INBURSA
Grupo Financiero

ANNUAL REPORT 2016

MISSION:

A Financial Group committed to working for Mexico, and consisting of the best human capital, created to watch over and grow as efficiently as possible our customers' and partners' resources.

VISION:

To be leaders in Mexico's growing financial sector with profitability for our customers, collaborators and partners.

VALUES:

- Commitment to Mexico
- Long-term vision
- Comprehensive staff development
- Integrity
- Austerity
- Innovation

KEY CAPACITIES:

- Operating Efficiency
- Customer & Service oriented
- Lean structure with good communication and clear leadership
- Focused on results
- Wise selection of risks

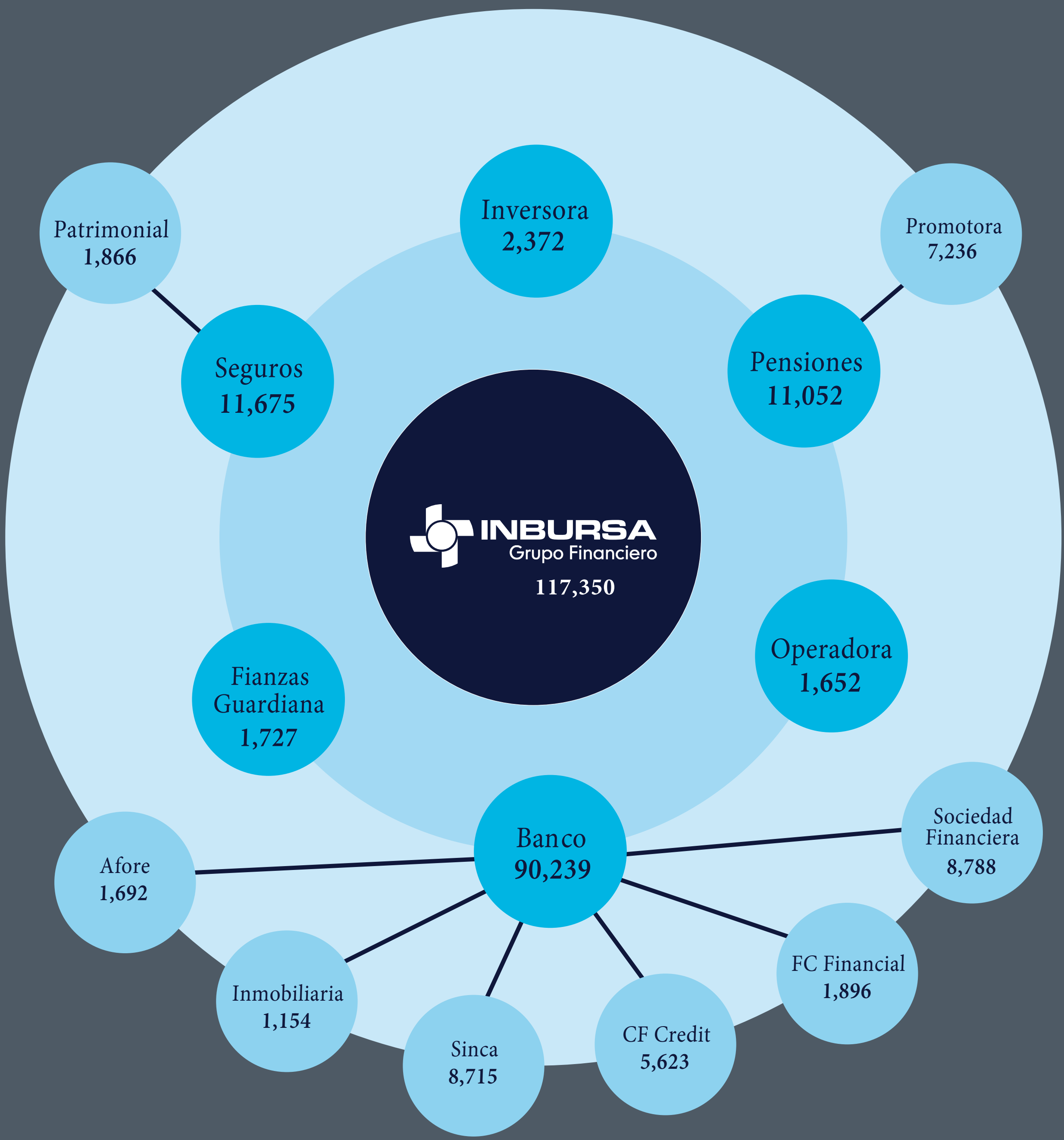
CONTENTS

Auguste Rodin
François-Auguste-René Rodin
(Paris, Île-de-France, France, 1840 - Meudon, Île-de-France, 1917)

The Gates of Hell (*Porte de l'Enfer*).
Conception: 1880-1917
Foundry: 8/8, 2013-2015, de Coubertin
Bronze with light brown patina

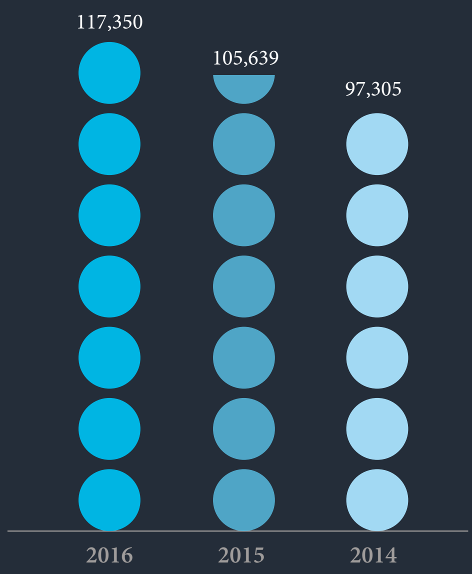
STOCKHOLDERS' EQUITY

Million pesos

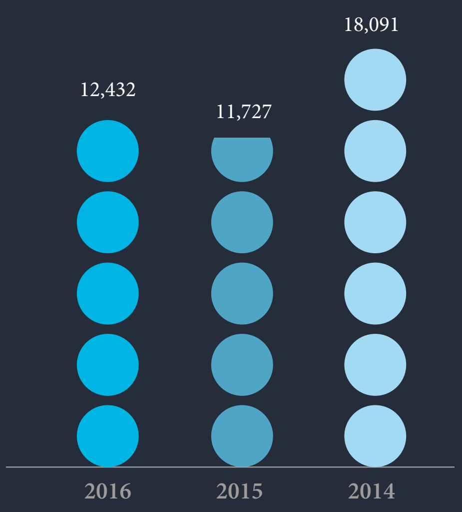


RELEVANT FIGURES

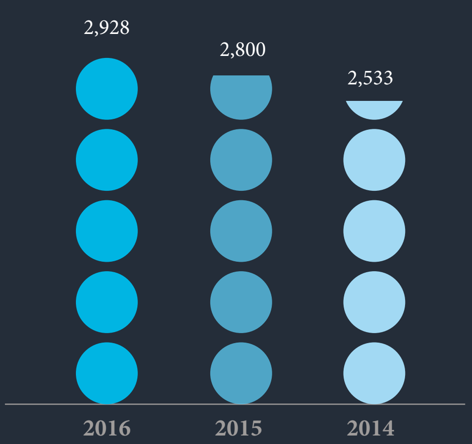
STOCKHOLDERS' EQUITY
Million pesos



NET PROFIT
Million pesos



DIVIDENDS
Million pesos



FINANCIAL INFORMATION GFI

Million pesos

Net Results	2016	2015	2014	% var 2016 vs 2015	% var 2016 vs 2014
Grupo Financiero Inbursa	12,432	11,783	18,016	5.5%	-31.0%
Banco Inbursa	7,743	9,890	14,554	-21.7%	-46.8%
Inversora Bursátil	399	291	213	37.1%	87.3%
Operadora Inbursa	241	241	386	0.0%	-37.6%
Seguros Inbursa	2,312	411	1,178	462.5%	96.3%
Pensiones Inbursa	864	588	1,052	46.9%	-17.9%
Fianzas Guardiana	1,028	355	327	189.6%	214.4%

Assets	2016	2015	2014	% var 2016 vs 2015	% var 2016 vs 2014
Grupo Financiero Inbursa	530,348	439,241	385,704	20.7%	37.5%
Banco Inbursa	411,961	327,064	281,584	26.0%	46.3%
Inversora Bursátil	14,116	9,202	6,821	53.4%	106.9%
Operadora Inbursa	1,844	1,636	1,536	12.7%	20.1%
Seguros Inbursa	88,026	83,639	70,295	5.2%	25.2%
Pensiones Inbursa	27,002	26,563	27,403	1.7%	-1.5%
Fianzas Guardiana	3,513	4,067	3,489	-13.6%	0.7%

Stockholders' Equity	2016	2015	2014	% var 2016 vs 2015	% var 2016 vs 2014
Grupo Financiero Inbursa	117,350	105,639	97,305	11.1%	20.6%
Banco Inbursa	90,239	82,359	72,783	9.6%	24.0%
Inversora Bursátil	2,372	2,343	2,154	1.2%	10.1%
Operadora Inbursa	1,652	1,471	1,335	12.3%	23.7%
Seguros Inbursa	11,675	8,971	9,083	30.1%	28.5%
Pensiones Inbursa	11,052	10,477	10,085	5.5%	9.6%
Fianzas Guardiana	1,727	1,517	1,138	13.8%	51.8%

Dividends Paid	2016	2015	2014	% var 2016 vs 2015	% var 2016 vs 2014
Grupo Financiero Inbursa	2.928	2.800	2,533	4.6%	15.6%

INFRASTRUCTURE

	2016	2015	2014
Employees	10,465	9,554	7,113
ATMs	845	805	753
Branches	901	543	354
Salesforce	29,492	19,735	16,002

INDICATORS

	2016	2015	2014
Credit Portfolio / Total Asset (Bank)	68.8%	72.6%	72.3%
Past Due Portfolio / Credit Portfolio (Bank)	2.7%	3.1%	3.7%
Preventive Reserves / Past Due Portfolio (Bank)	1.5	1.5	2.2

SHAREHOLDERS' REPORT

ECONOMIC ENVIRONMENT

The world economic climate during 2016 was defined by several important events, including: instability in the financial markets, the referendum in the United Kingdom on whether to leave the European Union and, in the United States, a strengthening of the US dollar – especially against the Mexican peso – following the election result.

The US economy grew 1.6% during 2016, boosted by an increase of 5.77% in consumption of durable goods and affected by a 1.55% decrease in private investment. The start of monetary policy regulation by the Federal Reserve was a result of high employment levels in the United States alongside inflation levels above those envisaged by it, leading to a rise of 25 base points on its reference index rate during the year.

In Mexico growth of the Gross Domestic Product (GDP) was 2.3%, slightly below that of 2015. Formal employment rose 4.10%. Tertiary activities managed to counteract zero growth in secondary activities, resulting primarily from lower oil production and moderate growth in the manufacturing industry. The increase in remittances that reached historic highs, low interest rates and a wider salary base favored domestic consumption. Inflation was at 3.4% during the year due to higher electricity and fuel prices as well as the depreciation of the currency towards the end of the year.

