year and the valuation of the financial derivatives instruments.

Tax loss carryforwards - As of December 31, 2015, the Institution does not have ISR tax loss carryforwards.

Deferred taxes - At December 31, 2015, 2014 and 2013, deferred taxes are composed as follows:

	2015	2014	2013
Deferred ISR asset:			
Provisions	\$ 65	\$ 15	\$ 53
Labor obligations	46	32	20
Allowance for loan losses	52	14	-
Others	60	14	6
Subtotal	<u>223</u>	<u>75</u>	<u>79</u>
Deferred ISR liability:			
Prepaid expenses	(13)	-	(9)
Loss on derivative financial instrument transaction	(35)	-	-
Others	-	(9)	-
Subtotal	<u>(48)</u>	<u>(9)</u>	<u>(9)</u>
Deferred PTU asset	47	16	20
Deferred taxes of subsidiaries	<u>(110)</u>	<u>(76)</u>	<u>(49)</u>
Net deferred taxes assets (liabilities)	<u>\$ 112</u>	<u>\$ 6</u>	<u>\$ 41</u>

The deferred tax is recorded in the statement of income or in the shareholders' equity in accordance input that origin it.

The reconciliation of the legal ISR and the effective rate of main entities of the Institution, expressed as a percentage of profit before ISR are:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Legal rate	30%	30%	30%
Valuation of investment securities	6%	(7%)	(1%)
Annual adjustment for inflation	(3%)	12%	(5%)
Non deductible	1%	(5%)	1%
Others	<u>(4%)</u>	<u>-</u>	<u>(1%)</u>
Effective tax rate	<u>30%</u>	<u>30%</u>	<u>24%</u>

Other tax issues:

As of December 31, 2015, 2014 and 2013, the Institution, as individual entity, has the following balances for significant tax measures:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contributed capital account	\$ <u>2,931</u>	\$ <u>2,270</u>	\$ <u>2,181</u>
Net tax income account	\$ <u>2,741</u>	\$ <u>2,496</u>	\$ <u>2,119</u>

23. Stockholders' equity

As of December 31, 2015, 2014 and 2013, capital stock, at par value, was as follows:

	<u>Number of shares</u>			<u>Amount</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Fixed capital - Series "O" Shares	<u>2,124,571</u>	<u>1,524,573</u>	<u>1,524,573</u>	\$ <u>2,125</u>	\$ <u>1,525</u>	\$ <u>1,525</u>
Total	<u>2,124,571</u>	<u>1,524,573</u>	<u>1,524,573</u>	\$ <u>2,125</u>	\$ <u>1,525</u>	\$ <u>1,525</u>

The Stockholders' Ordinary General Meeting of March 18, 2015 declared dividends of \$400.

Likewise, the Stockholders' Ordinary and Extraordinary General Meetings of March 18, June 30 and September 29, 2015 approved contributions for future capital increases for the amounts of \$400, \$328 and \$288, respectively. The number of shares are 400,000, 328,000 and 287,900, respectively.

The Stockholders' Ordinary General meeting of April 30, 2015 resolved to transfer the net result of the year of 2014, for the amount of \$460, to the profit and loss account of prior years. Similarly, the Institution's stockholders resolved to increase the capital reserve fund referred to by article 99-A of the Law on Credit Institutions by the Amount of \$46.

Through Document No. 312-3/13912/2015, the Commission approved the capital increase of \$600 detailed in clause eighth of the corporate bylaws of the Stockholders' Extraordinary General Meeting of March 18, 2015, thus resulting in common stock of \$2,125.

Foreign corporations that exercise functions of authority may not participate under any circumstances in the capital of the Institution. National financial entities cannot do either, including those which form part of the Institution, except when they act as institutional investors, pursuant to Article 19 of the law to regulate financials groups.

In cases where dividends are distributed prior to paying the taxes applicable to the Institution, such tax must be paid when the dividend is distributed; therefore, the Institution must keep track of profits subject to each rate.

Capital reductions will incur in taxes on the excess of the amount distributed against the capital tax value, as set forth in the Income Tax Law.

The Institution requires the creation of a legal reserve equal to 10% of net profits of each year, should be separated and transferred to a capital reserve, until it equals the amount of the share capital paid. While these entities exist, this reserve can only be distributed to stockholders as share dividends.

Dividends paid from the profits generated from January 1, 2014 to residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Institution. Nonresidents may apply treatments to avoid double taxation.

24. Capital ratio (latest information submitted to Central Bank) (Unaudited)

As of December 31, 2015, 2014 and 2013, in accordance with the capital requirements in effect applicable to full service banks, the Institution presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net capital / required capital	208.00%	199.00%	221.00%
Basic capital / assets subject to credit, market and operational risk	16.62%	15.95%	17.71%
Net capital / assets subject to credit risk	24.43%	22.60%	28.50%
Net capital / assets subject to credit, market and operational risk	16.62%	15.95%	17.71%

The capitalization ratio of the Institution was updated and submitted to the Central Bank on February 18, 2016.

As of December 31, 2015, 2014 and 2013, the net capital used to calculate the capital ratio is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Basic capital:			
Stockholder's equity disregarding convertible securities and subordinate debt	\$ 5,746	\$ 4,402	\$ 3,689
Less:			
Organization costs and other intangible	(44)	(173)	(159)
Investment in shares of entities	<u>(1,254)</u>	<u>(1,381)</u>	<u>(1,316)</u>
	(1,298)	(1,554)	(1,475)
Complementary capital:			
Allowance for loan losses	<u>176</u>	<u>112</u>	<u>16</u>
Total net capital	<u>\$ 4,624</u>	<u>\$ 2,960</u>	<u>\$ 2,230</u>

	2015		2014		2013	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Market risk:						
Transactions with nominal rate and above par rate in Mexican pesos	\$ 2,402	\$ 192	\$ 1,897	\$ 152	\$ 2,025	\$ 166
Transactions with real rate	1,940	155	275	22	589	47
Transactions with nominal rate in foreign currency	891	71	556	44	217	17
Transactions with shares and related to shares	154	12	90	7	116	5
Foreign exchange transactions	135	11	618	49	324	26
Transactions in UDIS relating INPC	10	1	9	-	8	1
For impact Gamma	137	11	-	-	-	-
Subtotal	<u>5,669</u>	<u>453</u>	<u>3,445</u>	<u>274</u>	<u>3,279</u>	<u>262</u>
Credit risk:						
Deposits and loans	11,612	929	8,303	664	5,048	406
From repurchase and derivatives counterparties	576	46	621	48	95	6
From issuers of debt securities in position	1,373	110	960	79	828	66
From long-term investment in shares and other assets	1,150	92	1,424	114	1,032	83
From guarantees and credit lines and securitization	892	71	598	48	496	40
From collateral issuers and persons received	7	1	-	-	-	-
Transactions with related parties	626	50	-	-	2	-
Subtotal	<u>16,236</u>	<u>1,299</u>	<u>11,906</u>	<u>953</u>	<u>7,501</u>	<u>601</u>
Operational risk:	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>	<u>1,298</u>	<u>104</u>
Total assets at risk	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>	<u>\$ 12,078</u>	<u>\$ 967</u>