The Mexican peso devalued 18% during the year, with high volatility due to the uncertainty generated by the presidential election in the United States particularly with regard to NAFTA. This devaluation contributed to a significant decrease in the commercial deficit of our country during the last months of 2016. In response to the depreciation of our currency, Banco de México modified its monetary policy increasing the reference rate five times during the year from 3.25% to 5.75%.

Surplus in capital gains on the Banco de México reserves, the convenience of monetizing public assets, the solid export industry of the country, tourism, the internal sector and other competitive advantages, alongside the expectation of economic growth in the United States – which will increase demand for goods and jobs – will strengthen the country to face new international challenges.

GRUPO FINANCIERO INBURSA

In this context, Grupo Financiero Inbursa was characterized in 2016 by significant growth in both the operation of the various business lines and infrastructure. It is worth noting that Banco Inbursa closed the year with 901 offices which represents 358 more when compared to 2015; these provide support and complement the commercial duties of over 29,492 financial advisors that constitute our salesforce.

The acquisition, in June 2015, of Banco Wal-Mart de México and its subsequent merger with Banco Inbursa (which came into effect in September of the same year) implies a long-term commercial alliance, and has permitted joint developing and boosting of financial services placement – including the service of correspondent banking to enable Inbursa customers to make deposits, withdrawals and payments in different Walmart store formats. Growth in the shared-brand credit card portfolio increased 79.3% going from $5,441 million pesos in 2015 to $9,753 million pesos in 2016.

GFInbursa, at the close of 2016, registered profits of $12,432 million pesos compared to $11,727 million pesos at the close of 2015. This result is mainly due to the robust performance of the various subsidiaries that constitute it, greater income from the financial margin and commissions charged being partially compensated by more credit reserves costs, an increase in management and promotion expenditure as a result of the growth in the retail portfolio and the opening of new branches as well as lower incomes from other revenue streams of the operation.

Equity was $117,250 million pesos – an increase of 11.1% when compared with the same period of the year before. It is worth mentioning that a $2,928 million peso dividend was paid out in May, as well as stocks purchased for $1,024 million pesos; adjusted for the effects of this, equity growth would have been 14.8%.

With regards to operating efficiency (management costs over financial margin) and in accordance with data published to December 31st 2016 by CNBV, we ranked first among the main financial groups with a 41.7% due to lower operating costs against income. The system average was 50.4%. The total credit portfolio was $283,310 million pesos, increasing our participation in retail credit, mortgages and credit to small and medium size companies to $70,362 million pesos which represents 24.8% of the total portfolio.

In the retail credit business, personal finance loans increased by 4.1% to a total portfolio of $16,657 million pesos. Credit card loans rose from $9,672 million pesos in 2015 to $14,606 million pesos in 2016 which represents an increase of 51.0%; credit relating to the car finance business registered a balance of $26,811 million pesos: 14.9% more.

Through the branch network we capture retail sight deposits and term deposits from the general public; at the close of the year these amounted to $103,481 million pesos which represent 43.9% of traditional deposits. Furthermore, as part of the funding strategy, we have also gradually replaced part of our short-term deposits with stock issue certificates which have longer terms. This contributes to greater funding stability. The rating for each of the issues is "mxAAA" for Standard&Poors, and "HR+1" from HR Ratings.

GFinbursa, with over 50 years' experience and results, will continue to make the most of growth opportunities with the drive that characterizes it, contributing to the development of Mexico.

Inbursa's development is based on its operating efficiency, service culture, wide customer base, wise risk selection, financial strength, state of the art technology, quality of assets but above all on its human capital working in coordination and aware that everything can be improved, always seeking to optimize products and processes to continue being different and better for their customers, collaborators and partners.

MEMBERSHIP OF THE BOARD OF DIRECTORS

NON-INDEPENDENT DIRECTORS

Regular	Alternate
Marco Antonio Slim Domit (Presidente)	
Javier Foncerrada Izquierdo (Director General)	
Arturo Elías Ayub	
Juan Fábrega Cardelus	
Gonzalo Gortázar Rotaeche	Tomás Muniesa Arantegui
José Kuri Harfush	
Juan Antonio Pérez Simón	
Héctor Slim Seade	

INDEPENDENT DIRECTORS

Antonio Cosío Pando
Laura Diez Barroso Azcárraga
Agustín Franco Macías
Guillermo Gutiérrez Saldivar
David Ibarra Muñoz

Raúl Humberto Zepeda Ruiz
Non-member ecretary

Guillermo René Caballero Padilla
Non-membrer prosecretary

CHIEF EXECUTIVE OFFICERS

Marco Antonio Slim Domit
GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.
Chairman of the Board

Antonio Cosío Pando
COMPAÑÍA INDUSTRIAL DE TEPEJI DEL RÍO, S.A. DE C.V.
CEO

Laura Diez Barroso de Laviada
LCA CAPITAL
Chairman and CEO

Arturo Elías Ayub
TELÉFONOS DE MÉXICO, S.A.B. DE C.V.
Communications, Institutional Relations, and Strategic Alliances Executive Officer

Juan Fábrega Cardelus
CAIXABANK, S.A.
Executive Director

Agustín Franco Macías
GRUPO INFRA, S.A. DE C.V.
Chairman of the Board

Gonzalo Gortázar Rotaeche
CAIXABANK, S.A.
Managing Director

Javier Foncerrada Izquierdo
GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.
CEO

Guillermo Gutiérrez Saldívar
GRUPO IDESA, S.A. DE C.V.
Chairman of the Board

David Ibarra Muñoz
Independent Advisor

José Kuri Harfush
JANEL, S.A. DE C.V.
CEO

Tomás Muniesa Arantegui
CAIFOR
Managing Director

Juan Antonio Pérez Simón
TELÉFONOS DE MÉXICO, S.A.B. DE C.V.
Vicepresident of the Board

Héctor Slim Seade
TELÉFONOS DE MÉXICO, S.A.B. DE C.V.
CEO

CHIEF EXECUTIVE OFFICERS		JOINED GFI
Grupo Financiero Inbursa	Javier Foncerrada Izquierdo	1992
Inversora Bursátil	José Antonio Ponce Hernández	1991
Seguros Inbursa	Rafael Audelo Méndez	1980
Operadora Inbursa	Alejandro Ovejas Busqueta	2002
Fianzas Guardiana Inbursa	Alfredo Ortega Arellano	1991
Pensiones Inbursa	Raúl Humberto Zepeda Ruiz	1994
Afore Inbursa	José Ignacio Jiménez Santos	2006

BANCO

Banco Inbursa registered profits for $7,743 million pesos at the close of December 2016 compared to $9,890 million pesos at the close of December 2015 amid solid operating growth. The financial margin showed an increase of 30.1% as consequence of the growth of the total credit portfolio, going from $237,478 million pesos at the close of December 2015 to $283,310 million pesos at the close of 2016: 19.3% more. With regard to commissions and fees charged, these represented revenues of $5,450 million pesos at the close of 2016 which is compared to $4,207 million pesos in 2015.

The result is presented alongside lower proceeds in other revenue streams of the operation at $1,107 million pesos in 2016 which is in stark contrast to the £6,302 million pesos in 2015, higher credit reserves expenditure and 24.8% growth in management and marketing costs as a result of the growth in the retail portfolio and opening of new branches.

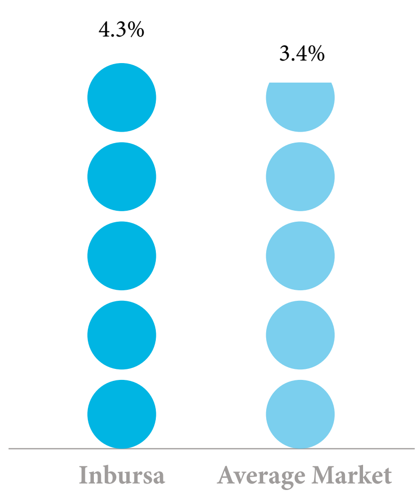
The group's total credit portfolio was $283,310 million pesos increasing our participation in the consumer credit, business mortgages as well as credit to small and medium size enterprises to $70,362 million pesos which represents 24.8% of the total portfolio.

The estimate for preventive credit risk was $12,088 million pesos. On aggregate, this amounts to a hedging of 1.5x delinquency and 4.3% of the total credit portfolio.

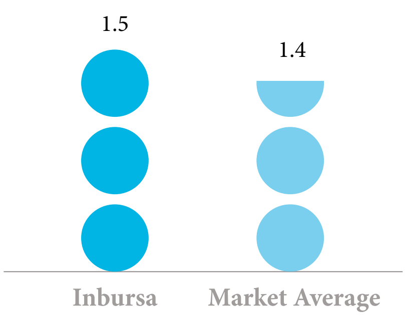
Banco Inbursa's robustness and capacity for growth is reflected in its capitalization index, which to December 2016 rose to 18.48%.

Delinquency represented 2.7% of the total portfolio, it is for the most part secured with assets whose current value is greater than the amount of credit. The institution's leadership

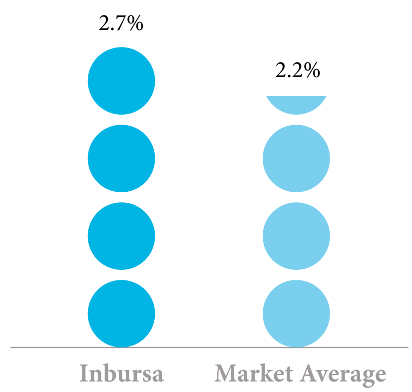
PREVENTIVE RESERVES / TOTAL PORTFOLIO



HEDGING



DELINQUENCY INDEX



is highlighted through credits to small and medium size enterprises (PYMES), having in 2016 more than 60,000 recipients and a credit portfolio of $5,350 million pesos.

In the retail credit business, personal loans increased by 4.1% to a total portfolio of $16,657 million pesos. Credit card loans increased from $9,672 million pesos in 2015 to $14,606 million pesos in 2016 which represents growth of 51% . For its part, credit relating to car finance had a balance of $26,811 million pesos: 14.9% more.

The acquisition in June 2015 of Banco Wal-Mart de México and its subsequent merger with Banco Inbursa which came into effect in September that year and implies a long-term commercial alliance, has enabled the joint development and promotion of financial services provision including banking correspondents so that Inbursa customers can make deposits, withdrawals and payments in the various Walmart store formats. Regarding growth of the operation, the credit card portfolio of the joint brand increased 79.3% from $5,441 million pesos in 2015 to $9,753 million pesos in 2016.

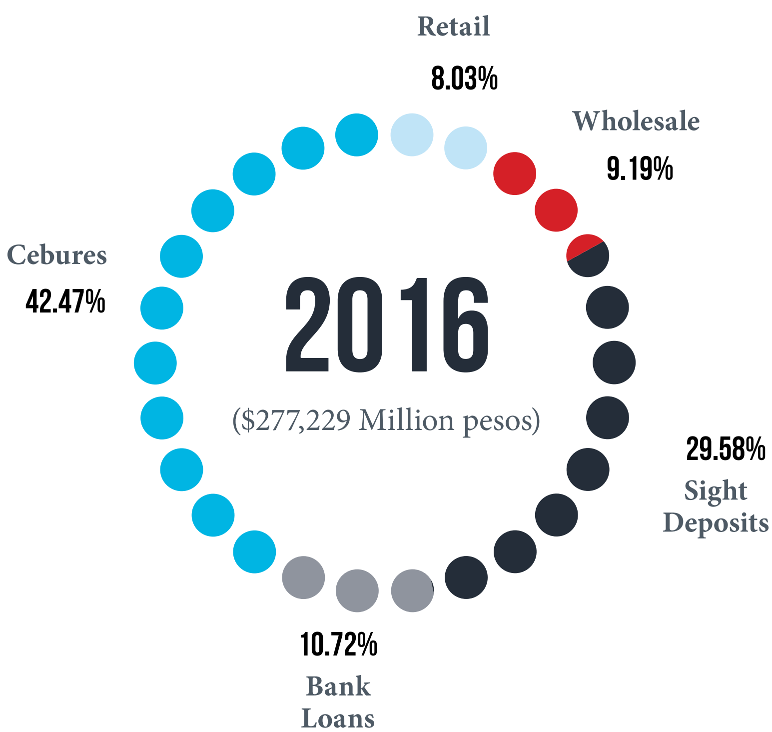
Banco Inbursa closed the year with 90 branches – which represent 358 more than 2015. The increase in sight deposits is worthy of note with a balance of $81,996 million pesos at the close of 2016.

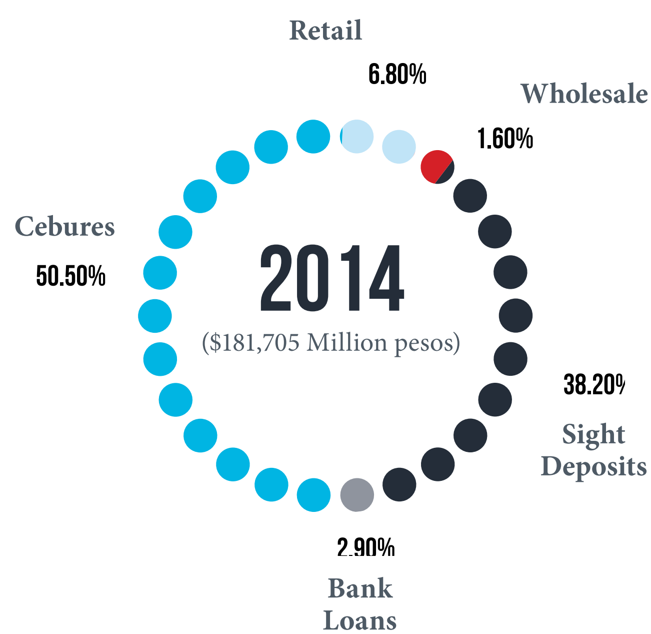
In order to continue the diversification of the composition and terms of the funding Banco Inbursa has issued Stock Exchange Bonds for a total of $117,728 million pesos. Ratings for each emission are “mxAAA” for Standard & Poors, and “HR+1” for HR Ratings.

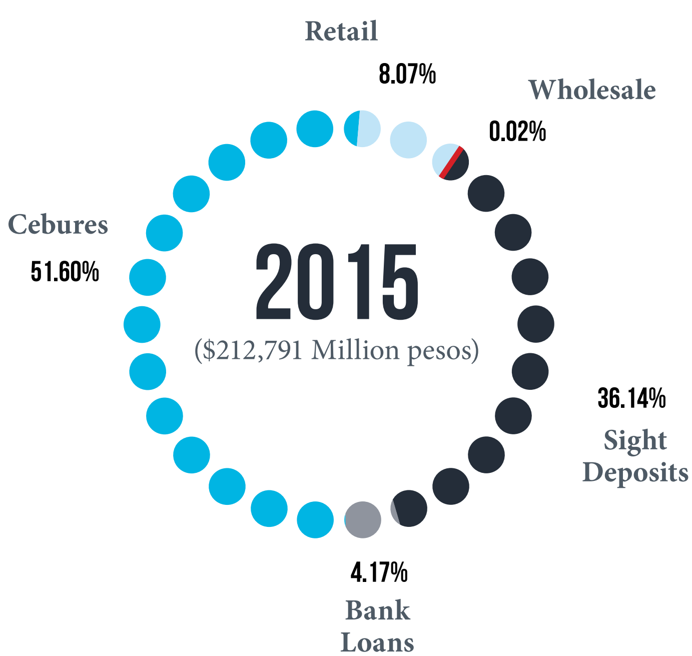
In April 2017, Banco Inbursa – with a view to increasing the efficiency of its funding structure – issued in international markets a bond worth $750 million dollars (the legal tender in the United States of America) with a 10 year term and fixed rate of 4.3750%.

This Institution remains one of the best reserved and capitalized banks in Mexico, with a capitalization index of 18.48% which compares favourably with the market average. This indicator shows not only its financial robustness, but also the bank’s capacity to continue participating prudently in the credit market.

REVENUE STREAMS







AFORE

Afore Inbursa reached $1,009 million pesos in earnings from commissions during 2016, which represents a drop of 10.6% when compared with the same period the year before. This decrease was due to the management's decision to reduce annual commissions charged to its members from 1.08% to 0.98%. Managed assets rose from 6.1%, going from $101,677 million pesos in 2015 to $107,990 million pesos in 2016 and a 3.9% market share.

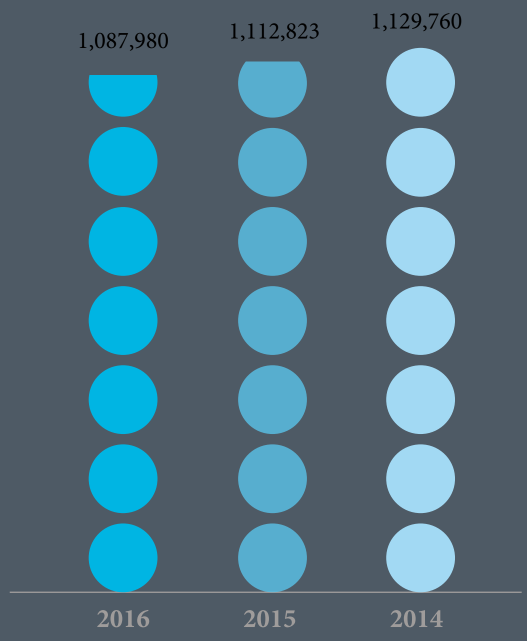
In terms of membership, market share was 2.3% in 2016 with 1,090,809 members. While the number of active members was 464,327 this represents a 2.6% market share. Net profit at the close of 2016 was $503 million pesos which compares with $445 million pesos at the close of 2015. This result derives from lower membership and transfer costs, going from $243 million pesos in 2015 to $177 million pesos in 2016.

Stockholders' equity was $1,692 million pesos at the close of 2016 compared with $1,614 million pesos at the close of 2015, which represents an increase of 4.8%. During 2016 dividends totalling $425 million pesos were paid; adjusting for this effect, the increase in stockholders' equity would have been 31.2%.

MANAGED ASSETS

Million pesos

MEMBERS




NET PROFIT
Million pesos
503
445
259
2016
2015
2014
STOCKHOLDERS' EQUITY
Million pesos
1,692
1,614
1,481
2016
2015
2014

CF CREDIT

CREDIT PORTFOLIO PARTICIPATION

OPERADORA

Fondo Inbursa, S.A de C.V, Fondo de Inversión de Renta Variable (INBURSA) posted to December 31st 2016, assets worth $14,973 million pesos and an average compound annual yield in dollars of 16.63% for the period between March 31st 1981 and December 31st 2016. IBUPLUS, S.A. de C.V., Sociedad de Inversión de Renta Variable (IBUPLUS) and Fondo Din;amico de Inversiones Bursátiles, S.A de C.V. (FONIBUR) funds show portfolios at the end of the year of $33,882 million pesos and $20,209 million pesos, respectively.

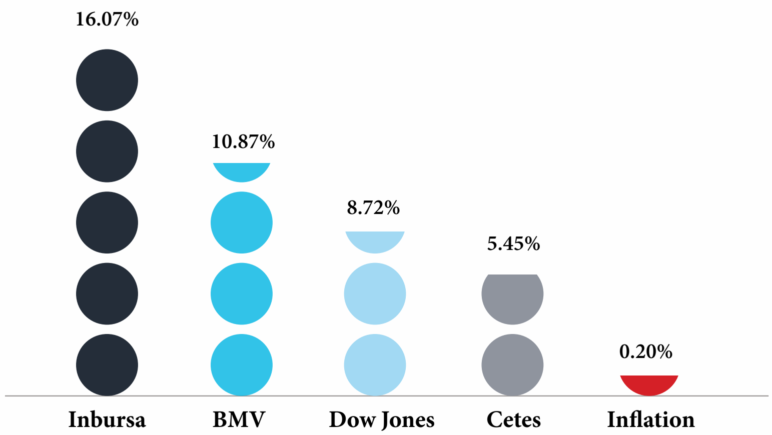
As far as performance of mutual funds in debt instruments is concerned, Inburmex S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda para Personas Morales (Inburmex) had an annual yield of 4.65% closing 2016 with assets worth $14,325 millions pesos. Fondo de Dinero Inbursa, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (DINBUR1) had an annual yield of 2.85% and assets worth $3,587 million pesos. Likewise, Inbumax S.A de C.V. Fondo de Inversión en Instrumentos de Deuda (INBUXMAX) had an annual yield of 3.98% and assets worth $25,817 million pesos.

In 2016 Operadora Inbursa posted profits totalling $336 million pesos which compares with the $241 million pesos in 2015 as an increase of 39.6%.

Likewise, having previously obtained the relevant government permissions, Inbumex, S.A. de C.V., Fondo de Inversión de Renta Variable was constituted on March 5th 2012; its assets are also managed by Operadora Inbursa and closed 2016 with assets worth $287 million pesos.

Stockholders' equity was $1,652 millions pesos compared to $1,471 from 2015. It is worth noting the payment of dividends for $155 millions pesos in 2016. Adjusting for this, the increase in stockholders' equity in the year would have been 13.13%.

Average Compound Annual Yield in US Dollars from March 31st 1981 to December 31st 2016



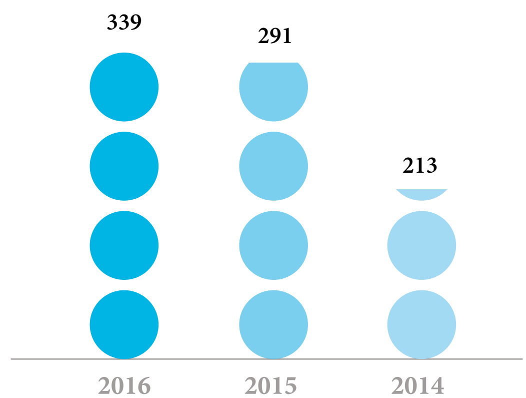
INVERSORA

During 2016 it posted profits worth $399 million pesos, compared with $291 million pesos at the close of 2015, which represents an increase of 37.1%. This is due to income of $227 million pesos in 2016 from valuation as opposed to losses of $179 million pesos in 2015, partially compensated by lower earnings from commissions and rates charged. During 2016 managed assets totalled $2,323 million pesos.