At December 31, 2015, 2014 and 2013, weighted positions by market risk are as follows:

	2015		2014		2013	
	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement
Market risk	\$ 5,669	\$ 453	\$ 3,445	\$ 274	\$ 3,279	\$ 262
Credit risk	16,236	1,299	11,906	953	7,501	601
Operational risk	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>	<u>1,298</u>	<u>104</u>
	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>	<u>\$ 12,078</u>	<u>\$ 967</u>

See the web page www.monex.com.mx for more information related to Appendix 1-0 of the Provisions,

25. Ratings

As of December 31, 2015, the Institution has the following ratings:

	Standard & Poor's	Fitch Ratings
National level-		
Short-term	MxA-1	F1(mex)
Long-term	MxA+	A+(mex)
Financial strength-		
Outlook	Stable	Stable
Public date	May 28, 2015	Nov 26, 2015

26. Contingencies and commitments

- a) **Lawsuits** - Over the normal course of business, the Institution has been involved in certain lawsuits which are not expected to significantly affect their financial position or future results of operations. Provisions have been recognized for those matters representing probable losses. As of December 31, 2015 and 2014, the Institution hasn't recorded provisions. As of December 31, 2013, the Institution has contingency reserves for \$1, which are included in "Sundry creditors and other accounts payable". The Institution's Administration considers the reserve is reasonable in accordance with its internal and external legal counsel opinion.
- b) **Administered loan portfolio** - As discussed in Note 9, the portfolio administered by the Institution derived from the sales made and equity held under the outline agreement executed with Exim-Bank and Pefco is for the amount of \$206, \$202 and \$256 at December 31, 2015, 2014 and 2013, respectively. In relation to this loan portfolio, the Institution has committed to assume all credit risks in the event of noncompliance with the terms agreed with Exim-Bank regarding the documentation of each loan. However, management considers that the possibility of a refund to Exim-Bank is unlikely.
- c) **Commitment** - As of December 31, 2015 the Institution has service contracts (to receive), related to its operation, for 4.9% and at December 31, 2014 and 2013 represent less than 4.0% for both years, of expenses, which are part of the Institution's current expenses.

27. Memorandum accounts

Memorandum accounts are not included in the balance sheet and only the memoranda accounts in which transactions directly related to the balance sheet are recorded, such as collateral received in guarantee by the Institution, loan commitments, collateral received and sold or delivered in guarantee and accrued interest not collected of non performing portfolio were subject to external audit.

Aside from the above memoranda accounts, the Institution also has the following:

a. **Trust mandate transactions (unaudited) –**

As of December 31, 2015, 2014 and 2013, the Institution administered the following trusts and mandates:

	2015	2014	2013
Trusts under-			
Administration	\$ 71,859	\$ 62,234	\$ 49,492
Guarantee	4,302	2,239	5,469
Investment	<u>2,439</u>	<u>4,055</u>	<u>898</u>
Total transactions under trust or mandate	<u>\$ 78,600</u>	<u>\$ 68,528</u>	<u>\$ 55,859</u>

As of December 31, 2015, 2014 and 2013, the income from the administration of such assets was \$77, \$61 and \$47, respectively.

b. ***Goods held in custody or administration (unaudited) -***

As of December 31, 2015, 2014 and 2013, other record accounts have a balance of \$3,106, \$2,707 and \$2,435, respectively.

28. Financial Margin

As of December 31, 2015, 2014 and 2013, the financial margin was as follows:

	2015	2014	2013
Interest income:			
Investment securities, debt and equity	\$ 780	\$ 524	\$ 577
Interbank and other loans	7	19	16
Deposits with financial institutions	18	29	30
Loan portfolio	544	364	390
Others	25	34	63
	<u>1,374</u>	<u>970</u>	<u>1,076</u>
Interest expenses:			
Interest from repurchase agreements	(350)	(171)	(306)
Interest on bank and other loans (1)	(42)	(30)	(31)
Demand deposits	(46)	(53)	(43)
Time deposits	(318)	(336)	(237)
Others	(2)	-	(2)
	<u>(758)</u>	<u>(590)</u>	<u>(619)</u>
Financial margin	<u>\$ 616</u>	<u>\$ 380</u>	<u>\$ 457</u>

- (1) For the years ended December 31, 2014 and 2013, interest expense in U.S. dollars amounts to less than \$1.

29. Gains/losses on financial assets and liabilities (net)

For the years ended December 31, 2015, 2014 and 2013, the main items comprising the result from intermediation are as follows:

	2015	2014	2013
Foreign exchange result:			
Valuation	\$ (1)	\$ 29	\$ 2
Realized gains or losses	<u>3,380</u>	<u>2,865</u>	<u>2,904</u>
	3,379	2,894	2,906
Derivatives result:			
Valuation	(66)	323	(189)
Realized gains or losses	<u>620</u>	<u>(136)</u>	<u>501</u>
	554	187	312
Trading securities result:			
Valuation	(16)	24	-
Realized gains or losses	<u>(121)</u>	<u>138</u>	<u>(114)</u>
	(137)	162	(114)
Equity result:			
Valuation	1	1	1
Realized gains or losses	<u>-</u>	<u>-</u>	<u>3</u>
	1	1	4
Total	<u>\$ 3,797</u>	<u>\$ 3,244</u>	<u>\$ 3,108</u>

30. Segment information

As of December 31, 2015, 2014 and 2013, the Institution identified operating segments within its different business and it considers each as part of its internal structure and with its own profit risks and opportunities. These segments are regularly reviewed in order to assign operating monetary resources and evaluate their performance.