Stockholders' equity for Investora grew by 1.2% in 2016 to $2,372 million pesos compared with $2,342 million pesos in the previous year. It is worth nothing that dividends worth $370 million pesos were paid in 2016. Adjusting for this effect, the increase in stockholders' equity would have been 17.0 percent.

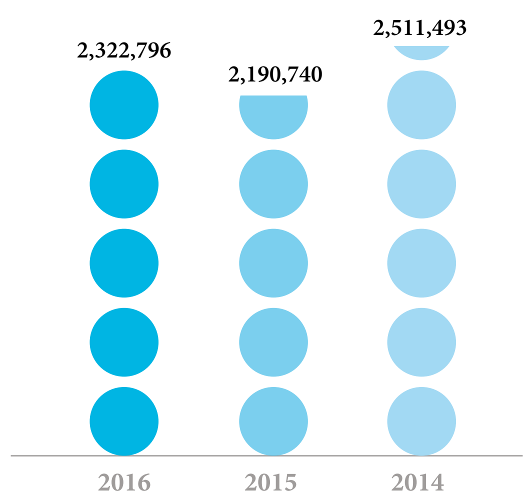
NET PROFIT

Million pesos



MANAGED ASSETS

Million pesos



SEGUROS

In 2016 total seguros Inbursa premiums amounted to $20,240 million pesos, which means an increase of 3.1% when compared with the year before which was $19,637 million pesos. It is worth highlighting that retention premiums grew by 14.4% from $13,894 million pesos in 2015 to $15,894 million pesos in 2016.

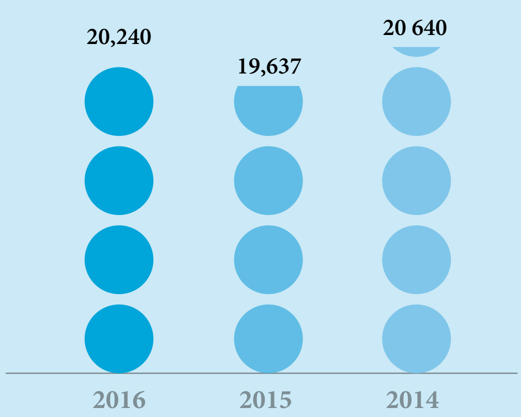
Seguros Inbursa posted profits for $2,312 million pesos at the close of 2016 which represents an increase of 462.5% if compared to $411 million pesos during 2015. The result is explained mainly by an increase of 165.0% in financial earnings. It must be noted that at the beginning of 2016 Mexican insurance firms had to adjust their financial statements to implement Solvencia II.

Investments in the insurance business continued growing: from $42,584 million pesos in 2015 to $47,301 million pesos in 2016 - an 11.1% increase. Stockholders' equity was $11,675 million pesos which compares to $8,971 million pesos in 2015. It is important to note the payment of dividends for $1,616 millon pesos during 2016. Adjusting for this the increase in stockholders' equity in 2016 would have been 48.2%.

In 2016 the combined indicator was 95.1%; this is taken to be operating, acquisition and accident rate costs in relation to the retained premiums.

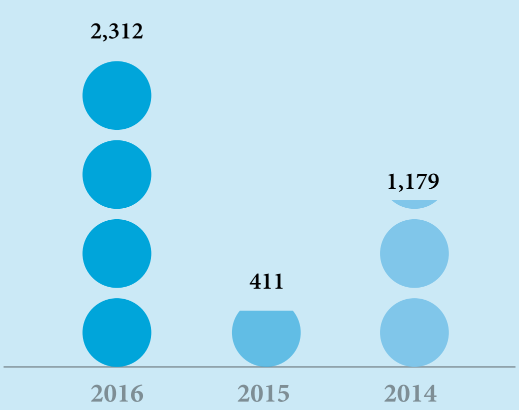
TOTAL PREMIUMS

Million pesos



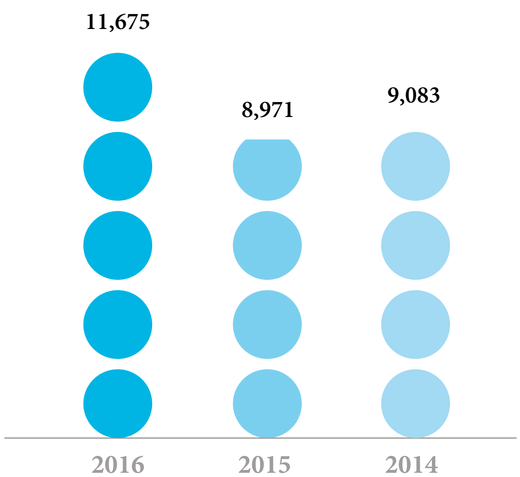
NET PROFIT

Million pesos



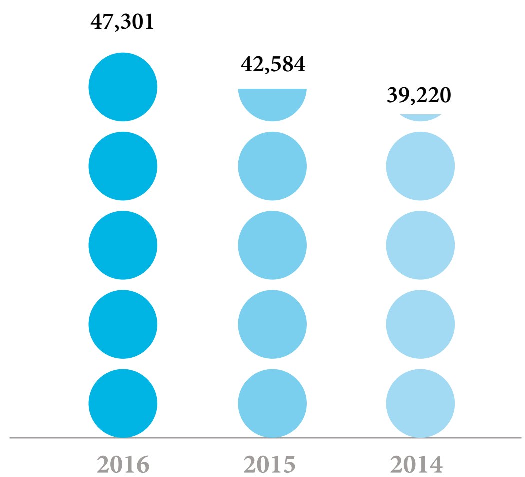
STOCKHOLDERS’ EQUITY

Million pesos



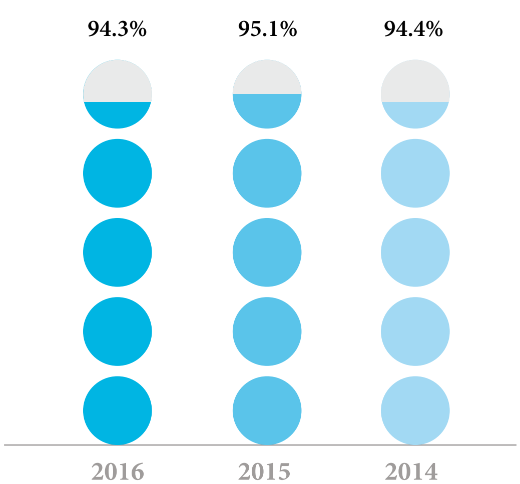
INVESTMENTS

Million pesos

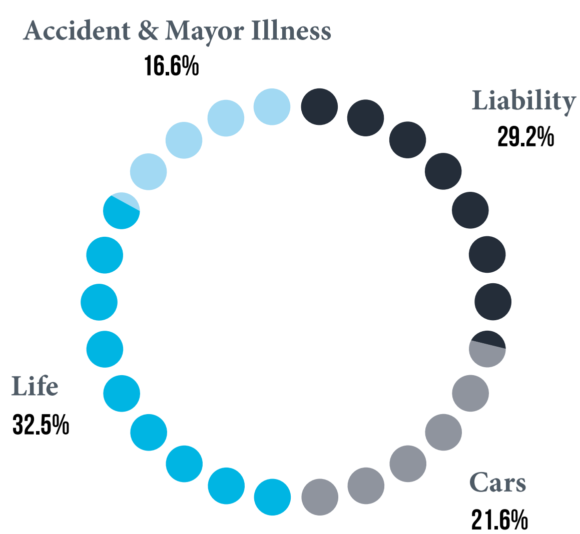


COMBINED INDEX

Million pesos



PREMIUMS BY BUSINESS LINE



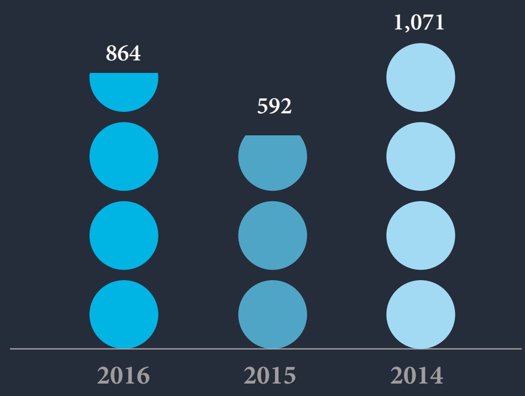
PENSIONES

By the close of 2016, Pensiones Inbursa reported profits amounting to $864 million pesos compared to $592 million pesos the year before. This is due to higher incomes in the integral funding result mainly by investment valuation, going from $400 million pesos in 2015 to $1,135 million pesos in 2016. Investments in the pensions business went from $25,833 million pesos in 2015 to $26,261 million pesos in 2016.

Pensiones Inbursa's stockholders' equity rose to $11,052 million pesos at the close of the 2016 fiscal exercise, 5.5% greater when compared to the close of 2015. It is important to note that in May 2016 a dividend of $335 million pesos was paid. Adjusting for this effect, the increase in stockholders' equity would have been 8.7 percent.

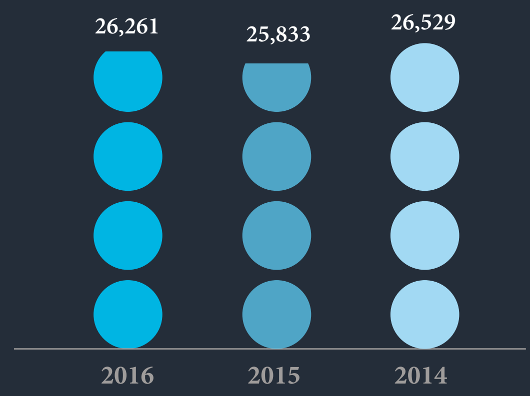
NET PROFIT

Million pesos



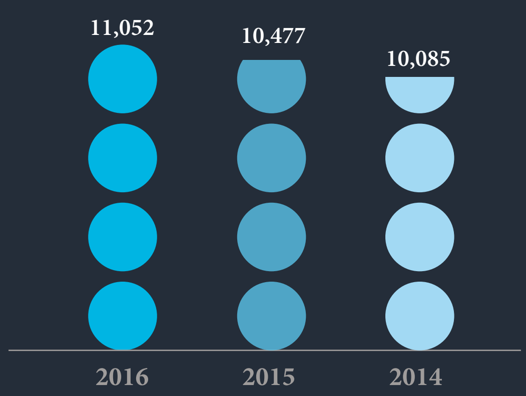
INVESTMENTS

Million pesos



STOCKHOLDERS' EQUITY

Million pesos



FIANZAS

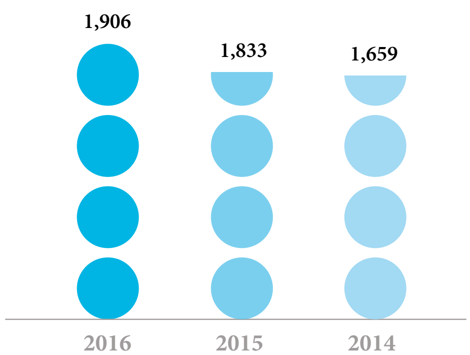
At the close of the fiscal year ending December 31st 2016, Fianzas Guadiana Inbursa posted premiums of $1,761 million pesos – which represent an increase of 8.2% when compared with the $1,659 million pesos at the close of the previous year.