2015	Foreign exchange	Banking products	International	Derivative	Credit and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 780	\$ 5	\$ 24	\$ 544	\$ -	\$ 21	\$ 1,374
Interest expense	-	(350)	-	-	(364)	-	(44)	(758)
Allowance for loan losses	-	-	-	-	(60)	-	-	(60)
Commission and fee income	76	1	9	-	43	77	3	209
Commission and fee expense	-	(15)	(22)	(9)	(3)	-	(95)	(144)
Gains/losses on financial assets and liabilities (net)	2,319	(137)	1,281	334	-	-	-	3,797
Administration and marketing expenses	(1,486)	(399)	(975)	(222)	(364)	(48)	(163)	(3,657)
Other operating income (expenses), net	-	-	4	-	-	(57)	231	178
Current income taxes	(163)	(44)	(59)	(24)	(40)	(5)	(18)	(353)
Deferred income taxes	58	15	(21)	9	14	2	6	83
Equity in income of unconsolidated associate companies	-	-	-	-	-	-	1	1
Total	<u>\$ 804</u>	<u>\$ (149)</u>	<u>\$ 222</u>	<u>\$ 112</u>	<u>\$ (230)</u>	<u>\$ (31)</u>	<u>\$ (58)</u>	<u>\$ 670</u>
2014	Foreign exchange	Banking products	International	Derivative	Credit and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 524	\$ 3	\$ -	\$ 364	\$ -	\$ 79	\$ 970
Interest expense	-	(171)	-	-	(389)	-	(30)	(590)
Allowance for loan losses	-	-	-	-	(48)	-	-	(48)
Commission and fee income	66	-	9	-	74	61	7	217
Commission and fee expense	-	(13)	(14)	(11)	(18)	-	(109)	(165)
Gains/losses on financial assets and liabilities (net)	2,052	163	862	167	-	-	-	3,244
Administration and marketing expenses	(1,356)	(440)	(652)	(129)	(281)	(39)	(139)	(3,036)
Other operating income (expenses), net	-	-	(5)	-	-	(1)	155	149
Current income taxes	(89)	(29)	(41)	(8)	(18)	(3)	(9)	(197)
Deferred income taxes	(2)	(1)	(19)	-	(1)	-	-	(23)
Total	<u>\$ 671</u>	<u>\$ 33</u>	<u>\$ 143</u>	<u>\$ 19</u>	<u>\$ (317)</u>	<u>\$ 18</u>	<u>\$ (46)</u>	<u>\$ 521</u>
2013	Foreign exchange	Banking products	International	Derivative	Credit and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 577	\$ 1	\$ 33	\$ 390	\$ -	\$ 75	\$ 1,076
Interest expense	-	(306)	-	-	(280)	-	(33)	(619)
Allowance for loan losses	-	-	-	-	(38)	-	-	(38)
Commission and fee income	62	-	8	-	50	47	20	187
Commission and fee expense	-	(23)	(14)	(21)	(51)	-	(86)	(195)
Gains/losses on financial assets and liabilities (net)	2,172	(110)	666	380	-	-	-	3,108
Administration and marketing expenses	(1,377)	(284)	(479)	(199)	(268)	(29)	(89)	(2,725)
Other operating income (expenses), net	-	-	(1)	-	-	(58)	55	(4)
Current income taxes	(90)	(18)	(38)	(13)	(18)	(2)	(6)	(185)
Deferred income taxes	3	1	(20)	-	1	-	-	(15)
Total	<u>\$ 770</u>	<u>\$ (163)</u>	<u>\$ 123</u>	<u>\$ 180</u>	<u>\$ (214)</u>	<u>\$ (42)</u>	<u>\$ (64)</u>	<u>\$ 590</u>

31. **Comprehensive risk management (unaudited)-**

Applicable standards-

This disclosure is supplemental to the obligation to disclose information on adopted risk management policies, procedures and methodologies, together with information on potential losses by risk and market type.

Management has policies and procedures manuals which follow the guidelines established by the Commission and Central Bank to prevent and control the risks exposure the Institution is incurs based on the transactions it performs.

The assessment of policies, procedures, functionality of risk measurement models and systems, compliance with risk management procedures and assumptions, parameters and methodologies used by risk analysis information systems is carried out by an independent expert, as required by the Commission.

This assessment presented in “Prudential risk management provision” and “Review of risk measurement valuation and procedures model” reports, which are presented to the Board of Directors, Risk Committee and General Management.

a. *Environment -*

The Institution identifies, manages, supervises, controls, discloses and provides information on risks through its Comprehensive Risk Management Unit (UAIR) and the Risk Committee, which jointly analyze the information received from business units.

To enable it to measure and evaluate the risks resulting from its financial transactions, the Institution has technological tools to calculate the Value at Risk (VaR), while also performing supplemental stress testing. Likewise, the Institution has developed a plan allow operations continuity in the event of a disaster.

The UAIR distributes daily risk reports, together with monthly risk information to the Risk Committee and Audit Committee. Similarly, it presents quarterly risk reports to the Board of Directors.

b. *Risk management entities -*

The Board of Directors is responsible for establishing risk management policies. However, according to established policies, it delegates responsibilities for implementing risk identification, measurement, supervision, control, information and disclosure procedures to the Risk Committee (RC) and General Management.

The policies approved by the Board of Directors are documented in the Comprehensive Risk Management Manual (MAIR), which includes risk management objectives, goals, procedures and maximum risk exposure tolerances.

The RC holds monthly meetings and ensures that transactions reflect the operating and control objectives, policies and procedures approved by the Board of Directors. Likewise, the RC delegates responsibility for providing comprehensive risk monitoring and follow-up to the Comprehensive Risk Management Unit (UAIR).

In urgent cases and depending on market conditions or the specific needs of different business units, the RC holds extraordinary meetings to determine the increase of established limits or temporary limit excesses.

The Risk Lines Committee holds weekly meetings to evaluate the risk lines used for foreign exchange transactions.

c. ***Market risk -***

The Institution evaluates and provides follow-up on all positions subject to market risks based on Value at Risk models which measure the potential loss of a position or portfolio associated with risk factor movements with a 99% reliance level and a one-day horizon.

The UAIR also prepares a GAP analysis among rates used for assets and liabilities denominated in Mexican pesos and foreign currency. The GAP analysis is represented by assets and liabilities with rates at different moments in time, while considering the characteristics of the respective rates and time frame.

d. ***Liquidity risk -***

The UAIR calculates daily liquidity GAPS (time at which interest or principal is received) based on the cash flows from total financial assets and liabilities of the Institution.

The Institution quantifies its liquidity risk exposure by preparing cash flow projections which consider all assets and liabilities denominated in Mexican pesos and foreign currency, together with the respective maturity dates.

The Treasury Department of the Institution is responsible for ensuring the conservation of a prudent liquidity level in relation to the Institution's needs. In order to reduce its risk level, the Institution keeps call money lines open in U.S. dollars and Mexican pesos with different financial institutions.

Daily, the Treasury Department monitors the liquidity requirement for foreign currency provisions in Circular 3/2013 of the Central Bank.

e. ***Credit risk -***

The Institution classifies each customer according to the methodology established by the Commission, which takes into account the client's financial risk, payment experience and guarantees. Together with quarterly credit follow-up evaluations, credit risk concentrations are determined by borrower or risk group, economic activity and state.

As established in the Provisions, the Institution established a maximum credit risk exposure limit equal to 40% of basic capital for an individual or entity or group of entities constituting a joint risk. Furthermore, the Institution also complies with the standard applicable to related loans.

When performing customer transactions with over-the-counter derivatives, the risk unit determines transaction lines based on an analysis of the financial situation of each counterpart. The credit risk is covered by requesting margins from customers ranging from 6% to 10% of the transaction amount. Lower percentages must be approved by the Risk Lines Committee, in which case a maximum loss amount is established. Customers are subject to margin calls either during the day or at the daily close whenever significant losses could be generated by the valuation of their open positions.

In the case of exchange transactions, the credit risk is analyzed based on a customer credit evaluation. Line settlement proposals are presented to the Lines Committee, which can either reject or approve them. This risk is controlled by matching the authorized line with that actually utilized.

f. ***Operating risk -***

The Comprehensive Risk Management Manual (MAIR) and Operating Risk Management Manual (MARO) establish policies and procedures for monitoring operational risk, and periodically the follow-up on and control of operating risks. The Management of the Institution has requested that the Controllershship area implement an operating risk management program, the activities of which should also be made known to the Risk and Audit Committees.

The Institution has implemented the risks headquarters and controls to get a qualitative qualification of the impact and frequency of the risks.

Through the classification of Risks, catalogues of risks are being integrated to determinate possible losses if such risks come true before the realization of operational risk are identified and the will be recognized in the future.

Risk frequency and impact classifications have been utilized to create risk maps for the different processes implemented by the Institution; these risk maps indicate the tolerance levels applicable to each risk.

Scale	Level
1	Low
2	Medium
3	High

- The maximum tolerance level utilized by the Institution is 3.
- Accordingly, each identified operating risk must be classified at levels 1 and 2 (Low - Medium) of the established scale.

General Director of the Institution, CR and to the areas involved must be informed immediately, if some identifying operational risks exceed the tolerance levels.

These levels indicate the possible economic loss that could be suffered by the Institution if a given risk materializes.

The Institution has built an historic database with the information of the losses incurred by operational risks. Thus, they will be able to generate quantitative indicators to monitor the operational risk in the operations.

g. ***Legal risk -***

The Institution has established policies and procedures in the MARO and implements the same process as that used for operating risks.

h. ***Technological risk -***

The Institution has policies and procedures for systems operation and development.

Regarding technological risks, the Institution has policies and procedures contained in MARO and implements the same process as that used for operational and legal risks.

i. ***Quantitative information (unaudited)***

a) ***Market risk -***

At December 31, 2015, 2014 and 2013, the VaR was \$14, \$6 and \$6, respectively (unaudited) and with a 99% reliance for one day. This value represents the maximum loss expected during one day and is situated within the limits established by the Institution.

At December 31, 2015, 2014 and 2013, portfolio concentration by segment was as follows (unaudited):

	2015	2014	2013
Farming	\$ 406	\$ 60	\$ 14
Foods	257	108	148
Automotive	1,026	679	198
Commerce	740	805	618
Housing construction	150	119	85
Specialised construction	805	481	164
Pharmacist	13	-	18
Financial	1,456	897	527
Government	-	-	34
Hospitality / Restaurants (tourism)	1,183	540	315
Chemestry Insdustury	280	209	29
Real state	1,552	1,392	32
Manufacturing (manufacture of plastic)	614	484	122
Manufacturing (manufacture of electrical and electronic)	18	60	11
Manufacturing (manufacture of concrete products)	636	226	173
Manufacturing (other)	497	164	168
Mining and metals	351	308	37
Natural person	411	509	1,296
Suppliers (PEMEX)	902	545	189
Services	503	242	21
Transport and telecommunications	342	151	99
Others	<u>329</u>	<u>61</u>	<u>36</u>
Total	<u>\$ 12,471</u>	<u>\$ 8,040</u>	<u>\$ 4,334</u>

No market risk special treatment was identified in this period for securities available for sale.

Note: As of 31 December 2015 sectoral classification criteria including more industries to identify more accurately the risk are updated. For comparative purposes of this report the information regroups 2014 and 2013.

Market risk statistics

	VaR Minimum	VaR Average	VaR Máximum
Global	7.52	10.45	13.92
Derivatives	1.26	1.54	2.08
Money Market	8.55	11.39	15.00
Foreign exchange	0.40	0.66	0.99

*The average value refers to the daily exposure of the money market, derivatives and foreign-exchange as of December 31, 2015, figures in millions of Mexican pesos.

b) **Credit risk -**

Corporate bonds portfolio.

The credit VaR of the corporate bonds portfolio of the Money Market as of December 31, 2015 in the Institution was (0.986%) relative to an investment of \$9.2 billion, whereas the credit stress of such portfolio was (1.764%) at the same date. The credit VaR was calculated using the Monte Carlo Simulation method with a confidence level of 99% on a one-year horizon; the stress was obtained by considering the following lower classification of each instrument.

	VaR	Expected loss	Expected non loss
Máximo	(0.99%)	(0.03%)	(0.96%)
Mínimo	(1.15%)	(0.04%)	(1.11%)
Average	(1.06%)	(0.04%)	(1.02%)

Note: The figures presented are expressed in amounts relative to the value of the corporate bonds portfolio, for the daily exposure of December 31, 2015.

Commercial loan portfolio.

Every month the calculation of reserves is made for the commercial loan portfolio, in which the expected loss forms part of the result issued; the methodology applied refers to that established in the Provisions. This method also assigns the degree of risk for the operations.

Expected loss statistics of commercial credit portfolio.

	Mínimo	Máximo	Average
Expected loss	138.00	160.00	148.00

- The expected loss statistics refer to the daily exposure of December 31, 2015 for the commercial credit portfolio.