Net profit was $1,028 million pesos compared with $355 million pesos the year before - which represents an increase of 189.6%. This result can be attributed to the release of stocks in excess of $800 million pesos following the implementation of Solvencia II.

Stockholders' equity was $1,727 million pesos, which represents an increase of 13.8% when compared with the close of 2015 which was $1,517 million pesos. It's worth noting that a dividend payment was made for $824 million pesos in 2016. Adjusting for this effect, the increase in stockholders' equity would have been 68.2 percent.

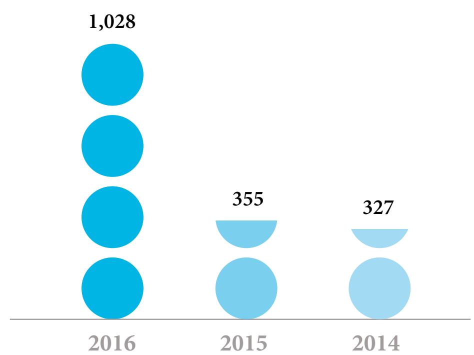
TOTAL PREMIUMS

Million pesos



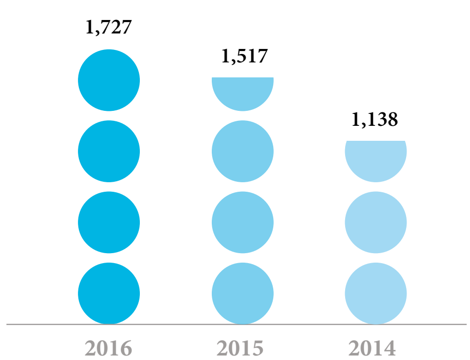
NET PROFIT

Million pesos



STOCKHOLDERS' EQUITY

Million pesos



FINANCIAL STATEMENTS

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Independent Auditors' Report and Consolidated Financial Statements for 2016 and 2015

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries (the Financial Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Financial Group are prepared, in all material respects, in accordance with the accounting criteria established by the Mexican National Banking and Securities Commission (the Commission) as set forth in the General Provisions Applicable to Financial Groups, Credit Institutions, Brokerage Houses and Regulated Multiple Purpose Financial Companies (the Provisions).

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 1 of the accompanying consolidated financial statements, which indicates the following:

a) The Financial Group through Seguros Inbursa, S.A., Grupo Financiero Inbursa (Seguros Inbursa) and Fianzas Guardiana Inbursa, S.A., Grupo Financiero Inbursa (Fianzas Guardiana) (subsidiaries of the Financial Group) adopted the new accounting criteria issued by the National Insurance and Bond Commission (the CNSF from its Spanish acronym) through Letter 22.1.2 of the Provisions for Insurance and Bond Institutions (the CUSF from its Spanish acronym). This accounting criteria came into effect beginning January 1, 2016, and mainly includes the effect of annualized premiums and the new model for valuation of technical reserves. The net effect recorded in the statement of income due to these changes in Seguros Inbursa and Fianzas Guardiana Inbursa as of January 1, 2016, amounted to $154 million pesos and $990 million pesos, respectively. These changes are described in Note 1 of the accompanying consolidated financial statements.

b) In 2016, new accounting and technical reserve calculation criteria applicable to Mexican insurance institutions came in force. The Commission deemed impractical to present comparative financial statements for 2016, mainly because of the changes in accounting estimates of assets and liabilities due to the Law that came into effect. Consequently, Letter 16/16 from CUSF was issued and published in the Federal Gazette (DOF from its Spanish acronym) on November 1, 2016, and it established that such effects were recorded on 2016 statement of income, and not to modify 2015 consolidated financial statements.

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Financial Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

The key audit matters are those matters which, in our professional judgment, have been of most significance in our audit of the consolidated financial statements for the current period. These matters have been addressed in the context of our audit of the consolidated financial statements taken as a whole and in the formation of our opinion thereon, and we do not express a separate opinion on those matters.

We have determined that the matters described below are the key audit matters which should be communicated in our report.

- **Valuation of financial derivatives (see notes 3 and 10 to the consolidated financial statements)**

  The valuation of the financial derivatives of the Financial Group was considered as a key approach area of our audit, given the degree of complexity involved in the valuation of some of the financial derivatives and the materiality of the judgments and estimates made by management.

  In the accounting policies of the Financial Group (Note 3), management has described the principal sources of estimates involved in the determination of the valuation of financial derivatives and in particular when fair value is established by using a valuation technique due to the complexity of the instrument or the unavailability of market-based data.

  Our audit procedures to cover this significant caption focused on tests of the valuation adjustments, including those for inclusion of the collateral, in addition to tests of:

  1. The design and implementation as well as the operating efficiency of the key controls in the processes of identification, management and supervision of the valuation risk of financial derivatives of the Financial Group, including the controls over data sources, pricing confirmation and other inputs used in the valuation models.

  2. The design and operational efficiency of the controls over the approval of the models or changes in existing models.

  3. The analysis of the variables used in the models. This work included the calculation of the valuation as of September 30 and December 31, 2016 for a sample of financial derivatives with the use of independent variables and in certain cases they resulted in valuations different from those calculated by the Financial Group, while noticing that the differences were within reasonable ranges.

  4. We have tested as of December 31, 2016, the entry data into the valuation model and involved internal specialists from our valuation area to review the results of the model.

  5. We validated as of December 31, 2016 their correct presentation and disclosure in the consolidated financial statementss.

  The results of our audit procedures were reasonable.

- **Allowance for loan losses - commercial credit portfolio (see Notes 3 and 13 to the consolidated financial statements)**

  The Financial Group establishes the allowance for loan losses of its commercial credit portfolio based on the portfolio classification rules established in the General provisions applicable to credit institutions, issued by the Commission, which establish methodologies for evaluation and creation of reserves by type of credit. When classifying the commercial credit portfolio, the Financial Group considers the Probability of Default, Severity of Loss and Exposure to Default and also classifies the aforementioned commercial credit portfolio into different groups and establishes different variables for the estimate of the probability of default. It has been considered a key audit matter due to the importance of the integrity and accuracy of the information used in the determination and updating of the risk parameters in the determination of the calculation.

  Our audit procedures to cover this key audit matter included:

  1. Tests of the design and operating efficiency of the relevant controls, focusing on review-type controls, for the classification of the commercial credit portfolio into different groups and the review of the variables to the estimate the probability of defaulto.

  2. Tests of the design and operating efficiency of the determination of the credit rating and/or score, determined based on the quantitative factors related to the financial information of the borrower, credit bureau information and qualitative factors related to their environment, behavior and performance.

  3. Of a sample of credits as of September 30 and December 31, 2016, we validated the estimate through an independent calculation exercise and a comparison of the results against those determined by the Financial Group, with the aim of evaluating any indicator of management error or bias, and identified that the results were within reasonable ranges.

The results of our audit procedures were reasonable.

Other information included in the document containing the audited consolidated financial statements

The Financial Group´s management is responsible for the information included in the Annual Report to the Mexican Stock Market (Annual Report). Such information will comprise the information that will be incorporated in the Annual Report that the Financial Group is obliged to prepare pursuant to Article 33 Fraction I, clause b) of Title Four, First Chapter of the "General Provisions Applicable to Issuers and Other Securities Market Participants" (Stock Exchange Rules) in Mexico and the Instructions accompanying those rules (collectively, the Regulations). The Annual Report is expected to be available after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the information that will be included in the Annual Report and we will not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material error. When we read the Annual Report, we will issue the declarations surrounding the reading of the annual report, required by Article 33 Fraction I, subsection b) numeral 1.2. of the Regulations.

Responsibilities of Management and the Audit Committee of the Financial Group for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the accounting criteria issued by the Commission as set forth in the Provisions, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Financial Group´s ability to continue as a going concern, disclosing, as applicable, matters, related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Financial Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for supervising the Financial Group's financial reporting process, reviewing the content of the consolidated financial statements and presenting them for approval by the Financial Group's Board of Directors.

Auditors´ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors´ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

Identify and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the efectiveness of the Financial Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Financial Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate to the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

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

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

C.P.C. Rony Emmanuel García Dorantes

February 27, 2017

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of December 31, 2016 and 2015
(In millions of Mexican pesos)

Assets	2016	2015
Funds available (Note 6)	$ 19,145	$ 17,000
Margin accounts (Note 7)	4,895	2,723
Investment in securities (Note 8)		
Trading securities	106,978	56,146
Securities available for sale	9,698	1,686
Securities held to maturity	15,947	29,113
	132,623	86,945
Receivables under sale and repurchase agreements (Note 9)	309	7,382
Derivatives (Note 10):		
Trading purposes	7,625	6,722
Hedging purposes	3,249	558
	10,874	7,280
Valuation adjustment for hedged financial assets (Note 11)	647	928
Performing loan portfolio:		
Commercial loans:		
Commercial or business activity	189,084	163,995
Financial entities loans	11,371	8,764
Government entities loans	23,680	14,340
Consumer loans	44,829	39,116
Mortgage loans	6,540	4,007
Total performing loan portfolio	275,504	230,222
Non-performing loan portfolio:		
Commercial loans:		
Commercial or business activity	3,930	5,064
Consumer loans	3,517	1,991
Mortgage loans	359	201
Total non-performing portfolio	7,806	7,256
Total loan portfolio (Note 12)	283,310	237,478
Allowance for loan losses (Note 13)	(12,047)	(10,696)
Loan portfolio, net	271,263	226,782
Receivables from insurance and surety companies, net (Note 14)	1,716	1,780
Premiums receivable, net (Note 15)	7,825	7,266
Receivables from reinsurance and surety, net (Note 16)	31,938	33,008
Other receivables, net (Note 17)	22,664	22,434
Foreclosed assets, net (Note 18)	2,011	3,001
Property, furniture and fixtures, net (Note 19)	6,401	6,117
Long-term investment in shares (Note 20)	13,298	11,987
Other assets, deferred charges and intangibles, net (Note 21)	4,739	4,608
Total assets	$ 530,348	$ 439,241