No significant variances were identified in this period in financial revenue or the economic value to report.

c) **Liquidity Risk -**

The Institution evaluates the expiration of the assets and liabilities of the balance sheet in Mexican pesos and foreign currency. The gap of liquidity in Mexican pesos is as follows (unaudited):

Year	Requirement to 1 day	Requirement from 2 to 7 days	Requirement > 8 days
2015	\$ <u>14</u>	\$ <u>(15)</u>	\$ <u>9</u>

The gap of liquidity in U.S. dollars is presented as follows (unaudited):

Year	Requirement to 1 day	Requirement from 2 to 7 days	Requirement > 8 days
2015	\$ <u>(0.7)</u>	\$ <u>0.5</u>	\$ <u>(0.2)</u>

Liquidity risk statistical.

GAP Total depreciation

GAP total depreciation								
Statical	<=30	<=90	<=180	<=360	<=720	<=1800	>1800	Total
Mínimum	(3,617)	1,856	2,104	883	342	1,364	1,473	6,219
Máximum	(2,024)	3,595	2,330	984	1,002	1,542	1,803	7,651
Average	(2,728)	2,558	2,223	943	585	1,479	1,660	6,721

GAP maturity total

Estadísticos	<=30	<=90	<=180	<=360	<=720	<=1800	>1800	Total
Mínimum	(6,229)	(3,899)	(539)	985	2,003	6,720	7,759	11,586
Máximum	(3,817)	(1,762)	1,127	1,308	4,779	8,713	8,712	14,113
Average	(5,049)	(2,489)	103	1,187	3,349	7,673	8,290	13,063

*The statistics of the maturity GAP refer to the position of the money market, credit, derivatives and foreign-exchange portfolios of December 31, 2015.

Liquidity or sensitivity analysis considers the asset and liability positions based on an extreme scenario for the assessment of variances in economic value and, in relation to financial revenues, a sensitivity analysis due to interest rate changes.

Repos renewal effect	Amount mmp	Var Absolut	Effect of Selling off unusual MD	Amount
Actual Cost	(54,157)	-	Value of securities	- 17,754,362
Sensitivity 1*	(59,573)	(5,416)	Sensitivity 1	- (3,889)
Sensitivity 2	(64,988)	(10,831)	Sensitivity 2	- (38,799)
Stress 1	(70,404)	(16,247)	Stress 1	- (378,413)
Stress 2	(78,820)	(21,663)	Stress 2	- (735,554)
Sensitivity 1 = 10%,	-	-	Sensitivity 1 = 1bp,	- -
Sensitivity 2 = 20%,	-	-	Sensitivity 2 = 10bp,	- -
Stress 1 = 30%,	-	-	Stress 1 = 100bp,	- -
Stress 2 = 40%.	-	-	Stress 2 = 200bp.	- -
Effect of selling unusual treasury	Amount mmp		Interest paid of deposits	Current MTM MTM variation
Securities' value	6,896,719	-	Interest paid (actual)	(5,021) -
Sensitivity 1	(2,637)	-	Sensitivity 1*	(7,665) (2,644)
Sensitivity 2	(26,297)	-	Sensitivity 2	(10,258) (5,237)
Stress 1	(255,721)	-	Stress 1	(12,851) (7,830)
Stress 2	(495,339)	-	Stress 2	(15,445) (10,424)
Sensitivity 1 = 1bp,	-	-	Sensitivity 1 = 10%,	- -
Sensitivity 2 = 10bp,	-	-	Sensitivity 2 = 20%,	- -
Stress 1 = 100bp,	-	-	Stress 1 = 30%,	- -
Stress 2 = 200bp.	-	-	Stress 2 = 40%.	- -

d) ***Risk policies applied to derivative financial instruments-***

Market risks of transactions involving derivative financial instruments are limited because customer transactions are hedged through organized markets or inverse transactions with financial intermediaries.

These transactions involve a counterpart risk which is analyzed by the credit risk. Transaction amounts and initial margins are authorized and/or ratified by the Lines Committee.

For OTC derivatives transactions with customers, operating lines based on the analysis of the financial situation of each of the partners are determined. The credit risk covers customers requesting margins depending on the situation presenting.

In addition, customers are subject to margin calls at the end of the day or during the day if they face significant valuation losses in their open positions

e) ***Detection of transactions with illegal resources –***

The Institution has a Communication and Control Committee which monitors compliance with applicable standards, while also notifying the involved areas and respective authorities of any transactions considered as unusual, significant or worrying according to SHCP provisions.

32. New Accounting Principles

Modification of accounting criteria issued by the Commission

On November 9, 2015, a series of modifications involving the accounting criteria applied by credit institutions was published in the Federal Official Gazette. These modifications are intended to make the necessary adjustments to the accounting criteria utilized by credit institutions for the transactions they perform so as to produce reliable financial information. These modifications took effect on January 1, 2016.

The most significant changes are detailed below:

- a. Accounting Criterion C-5, *Consolidation of special-purpose entities*.
- b. The following are included as part of the accounting criteria issued by the Commission: NIF C-18, *Obligations associated with the retirement of property, plant and equipment*, and NIF C-21, *Agreements with joint control*, derived from the issuance of these standards by the CINIF.
- c. As regards consolidated financial statements, the application of specific standards establishes that special-purpose entities (“SPE”) created prior to January 1, 2009 and over which control has been maintained, will not have the obligation to apply the provisions detailed in NIF B-8, *Consolidated or combined financial statements*, based on their consolidation.
- d. The overdrawn checking accounts of customers that do not have a credit line for this purpose will be classified as overdue debts; their classification as such requires that an estimate be prepared for the total overdraft amount when this event arises.
- e. The net asset derived from defined employee benefits must be presented in the balance sheet under the “Other assets” heading.
- f. Compliance must be given to the applicable regulation established by the Bank of Mexico whereby the currency purchases that are not considered as derivative instruments must be classified as “Funds available”.
- g. If offsetting receivable and deliverable currencies results in a negative balance, this item must be presented under the heading of “Other accounts payable”.

- h. If an item of restricted quick assets indicates a negative balance, it must be presented under the heading of "Other accounts payable". The presentation of the negative balance of restricted quick assets was not previously required.
- i. The definition of "Transaction costs" has been modified in Accounting Criterion B-2, Investments in securities, and Accounting Criteria B-5, Derivatives and hedging transactions.
- j. Accounting Criterion B-6, Credit Portfolio, has been extended to incorporate the definitions of "Borrower", "Appraisal percentage guarantee", "Payment capacity", "Extended Portfolio", "Assignment of Credit Rights", "Credit Consolidation", "Debtor with Credit Rights", "Factor", "Financial Factoring", "Factor", "Credit Line", "Discount Transaction", "Special Amortization Regime", "Ordinary Amortization Regime" and "Housing Subaccount".
- k. The definition of the term "Renewal" has been modified in Accounting Criterion B-6, Credit Portfolio, which is now considered as a transaction in which the credit balance is partially or totally settled, through the increase of the original loan amount or based on the proceeds generated by another loan contracted with the same entity, in which the same debtor, the joint obligor of that debtor or another individual or entity with equity links constitute common risks.
- l. "Housing Loans" are classified as those utilized for housing remodeling or improvement and which are backed by the savings deposited in the borrower's housing subaccount, as well as those with a warranty granted by a development bank or a public trust constituted by the Federal Government for economic development purposes.
- m. Credits derived from transactions involving financial factoring, discounts and the assignment of credit rights have now been included within the definition of "Commercial Loans".
- n. A loan is not considered to have been renewed based on the provisions that take effect during the period of a preestablished credit line, as long as the borrower has settled all due payments according to the original credit conditions.
- o. When utilized amounts are restructured or renewed independently of the underlying credit line, the characteristics and conditions applicable to the restructured or renewed amount or amounts must be evaluated.

If this evaluation concludes that one or more amounts granted under the terms of a credit line must be transferred to the overdue portfolio based on their restructuring or renewal and when they individually or jointly represent at least 40% of the total credit line amount utilized at the restructuring or renewal date, this balance and the previously utilized amounts must be transferred to the overdue portfolio until such time as evidence is obtained regarding the sustained payment of the amounts that gave rise to the transfer to the overdue portfolio. Likewise, all the amounts utilized under the terms of the credit line must have fulfilled the respective obligations at the date of the transfer to the performing portfolio.

- p. In the case of credits acquired from the INFONAVIT or FOVISSSTE in which the terms contracted by the latter with borrowers must be respected, sustained credit payment is deemed to exist when the borrower has settled without delay the total due amount of principal and interest based on a single payment in the case of credits contracted under the Ordinary Payment Regime (ROA) and three payments in the case of credits contracted under the Special Payment Regime (REA).
- q. The restructuring of credits with principal and interest payments that must be settled in periods equal to or less than 60 days and for which the payment frequency is reduced to shorter periods, must consider the number of payments equal to three consecutive payments under the original credit payment scheme.
- r. Assumptions have been established for determining the sustained payment of loans with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity. These assumptions are as follows:

- i. The borrower has settled at least 20% of the original credit amount when the restructuring or renewal takes place, or
 - ii. The interest accrued according to the 90-day restructuring or renewal payment scheme has been settled.
- s. In the case of consolidated credits, if two or more credits have resulted in the transfer of the total consolidated credit balance the overdue portfolio, the number of payments required for sustained payment purposes must be based on the original credit payment scheme in which payments must be made over a longer period. The total balance of the restructuring or renewal was previously subject to the treatment applied to the worst of the credits.
- t. Evidence of sustained payment must be made available to the Commission to confirm that the borrower has the payment capacity needed to comply with the new credit conditions applied when the restructuring or renewal takes place.
- u. The advance settlement of restructured or renewed credit payments other than those with a single principal payment at maturity are not considered as sustained payment, regardless of whether interest is paid periodically or at maturity. This is the case of restructured or renewed credit payments that are made before the equivalent number of calendar days of credits with payments covering periods of more than 60 calendar days has elapsed.
- v. The extension of the credit payment period has been included as a restructuring situation.
- w. Recognition and valuation standards have been included for transactions involving financial factoring, discounts and the assignment of credit rights.
- x. Commissions and tariffs other than those collected for credit granting purposes must be recognized in results on the date when they arise. If a commission or tariff payment is partially or totally received prior to the accrual of the respective income, this advance must be recognized as a liability.
- y. The obligation whereby customer checking account overdrafts must be reported as overdue portfolio has been eliminated.
- z. The overdue portfolio will include payments that have not been fully settled according to the original agreed terms and have been outstanding for 90 or more days and when the respective credits involve those granted by the INFONAVIT or FOVISSSTE under the REA or ROA modalities. It will also include credits granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.
- aa. The transferred credits referred to in the preceding point to the overdue portfolio will be subject to an exceptional default period of 180 or more days as of the date on which:
 - i. Credit resources are available for the purpose for which they were granted,
 - ii. The borrower has a new labor relationship and therefore has a new employer, or
 - iii. The partial settlement of a given payment has been received. The exception contained in this numeral will be applicable to credits contracted under the ROA scheme, as long as the payments made during this period represent at least 5% of the agreed payment.
- bb. Credits with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity, will be considered as overdue portfolio until such time as evidence of sustained payment is obtained.

- cc. Credits granted under the terms of a credit line, whether revolving or otherwise, and which are restructured or renewed at any time can be maintained in the performing portfolio as long as elements justifying the borrower's payment capacity are obtained. Furthermore, the borrower must have:
 - i. Settled all payable interest;
 - ii. Settled all amounts payable under the terms of the contract at the restructuring or renewal date.
- dd. The amounts utilized under the terms of a credit line that are restructured or renewed independently of the underlying credit line must be evaluated based on the characteristics and conditions applicable to the restructured or renewed amounts.

When this evaluation concludes that one or more amounts utilized under the terms of a credit line must be transferred to the overdue portfolio due to their restructuring or renewal and when they individually or jointly represent at least 25% of the total utilized amount of the credit line at the restructuring or renewal date, this balance and any subsequent utilized amounts must be transferred to the overdue portfolio until evidence of the sustained payment of the amounts that gave rise to the transfer to the overdue portfolio is obtained, and when the total amounts utilized under the terms of the credit line have fulfilled the obligations in effect at the date of their transfer to the overdue portfolio.