Liabilities and Stockholders' equity	2016	2015
Deposits		
Demand deposits (Note 22a)	$ 81,775	$ 76,634
Time deposits (Note 22b):		
Customer deposits	21,706	15,954
Money market	20,130	48
	41,836	16,002
Credit instruments issued (Note 22c)	112,036	103,352
	235,647	195,988
Bank and other loans (Note 23)		
Demand loans	-	1,070
Short-term loans	1,810	1,995
Long-term loans	26,398	4,154
	28,208	7,219
Technical reserves (Note 24)	85,072	85,292
Payables arising from settlement of transactions (Note 9)	11,215	6,401
Derivatives (Note 10):		
Trading purposes	14,354	12,769
Hedging purposes	13,442	7,536
	27,796	20,305
Payables to reinsurance and surety, net (Note 25)	773	1,888
Other payables:		
Income taxes payable	1,932	1,811
Employee profit sharing payable	123	117
Creditors from settlement of transactions (Note 6b)	9,339	7,096
Cash collateral received (Note 27)	2,264	-
Sundry creditors and other payables (Note28)	6,448	5,811
	20,106	14,835
Deferred taxes, net (Note 30)	2,906	845
Deferred revenues and other advances	1,275	829
Total liabilities	412,998	333,602
Stockholders' equity (Note 32)		
Paid-in capital:		
Capital stock	14,193	14,207
Share premium	13,201	13,201
	27,394	27,408
Other capital:		
Capital reserves	2,088	3,098
Retained earnings	76,205	64,281
Loss from holding non-monetary assets	(971)	(971)
Net income	12,432	11,727
Non-controlling interest	103	96
Total stockholders' equity	117,350	105,639
Total liabilities and stockholders' equity	$ 530,348	$ 439,241

Memorandum accounts (Note 38)

	2016	2015
On behalf of third parties:		
Customers current account		
Customer banks	$ -	$ 8
Settlement of customer transactions	(324)	(665)
	(324)	(657)
Customer securities		
Customer securities received in custody	2,267,944	2,138,371
On behalf customers:		
Repurchase transactions on behalf of customers	49,731	40,549
Collateral received as security on behalf of customers	460	497
	50,191	41,046
Total on behalf of third parties	$ 2,317,811	$ 2,178,760

	2016	2015
Own record accounts:		
Own registry accounts		
Contingent assets and liabilities	$ 57,107	$ 52,769
Assets in trust or under mandate		
Trusts	384,497	373,186
Mandates	1,288	967
	385,785	374,153
Collateral received		
Government debt	31,504	50,075
Banking debt	-	589
Other debt securities	26,348	4,325
	57,852	54,989
Collateral received and sold or pledged as guarantee		
Government debt	51,010	42,696
Banking debt	-	589
Other debt securities	6,842	4,325
	57,852	47,610
Assets in custody or under administration	412,584	401,395
Credit commitments	102,579	73,856
Uncollected interest earned on non performing portfolio	3,228	4,073
Collateral received and sold or pledged as guarantee by the Company	14,890	8,257
Paid-out claims	1,588	1,358
Cancelled claims	20	41
Recovered claims	141	114
Liabilities under bonds in force, net	24,330	20,410
Other memorandum accounts	1,273,123	999,730
Total own accounts	$ 2,391,079	$ 2,038,755

The accompanying notes are part of these consolidated financial statements.

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Interest income	$ 31,097	$ 23,672
Written premiums,net	17,614	15,497
Interest expense	(11,610)	(8,215)
Net increase in technical reserves	(2,887)	(2,513)
Losses, claims, and other contractual obligations, net	(10,975)	(10,444)
Financial margin (Note 35)	23,239	17,997
Provisions for loan losses	(6,614)	(3,841)
Financial margin after provisions for loan losses	16,625	14,156
Commission and fee income (Note 36)	6,121	5,234
Commission and fee expense	(5,114)	(3,953)
Net gain on financial assets and liabilities (Note 37)	3,759	(2,686)
Other operating income (expense), net	2,788	7,876
Administrative and promotional expenses	(9,690)	(8,124)
Total operating income	14,489	12,503
Equity in results of unconsolidated subsidiaries and associates	1,011	1,122
Income before income taxes	15,500	13,625
Current income taxes (Note 26)	3,628	3,726
Deferred income taxes (Note 30)	(596)	(1,884)
	3,032	1,842
Consolidated income before non-controlling interest	12,468	11,783
Non-controlling interest	(36)	(56)
Net income	$ 12,432	$ 11,727

The accompanying notes are part of these consolidated financial statements.

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	Paid in capital	
	Capital stock	Share Premium
Beginning balances, 2015	$ 14,207	$ 13,201
Changes arising from stockholder decisions		
Transfer of net income from previous year to retained earnings	-	-
Dividends declared	-	-
Total	-	-
Comprehensive income		
Net income	-	-
Participation in other capital accounts of subsidiaries, net of deferred taxes	-	-
Total	-	-
Balances, December 31, 2015	14,207	13,201
Changes arising from stockholder decisions		
Transfer of net income from previous year to retained earnings	-	-
Dividends declared	-	-
Total	(14)	-
	(14)	-
Comprehensive income		
Net income	-	-
Participation in other capital accounts of subsidiaries, net of deferred taxes	-	-
Total	-	-
Balances, December 31, 2016		
Changes arising from stockholder decisions	$ 14,193	$ 13,201

The accompanying notes are part of these consolidated financial statements.

Earned						
Capital reserves	Retained earnings	Gain (loss) from holding non-monetary assets	Participation in other capital accounts of subsidiaries, net of deferred taxes	Net income	Non-controlling interest	Total stockholders' equity
$ 3,098	$ 49,492	$ (971)	$ 99	$ 18,091	$ 88	$ 97,305
-	17,610	-	-	(18,091)	-	(481)
-	(2,800)	-	-	-	-	(2,800)
-	14,810	-	-	(18,091)	-	(3,281)
-	-	-	-	11,727	56	11,783
-	(120)	-	-	-	(48)	(168)
-	(120)	-	-	11,727	8	11,615
3,098	64,182	(971)	99	11,727	96	105,639
-	11,727	-	-	(11,727)	-	-
-	(2,928)	-	-	-	-	(2,928)
(1,010)	-	-	-	-	-	(1,024)
(1,010)	8,799	-	-	(11,727)	-	(3,952)
-	-	-	-	12,432	36	12,468
-	3,224	-	-	-	(29)	3,195
-	3,224	-	-	12,432	7	15,663
$ 2,088	$ 76,205	$ (971)	$ 99	$ 12,432	$ 103	$ 117,350

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Net income	$ 12,432	$ 11,727
Adjustment for line items that do not require cash flows:		
Technical reserves	2,887	2,513
Depreciation of property, furniture and fixtures	101	276
Amortization of intangible assets	31	12
Current and deferred income taxes	3,032	1,842
Provisions	158	162
Equity in results of unconsolidated subsidiaries and associates	(1,011)	(1,122)
	17,630	15,410
Operating activities:		
Margin accounts	(2,172)	711
Investment in securities	(45,678)	2,416
Receivables under sale and repurchase agreements	7,073	5,558
Derivatives (assets)	(903)	1,843
Loan portfolio	(44,481)	(38,480)
Receivables from insurance and surety companies	64	(939)
Premiums receivable	(559)	2,345
Receivables from reinsurance and surety	1,070	(12,308)
Foreclosed assets	990	148
Other operating assets, net	(392)	(6,699)
Deposits	39,659	24,830
Bank and other loans	20,989	693
Payables arising from settlement of transactions	4,814	2,347
Derivatives (liability)	1,585	(1,957)
Payables to reinsurance and surety, net	(1,115)	(2,338)
Other operating liabilities	5,438	3,913
Hedging instruments	3,496	4,788
Technical reserves	(3,107)	13,751
Payment of income tax	(850)	(4,812)
Net cash used in operating activities	(14,079)	(4,190)
Investing activities:		
Proceeds from sale of property, plant and equipment	(385)	-
Payments for acquisition of property, furniture and equipment	(300)	(732)
Acquisition of HF Walmart, S.A. de C.V.	-	(1,682)
Acquisition of Banco Standard de Investimentos, S.A.	-	(860)
Proceeds from other investments	-	809
Payments for acquisition of intangible assets	-	(2,275)
Net cash used in investing activities	(685)	(4,740)

	2016	2015
Financing activities:		
Cash payment of dividends	(2,928)	(2,800)
Non-controlling interest	7	8
Repurchase of own shares	(1,024)	-
Participation in other capital accounts of subsidiaries, net of deferred taxes		
impuestos diferidos	3,224	(120)
Net cash used in financing activities	(721)	(2,912)
Net increase (decrease) in fund available	2,145	3,568
Funds available at the beginning of the period	17,000	13,432
Funds available at the end of the period	$ 19,145	$ 17,000

The accompanying notes are part of these consolidated financial statements.

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos, except foreign currency and exchange rates)

1. Activity and economic regulatory environment

Grupo Financiero Inbursa, S.A.B. de C.V. (the Financial Group), is authorized by the Treasury Department (SHCP) to operate as a Financial Group under the form and terms established by the Financial Group Law, and is subject to the supervision and oversight of the Mexican National Banking and Securities Commission (the Commission) and Banco de México (Central Bank or Banxico). The Financial Group's main activities include the acquisitions of financial sector entity shares and supervision of the activities of such entities, which activities are carried out accordance with the above-mentioned law and is authorized by Banxico to transact derivative financial instruments. The Financial Group and its subsidiaries (collectively, the Financial Group) are regulated by, depending on their activities, the Commission, the Mexican National Insurance and Bonding Commission (CNSF), the Banxico and other applicable laws.

The main activity of the subsidiaries is conducting financial transactions such as the provision of commercial banking and brokerage services, and the provision of life, accident and disease and damage insurance services in accordance with applicable law.

In accordance with the Financial Group Law, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The Financial Group is subject to regulations promulgated by the SHCP regarding resources of illegal origin.

The Commission, within its legal powers of inspection and supervision, may order amendments or corrections, which it deems necessary, for the publication of the consolidated financial statements of the Credit Institutions.

Significant events 2016

a. *Aportación de capital en Sociedad Financiera Inbursa S.A. de C.V., SOFOM, ER (Sociedad Financiera Inbursa)* – In 2016, the following capital contributions were approved by the shareholders of Sociedad Financiera Inbursa:

On April 28, 2016, an increase in the variable portion of the capital stock of $1,000 (one billion pesos); as a result, 387,253,680 ordinary, nominative Series "B" shares with no par value were issued at a value of $2.5823 Mexican pesos per share.

On July 28, 2016, an increase in the variable portion of the capital stock of $800 (eight hundred million pesos); as a result, 324,504,084 ordinary, nominative Series "B" shares with no par value were issued at a value of $2.4653 Mexican pesos per share.

On September 23, 2016, an increase in the variable portion of the capital stock of $850 (eight hundred fifty million pesos); as a result, 354,726,651 ordinary, nominative Series "B" shares with no par value were issued at a value of $2.3962 Mexican pesos per share.

On October 28, 2016, an increase in the variable portion of the capital stock of $800 (eight hundred million pesos); as a result, 347,560,420 ordinary, nominative Series "B" shares with no par value were issued at a value of $2.3018 Mexican pesos per share.

On December 23, 2016, an increase in the variable portion of the capital stock of $500 (five hundred million pesos); as a result, 205,087,754 ordinary, nominative Series "B" shares with no par value were issued at a value of $2.4380 Mexican pesos per share.

b. *Capital Contributions in FC Financial, S.A. de C.V., SOFOM, ER (FC Financial)* - In 2016, the following capital contributions were approved by the shareholders of FC Financial:

On April 28, 2016, an increase in the variable portion of the capital stock of $750 (seven hundred fifty million pesos); as a result, 750,000,000 ordinary, nominative Series "B" shares with no par value were issued at a value of $1 Mexican peso per share.

On December 23, 2016, an increase in the variable portion of the capital stock of $1,000 (one billion pesos); as a result, 1,092,482,727ordinary, nominative Series "B" shares with no par value were issued at a value of $0.915346279886767 Mexican pesos per share.

c. *Liquidation of Seguridad Inbursa, S.A. de C.V. (Seguridad Inbursa)* - During a stockholders' ordinary general meeting held on February 29, 2016, the early dissolution and liquidation of Seguridad Inbursa was approved. Also, a during a stockholders' special meeting held on July 25, 2016 the liquidation financial statements for the period from January 1, 2016 to May 31, 2016 were approved, and such statements were published on June 30, 2016 via the Electronic System of Publications of Business Entities established by the Economy Department. Finally, on June 16, 2016, through official notice No. 312-2/113699/2016, the Commission authorized the Bank to divest the common stock of Seguridad Inbursa, and on July 26, 2016, the capital was reimbursed accordingly.

d. *Accounting changes issued by the National Insurance and Bond Commission (the CNSF from its Spanish acronym)* - Seguros Inbursa - On December 19, 2014, the Provisions for Insurance and Bond Institutions (the CUSF from its Spanish acronym) was issued and published in the Federal Gazette (DOF from its Spanish acronym) the Federal Gazette published the decree law, whereby the Law is drawn up, which came into force on April 4, 2015, and includes changes in some accounting principles, however, through the Twelfth Transitory provision of the CUSF, it is indicated that during the period from April 4 to December 31 2015, the Institutions and Mutual Companies will comply with the accounting criteria set in Transitory Provision 1 of the CUSF, which are the same that were in force until April 3, 2015. Therefore, the accounting criteria applicable by the entry in force of the CUSF are mandatory as of January 1, 2016.

As mentioned in the previous paragraph, despite the fact that the Law and CUSF entered into force on April 4, 2015, some transitional provisions were published that allowed the following aspects came into effect beginning January 2016: (I) accounting criteria for the estimation of assets and liabilities, (ii) the constitution, valuation, increase and recording of technical reserves, (iii) calculation of investment base and (iv) solvency capital requirement and others.

The accounting criteria applicable to Insurance and Bond Institutions, as of January 1, 2016, are contained in Title 22 "Accounting criteria and Financial Statements", Chapter 22.1 "Of the accounting criteria for the estimation of assets and liabilities of Mutual Companies and Institutions. "

This accounting criteria came into effect beginning January 1, 2016, through Letter 22.1.2 of the CUSF, and mainly includes the effect of annualized premiums and the new model for valuation of technical reserves. The net effect recorded in the income statement as of January 1, 2016 due to changes in accounting criteria amounted to $154.

The following is an explanation of the nature of the main changes made to the adoption of these criteria.

Investments - Securities were transferred from the category held-to-maturity to available for sale, resulting a market valuation, which represented a creditor effect in stockholders' equity of $239 million pesos. This was, due to the fact of the category held-to-maturity is no longer allowed.

Debtor for premiums receivable and premiums issued - in accordance with the new provisions, life insurance premiums were recognized considering the contract period, regardless of the form of payment (annualized premiums), for both, short-term and long-term contracts. The initial effect of the annualized premiums was

$590 in the premiums written caption, $92 in the cost of acquisition and $19 in surcharges on premiums.

Technical reserves - A better estimator approach (expected value of future flows) is adopted, including a margin of risk. The new methodologies generated an increase of $975 in the current risk reserve, a release of $550 in the outstanding claims provision for claims incurred but not reported and a release $57 in the catastrophic risk reserve.

Interest rates of the current risk reserve in accordance with the new provisions, the agreed technical rate is determined in each month of premiums written and additionally a free (market) risk rate is determined and the difference in valuation using these rates are recognized in stockholders' equity in other comprehensive income, with the corresponding deferred tax. The initial effect of the variation in rates resulted in a decrease in the result of the valuation of the long-term life ongoing risk reserve by $1,817, which effect was recognized in the surplus on the long term ongoing risk reserve surplus within the net equity of its deferred tax. The foregoing applies to the Institution for the life insurance contracts.

	Effects from the adoption of criteria	Transactions of 2016	Income Statement 2016
Retained premiums	$ 590	$ 15,304	$ 15,894
Net increase in the current risk reserve and in force bonds	975	1,786	2,761
Net acquisition cost	92	2,724	2,816
Net cost of claims, and other outstanding obligations	(550)	9,114	8,564
Net (decrease) increase in other technical reserves	(57)	873	816
Net operating expenses	-	1,792	1,792
Comprehensive Financing Result	24	3,811	3,835
Participation in the result of permanent investments	-	33	33
Income before taxes	154	2,859	3,013
Provision for the payment of income taxes	-	833	833
Net Income	$ 154	$ 2,026	$ 2,180

Fianzas Guardiana - The Insttution adopted the new accounting criteria issued by the CNSF through Letter 22.1.2 of the CUSF, and mainly includes the effect of the new model for valuation of technical reserves. The net effect recorded in the income statement as of January 1, 2016 due to changes in accounting criteria amounted to $990.

The following is an explanation of the nature of the main changes made to the adoption of these criteria.

Technical reserves- A better estimator approach (expected value of future flows) is adopted, including a margin of risk. The new methodologies generated a release of $17 in the reserve of bonds in force and a release of $973 in the contingency reserve.

	Effects from the adoption of criteria	Transactions of 2016	Income Statement 2016
Retained premiums	$ -	$ 1,761	$ 1,761
Net increase in the reserve of bonds in force	(17)	14	(3)
Net acquisition cost	-	22	22
Appeals	-	1,446	1,446
Net increase in other technical reserves	(973)	185	(788)
Net operating expenses	-	(221)	(221)
Comprehensive Financing Result	-	176	176
Participation in the result of permanent investments	-	(30)	(30)
Income before taxes	990	461	1,451
Provision for the payment of income taxes	-	423	423
Net Income	$ 990	$ 38	$ 1,028

Significant events 2015

a. *Capital contribution in SOFOM Inbursa and restructuring* – During the meeting of stockholders on March 30, 2015, an increase in variable capital stock of Sociedad Financiera Inbursa, S.A. de CV, SOFOM ER (SOFOM Inbursa) was approved through the issuance of 1,283,515,744 Series "B" no par value shares, which were offered for subscription and payment at $3.89555018968275 Mexican pesos per share for a total of $5,000. Banco Inbursa S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (Banco Inbursa) made the contribution thereby becoming the holding company of SOFOM Inbursa

b. *Capital contribution in CF Credit* – During a meeting of stockholders on February 27, 2015, an increase in the variable capital stock of CF Credit Services, S.A. de CV., SOFOM, E.R. (CF Credit) was approved through the issuance of 900,000,000 Series "B" no par value shares, which were offered for subscription and payment at $1 Mexican peso per share for a total of $900.

c. *FC - Financial* – On December 9, 2015, an additional increase in the variable capital stock of FC Financial was approved through the issuance of 300,000,000 Series "B" no par value shares, which were offered for subscription and payment at $1 Mexican peso per share for a total of $300

Entities regulated by the Comissiom

Banco Inbursa, S.A. (Banco Inbursa) Is a multiple-service banking institution engaged in providing banking and credit services and acting as a trust company, in conformity with the requirements of the Law, the Commission and Banxico. Banco Inbursa holds a majority equity interest in the following entities:

- **Afore Inbursa, S.A. de C.V., GFI:** The purpose of this business is to manage retirement savings in accordance with the Retirement Savings System Law. This entity is regulated by the Mexican National Commission of Retirement Savings (CONSAR).

- **CF Credit Services, S.A. de C.V., SOFOM, ER, GFI:** The Financial Group operates as a Regulated Multiple Purpose Financing Entity, under the terms of article 87-B of the General Law of Auxiliary Credit Organizations and Activities (LGOAAC) and its main activity is to grant loans to manufacturers, distributors and consumers operating in the automotive sector.

- **Sociedad Financiera Inbursa, S.A. de C.V., SOFOM, ER., GFI:** This Company is a regulated full-service financial institution that operates under the regulations established by the Commission, the SHCP, and Banxico. It is primarily engaged in leasing all types of personal and real property under financial and operating leases, as well as granting revolving consumer loans through credit cards and loans to small- and medium-sized companies, which became a subsidiary of Banco Inbursa since March 30, 2015.

- **FC Financial, S.A. de C.V., SOFOM, E.R., GFI:** The main business purpose is the customary and professional carrying out of credit operations, financial leasing and factoring, and, additionally, the management of various types of loan portfolio related to the leasing of real estate and non-real estate property.

- **Sinca Inbursa, S.A. de C.V., Sociedad de Inversión de Capitales (Sinca Inbursa):** Invests in stock of publicly held Mexican companies that need long term resources and whose main activities are related to carrying out the national development plan, thereby contributing to the country's economic and social growth. This entity is regulated by the Commission.

  Sinca Inbursa does not exercise control over the promoted companies except Inbursa Private Capital, S.A. de C.V. (before Movie Risk, S. A. de C.V.), which is consolidated in the Financial Group's financial statements based on control established by its 99.99% shareholding.

- **Inmobiliaria Inbursa, S.A. de C.V.:** Real Estate Company authorized and regulated by the Commission.

- **Seguridad Inbursa, S.A. de C.V.:** This entity provides consulting and development services on security policies and procedures. As of December 31, 2015 and 2014, the Financial Group has not started operations and the total amount of assets is not material in relation to the Financial Group's financial statements as a whole.

Inversora Bursátil, S.A. de C.V., Casa de Bolsa, GFI: This entity acts primarily as an intermediary in the trading of securities and currencies in terms of the Mexican Securities Trading Act and the general regulations established by the Commission. Its main activity is to act as a stockbroker in the securities and currency markets.

Operadora Inbursa de Sociedades de Inversión, S.A. de C.V., GFI: This company carries out its transactions in conformity with the Mexican Investment Funds Act and the general regulations established by the Commission. This company is engaged primarily in providing administrative and stock distribution and repurchasing services, as well as in managing its investment fund portfolio.

Companies regulated by the CNSF

Seguros Inbursa, S.A.: Is engaged in selling fire, automobile, maritime and transportation, civil and professional liability, crop, sundry, individual, group and collective life, accident, and health insurance. This company is also authorized to engage in reinsurance and rebounding business. Seguros Inbursa holds a majority equity interest in the following entities:

- **Asociación Mexicana Automovilista, S.A. de C.V. (AMA):** Is primarily engaged in providing general tourism and driver assistance services.

- **Autofinanciamiento Inbursa, S.A. de C.V. (Autofinanciamiento):** Is primarily engaged in the acquisition, distribution, purchase, and sale of all kinds of automobiles.