- ee. The requirement whereby the borrower must have settled all accrued interest at the renewal or restructuring date in order to consider the credit as current will be deemed to have been fulfilled when, having settled the interest accrued at the most recent cutoff date, the period elapsed between that date and the restructuring or renewal date does not exceed the lesser of half of the current payment period and 90 days.
- ff. Current credit with partial principal and interest payments that are restructured or renewed on more than one occasion may remain in the performing portfolio if elements exist to justify the debtor's payment capacity. In the case of commercial credits, these elements must be properly documented and included in the credit file.
- gg. If different credits granted by the same entity to the same borrower are consolidated due to restructuring or renewal, each of the consolidated credits must be analyzed, as though individually restructured or renewed. If this analysis concludes that one or more of these credits would have been transferred to the overdue portfolio based on the restructuring or renewal, then the total consolidated credit balance must be transferred to the overdue portfolio.
- hh. The following items have been included as regards the presentation standards applicable to the balance sheet and statement of income:
 - i. Housing credits acquired from the INFONAVIT or FOVISSSTE must be segregated within the performing portfolio under the ordinary portfolio and extended portfolio headings.
 - ii. The amount of credits derived from transactions involving financial factoring, discounts and assignment of credit rights must be presented net of the respective appraisal percentage guarantee.
 - iii. Commissions received prior to the accrual of the respective income must be presented under the heading of "Deferred charges, advance payments and intangibles".
 - iv. The financial income generated by transactions involving financial factoring, discounts and the assignment of credit rights will be considered as interest income.

- ii. Disclosure standards include new requirements, as follows:
 - i. Breakdown of the current restricted and unrestricted portfolio for the medium-income and residential housing, low-income housing, remodeling or improvement with a warranty from the housing subaccount and credits acquired from the INFONAVIT or FOVISSSTE, which in turn are divided into the ordinary portfolio and extended portfolio.
 - ii. The total amount and number of credits acquired from the INFONAVIT or FOVISSSTE and transferred to the overdue portfolio, as well as the total amount of credits that were not transferred to the overdue portfolio, divided into credits that the entity has acquired from the INFONAVIT or FOVISSSTE under the REA or ROA payment modalities and the credits granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.
 - iii. The main characteristics of the credits acquired from the INFONAVIT or FOVISSSTE, describing at least those related to their classification as extended portfolio, ROA and REA, and those related to the assignment of these credits.
 - iv. A description of the obligations and rights maintained by the INFONAVIT and FOVISSSTE as regards the portfolio acquired by the entity.
 - v. The identification by credit type for the medium-income and residential housing, low-income housing portfolio, remodeling or improvement with a warranty based on the housing subaccount and credits acquired from the INFONAVIT or FOVISSSTE, of the overdue portfolio balance as of the date on which it was classified as such for the following periods: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to 2 years and more than two years overdue.
 - vi. The total amount of housing credits backed by the housing subaccount divided into the performing and non-performing loan portfolio, while specifying the percentage represented by these credits as regards total housing credits.
 - vii. The total accrued restructured or renewed amount by credit type, distinguishing between the amount derived from the application of consolidated credits which, as the proceeds of a restructuring or renewal, were transferred to the overdue portfolio of the restructured credits that were not subject to non-performing loan portfolio transfer criteria.
- jj. Accounting Criterion B-7, Foreclosed assets, establishes that, in the case of goods for which the fair value can be determined by means of an appraisal, the latter must fulfill the requirements issued by the CNBV for the bank appraisal service providers.
- kk. Accounting Criterion C-2, Securitized transactions, clarifies that, in the case of securitization vehicles implemented and recognized in the consolidated financial statements prior to January 1, 2009, the transfer of financial assets recognized prior to that date need not be reevaluated.

In this regard, the notes to the financial statements must disclose the main effects that this exception could have on the financial statements, as well the effects generated by recognizing benefit valuation adjustments on the assignee's remnant (recognized in results or in stockholders' equity), and the asset or liability recognized by the management of transferred financial assets.

- ll. The definition of “Joint Control Agreement”, “Joint Control”, the modified definition of “Associated Entity”, “Control” “Holding Company”, “Significant Influence”, “Related Parties” and “Subsidiary” have been added to Accounting Criteria C-3, Related parties.
- mm. Related parties are now considered as the individuals or entities which, directly or indirectly, through one or more intermediaries have significant influence over, are significantly influenced by or are subject to the significant joint influence of the entity, as well as the joint control agreements in which the latter participates.
- nn. In the case of joint control agreements, the disclosure requirements contained in Accounting Criteria C-3, Related parties, have been extended.
- oo. As a modification to Accounting Criteria C-4, Information by segments, the purchase-sale of currencies is included within the Treasury and investment banking transactions segment.
- pp. Different modifications have been made to the balance sheet presentation to incorporate current and overdue housing in the credit portfolio in the following segments: medium-income and residential housing, low-income housing, credits acquired from the INFONAVIT or FOVISSSTE, and home remodeling or improvement with a warranty granted by a development bank or public trusts.
- qq. The balance sheet must present the following items as a liability under the heading of “Global deposit account without movements”: the principal and interest of deposit instruments without maturity dates or, when having a maturity date are automatically renewed, together with transfers or the expired, unclaimed investments referred to by article 61 of the Law on Credit Institutions.
- rr. As part of the earned capital presented in the balance sheet, a heading denominated “Remediation for defined employee benefits” has been added as part of the implementation of NIF D-3, Employee benefits.
- ss. The heading “Provided guarantors” has been added to memoranda accounts at the end of the balance sheet.
- tt. Insurance and bonds, technical assistance expenses, maintenance expenses, fees other than those paid to the IPAB, consumables and minor appliances must be included as part of administrative and promotional expenses in the statement of income.
- uu. Within the movements inherent to the recognition of comprehensive income, the statement of changes in stockholders’ equity must recognize the remediation for defined employee benefits based on the implementation of NIF D-3, Employee benefits.

NIF issued by the CINIF and applicable to the Institution

At December 31, 2015, the CINIF has issued the following NIF, which could have an effect on the Institution’s financial statements:

- a. With implementation as of January 1, 2016:

NIF D-3, *Employee benefits*

- b. With implementation as of January 1, 2018:

NIF C-2, *Investment in financial instruments*
NIF C-3, *Accounts receivable*
NIF C-9, *Provisions, contingencies and commitments*
NIF C-16, *Impairment of receivable financial instruments*
NIF C-19, *Payable financial instruments*
NIF C-20, *Receivable financial instruments*
NIF D-1, *Revenues from contracts with customers*
NIF D-2, *Costs of contracts with customers*

Improvements to the interpretations of the 2016 NIF (INIF) – The following improvements were issued and took effect as of January 1, 2016:

INIF 21, *Recognition of employee severance payments*

Improvements to the 2016 NIF - The following improvements took effect as of January 1, 2016, thereby generating accounting changes:

NIF B-7, *Business acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling equity or the sale without losing control of the subsidiary, are outside the scope of this NIF, regardless of how the amount of the consideration was determined.

NIF C-1, *Cash and cash equivalents* and NIF B-2, *Statement of cash flows* – Modified to consider foreign currency as cash and not as cash equivalents. Clarifies that both the initial and subsequent valuation of cash equivalents must be at fair value.

Bulletin C-2, *Financial instruments and Document of amendments to Bulletin C-2* –

- a) The definition of financial instruments available for sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.
- b) Criteria for classifying a financial instrument as available for sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.
- c) The concept of purchase expenses is eliminated and the definition of transaction costs is incorporated.
- d) The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, *Investments in associates, joint ventures and other permanent investments* – Establishes that contributions in kind should be recognized at the fair value that was negotiated between owners or shareholders, unless they are the result of debt capitalization, in which case they should be recognized for the capitalized amount.

Bulletin C-10, *Financial derivatives and hedge transactions*-

- a) The method to be used to measure the effectiveness should be defined, which should be evaluated at the beginning of the hedge, in the following periods and at the date of the financial statements.
- b) Clarifies how to designate a primary position.
- c) The accounting for the transaction costs of a financial derivative is modified to be recognized directly in the net income or loss of the period at acquisition, and not deferred and amortized during its effective term.
- d) Clarifications are made on the recognition of embedded derivatives.

The following improvements were issued which do not generate accounting changes:

NIF C-19, *Financial instruments payable (FIP)* - Clarifications are made with regard to: i) the definition of transaction costs, ii) when amortization of the transaction costs should be recalculated, iii) the entity should demonstrate, as support for its accounting policy, that it complies with the conditions for designating a financial liability at fair value through net income or loss, and iv) disclosing the gain or loss when an FIP is derecognized and the fair values of significant long-term fixed-rate liabilities. Furthermore, an appendix is incorporated as support in the determination of the effective interest rate.

NIF C-20, *Financial instruments receivable* – Changes are incorporated to clarify and explain various concepts due to the issuance of the new NIF related to financial instruments and the final issuance of IFRS 9, *Financial Instruments*. The most important of these include: transaction costs and related amortization, effective interest rate, impairment, foreign-currency instruments, reclassification between fair value debt instruments and financial instruments receivable, the value of money over time and disclosure of qualitative and quantitative information.

At the date of issuance of the consolidated financial statements, the Institution is in the process of determining the effects derived from these standards on its financial information.

New NIF D-3, Employee benefits

In January 2015, the CINIF issued a series of modifications to NIF D-3, *Employee benefits*. These modifications took effect as of January 1, 2016.

The main modifications resulting from the application of this new NIF D-3 on the financial information of the Institution are as follows:

- Liability discount rate - Defined-Benefit Obligation (OBD)
 - The discount rate used to calculate the OBD must be determined by using the market rate of high quality corporate bonds, as long as there is a deep market for them. The market rate of federal government bonds must otherwise be utilized.
- Recognition of actuarial gains and losses
 - The use of a corridor to defer actuarial gains and losses has been eliminated.
 - The accrued balance of accrued gains and losses at December 31, 2015 will be recognized within stockholders' equity and the liability at January 1, 2016.
 - The actuarial gains and losses generated as of January 1, 2016 will be treated as the remediation of defined employee benefits, which will be recognized in stockholders' equity and the liability.

- Amortization of actuarial gains and losses
 - The actuarial gains and losses recognized within stockholders' equity must be recycled to results during the Remaining Labor Life of the Plan.
- Return expected from plan assets
 - The return expected from plan assets must be estimated by utilizing the liability discount rate instead of the return rate expected for the fund.

Derived from the implementation of NIF D-3, on December 31, 2015, the Commission issued a series of temporary articles in relation to the "Ruling that modifies the general provisions applicable to credit institutions", which was published in the Federal Official Gazette on November 9, 2015.

These temporary articles establish that credit institutions may recognize the entire plan modification balance (past service) and the accrued balance of the unrecognized plan gains and losses for entities that did not progressively utilize the corridor approach before December 31 of each year.

If opting to progressively apply the aforementioned balances, institutions must start their recognition of these balances in 2016 by recognizing 20% of this amount that year, followed by an additional 20% each subsequent year until reaching 100% within a maximum five-year period.

As regards the remediation of the gains or losses generated by the defined benefit plan that must be recognized at the end of each period, as well as their recycling to results of the year, institutions must calculate the total amount of plan gains or losses; i.e., based on the sum of plan gains or losses, while excluding those that were not recognized in the balance sheet

Credit institutions that decide to exercise this option must notify the Commission no later than January 31, 2016.

Likewise, if deciding to recognize all or part of the remnant effect before the end of the established periods, institutions must inform the Commission within 30 calendar days following the date on which the respective accounting movement is performed. Entities may recognize such amounts ahead of time, as long as they recognize at least 20% of the total remnant amount during the year in question.

Credit institutions that opt to apply any of the above options must disclose the effects resulting from this decision in the public financial information reports prepared for 2016 and until the year in which the progressive recognition of the aforementioned effects concludes.

In this regard, the initial effect resulting from the application of NIF D-3 in subsequent years derived from the accrued balance of unrecognized actuarial losses and the past service labor cost at December 31, 2015 is \$154. This balance will be recognized in Earned capital under the "Remediation for defined employee benefits" and "Results of prior years" headings, respectively, as of 2016, by recognizing 20% of the accrued balance during that year, together with an additional 20% in each subsequent year until reaching 100% within a five-year period.

Furthermore, the accrued balance of unrecognized actuarial losses at December 31, 2015 will be recycled to results during the period of the Remaining Labor Life of the Plan, which fluctuates between 11 and 20 years depending on the benefit in question.

33. Reclassifications

Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2013 have been reclassified to conform to the presentation of the 2014 consolidated financial statements.

Such reclassifications took place in the next headings: other receivables and other assets.

34. Authorization of the Financial Statements

On February 25, 2016 the issuance of the consolidated financial statements was authorized by Moisés Tiktin Nickin, Chief Executive Officer of the Institution, Álvaro Alberto Calderón Jiménez, Chief Financial Officer, José Luis Orozco Ruíz, Chief Internal Auditor and Ricardo Cordero Jurado, Deputy Director of Accounting and by the Board of Directors, who, in addition to the Commission may be modified.

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