- **Patrimonial Inbursa, S.A. (Patrimonial):** Is an entity regulated by the CNSF and is primarily engaged in writing property and casualty, life and accident, and health insurance policies.

- **Seguros de Crédito Inbursa, S.A. (formerly Salud Inbursa, S.A.) (Seguros de crédito):** Is a company that is regulated by the CNSF and is primarily engaged in providing medical services.

- **Servicios Administrativos Inburnet, S.A. de C.V. (Inburnet):** Is primarily engaged in providing the Group's entities with administrative services related to insurance agents.

Fianza Guardiana Inbursa, S.A. (Fianzas): Is a commercial company whose specific purpose is engaged in guaranteeing, for a fee, the fulfillment of contracted financial obligations of individuals or corporate entities to other individuals or corporate entities, public or private. This company is also liable for the payment of claims arising under bonds extended.

Pensiones Inbursa, S.A. (Pensiones): Is engaged in life insurance activities that involve exclusively the handling of pension insurance derived from social security legislation. This company is also authorized to engage in reinsurance, co-insurance and counter-insurance business.

Pensiones Inbursa holds majority equity interest in Promotora Inbursa, S.A. de C.V., which is primarily engaged in acquiring shares and equity interest in all kinds of entities and participating in all manner of bids for concessions, permits, or contracts for rendering different kinds of services, as well as in acquiring all types of securities and granting different types of financing. Promotora Inbursa holds a majority equity interest in the following entities:

- Efectronic, S.A. de C.V.
- CE EFE Controladora, S.A. de C.V.
- Servicio Especializados para Aeronaves, S.A. de C.V. (subsidiary in the process of liquidation)
- Servicios de Comunicación y Transporte Globales, S.A. de C.V.
- Vale Inteligente de Combustible, S.A. de C.V., which in turn is the controlling company of
- Fundación Inbursa, S.A. de C.V.
- Promotora Loreto, S.A. de C.V.
- Vale Inbursa, S.A. de C.V.
- ClaroShop.com Holding, S.A. de C.V.

Companies providing supplementary services

Outsourcing Inburnet, S.A. de C.V. (Outsourcing): Is engaged in providing professional, administrative, accounting, information technology and management services exclusively to its affiliate companies.

Asesoría Especializada Inburnet, S.A. de C.V. (Asesoría): Provides promotional services for the sale of financial products offered exclusively by companies in the Financial Group.

SAI Inbursa S.A. de C.V. (formerly Sawsa Adelante, S. de R.L.de C.V.) (SAI): Provides management services, accounting, computer and general, among others, which are provided solely to affiliated companies.
The change of corporate name was made on December 13, 2016.

SP Inbursa S.A. de C.V. (formerly Saw Supervisión, S. de R.L.de C.V.) (SP): Provides management services, accounting, computer and general, among others, which are provided solely to affiliated companies. The change of corporate name was made on December 13, 2016.

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.

Comparability - In 2016, new accounting and technical reserve calculation criteria applicable to Mexican insurance institutions were in force. The Commission deems impractical to present comparative financial statements for 2016, mainly because of the changes in accounting estimates of assets and liabilities due to the Law coming into effect. Consequently, Letter 16/16 from CUSF was issued and published in the Federal Gazette (DOF from its Spanish acronym) on November 1, 2016, and it establishes that no comparative 2015 consolidated financial statements are to be presented.

Monetary unit of the consolidated financial statements - The consolidated financial statements and notes as of December 31, 2016 and 2015 and for the years then ended include balances and transactions in pesos of different purchasing power.

Comprehensive income - This item is composed of the net result for the year plus other items that represent a gain or loss from the same period, which, in accordance with the accounting practices followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of available for sale securities, the result from valuation of cash flow hedge instruments and the accumulated conversion effect.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of Grupo Financiero, those of its controlled subsidiaries and the trusts for securitization operations. Permanent investments in shares are valued using the equity method. All major intercompany balances and transactions have been eliminated.

Preparation of financial statements - The Financial Group's financial statements are prepared in accordance with the accounting policy framework applicable to credit institutions issued by the Commission. This regulatory framework establishes that entities must comply with the accounting guidelines of NIFs, issued and adopted by the CINIF, and other provisions of the regulatory framework of financial information that result from specific application.

The rules of the Commission referred to in the previous paragraph apply at the level of recognition, valuation, presentation and disclosure rules.

Presentation of the financial statements - The provisions of the Commission, related to the issuance of the consolidated financial statements, establish that the figures must be presented in millions of pesos. Consequently, in some items of the consolidated financial statements, accounting records show items with balances lower than the unit (one million pesos), which is why no figures are presented in these items.

3. Significant accounting policies

The significant accounting policies applied by the Financial Group are in conformity with the accounting criteria established by the Commission, which are included in the "General Provisions Applicable to Financial Group Controlling Companies, Credit Institutions, Mutual Insurance Companies, Brokerage Houses, Retirement Fund Administrators, Investment Funds and people who provide services to them and Regulated Multiple Purpose Financial Companies" (the Provisions), in its circulars and in general and specific official mandates, which require that management make certain estimates and utilize certain assumptions to determine the valuation of items included in the consolidated financial statements and to make required disclosures. Although the actual results may differ, management believes that the estimates and assumptions utilized were appropriate under the circumstances.

Based on accounting criterion A-1 of the Commission, the accounting principles adopted by the Financial Group shall be in conformity with Mexican Financial Reporting Standards (MFRS, which are comprised of individual accounting standards that are known as NIF) as promulgated by the Mexican Board of Financial Reporting Standards (CINIF), except when the Commission believes that a specific regulation or accounting treatment should be applied on the basis that the entities overseen by the Commission carry out specialized operations.
The regulation of the Commission mentioned in the previous paragraph, is at level of recognition rules, valuation, presentation and, if applicable, disclosure, suitable for specific captions in the consolidated financial statements, as well as those applicable to its preparation.

To that effect, the Commission clarifies that it will not apply the accounting criteria, or the concept of supplementary, in the case of transactions that are expressly allowed or prohibited by express legislation or are not expressly authorized.

Accounting changes

Modifications in accounting criteria issued by the Commission

As of January 1, 2016, the Financial Group adopted the following modifications to the accounting criteria of credit institutions issued on November 9, 2015 in the Official Gazette of the Federation. These modifications are intended to make necessary adjustments to the accounting criteria of the credit institutions for the operations they perform, in order to have reliable financial information.

Some of the main changes established by these standards are as follows:

a. Accounting Criterion C-5, *Consolidation of special purpose entities, is eliminated.*

b. The following are added as part of the accounting criteria of the Commission: NIF C-18, *Obligations associated with the retirement of property, plant and equipment, and NIF C-21, Agreements with joint control*, due to the enactment of such standards by the CINIF.

c. For the consolidated financial statements, it is incorporated in the application of specific provisions, that for those special purpose entities ("SPE") created prior to January 1, 2009 in which control was maintained, there will be no obligation to apply the provisions contained in NIF B-8, *Combined or consolidated financial statements, with regard to their consolidation.*

d. It is established that overdrafts in customer checking accounts which do not have a line of credit for such purposes, will be classified as non-performing debts and an allowance for the total amount of such overdraft must be established simultaneously with such classification, at the time the event takes place.

e. It is established that the net asset for defined benefits to employees must be presented on the balance sheet under "Other assets".

f. It is specified that the applicable regulation must be applied according to that set forth by Banxico to include the purchase of foreign currencies which are not considered derivatives, as "Funds available".

g. It is established that if the offset balance of foreign currencies to be received with foreign currencies to be delivered were to reach a negative amount, such item must be presented under "Other accounts payable".

h. It is clarified that if an item of restricted funds available were to show a negative balance, such item must be presented under "Other accounts payable". Previously the negative balance of restricted funds available was not considered for such presentation.

i. The definition of "Transaction costs" in Accounting Criterion B-2, Investments in securities and in Accounting Criterion B-5, *Derivatives and hedge operations, is modified*.

j. The definitions of "Borrower", "Appraisal Percentage Guarantees", "Payment capacity", "Extended Portfolio", "Assignment of Credit Rights", "Consolidation of Credits", "Debtor of Credit Rights", "Vendor of Discounted Receivables", "Financial Factoring", "Purchaser of Discounted Receivables", "Line of Credit", "Discount Transaction", "Special Repayment Regime", "Ordinary Repayment Regime" and "Housing Subaccount", are incorporated into Accounting Criterion B-6, *Loan Portfolio*.

k. The definition of "Renewal" is modified in Accounting Criterion B-6, Loan Portfolio, to now consider it as that transaction in which the loan balance is settled partially or totally, through an increase in the total amount of the loan, or using the proceeds derived from another loan contracted with the same entity, involving either the same borrower, a joint obligor of such borrower, or another person who, due to his asset ties, represents common risks.

l. "Mortgage Loans" are defined as those credits intended for remodeling or improvement of the home which are backed by the savings in the borrower's housing subaccount, or have a security interest granted by a development bank or a public trust established by the Federal Government for economic development.

m. Loans for financial factoring, discount and credit right assignment operations are incorporated in the definition of "Commercial Loans".

n. It is clarified that a loan will not be considered as renewed for any dispositions made during the effective term of a preestablished line of credit, provided that the borrower has settled the total amount of the payments which are due and payable under the original loan conditions.

o. It is established that when credit dispositions made under a line of credit are restructured or renewed independently from the line of credit which supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed disposition or dispositions.

When as a result of such evaluation it is concluded that one or more dispositions granted under a line of credit should be transferred to non-performing portfolio due to the effect of their restructuring or renewal and such dispositions, individually or collectively, represent at least 40% of the total disposed balance of the line of credit at the date of the restructuring or renewal, such balance, as well as its subsequent dispositions, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing portfolio, and the total dispositions granted under the line of credit fulfilled the due and payable obligations at the date of transfer to performing portfolio.

p. It is established that in the case of loans acquired from INFONAVIT or the FOVISSSTE, where there is an obligation to respect the terms which the aforementioned agencies contracted with the borrowers, sustained payment of the loan is deemed to exist when the borrower has timely settled the total due and payable amount of principal and interest, of at least one repayment in the credits under the Ordinary Repayment Regime ("ROA") and three repayments for the loans under the Special Repayment Scheme ("REA").

q. It is stipulated that for restructurings of loans with periodic payments of principal and interest whose repayments are less than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered.

r. The assumptions are established to consider that sustained payment exists for those loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, as follows:

   i. The borrower must have paid at least 20% of the original loan amount at the time of the restructuring or renewal, or,

   ii. The amount of the accrued interest must have been paid in accordance with the payment scheme for the respective restructuring or renewal at a term of 90 days.

s. With regard to consolidated loans, if two or more loans originated the transfer to non-performing portfolio of the total balance of the consolidated loan, to determine the repayments required to consider their sustained payment, the original loan payment scheme whose repayments are equal to the longest repayment period must be considered. Previously the practice was to give the treatment for the worst of the loans to the total balance of the restructuring or renewal.

t. It is established that evidence must be made available to the Commission when demonstrating sustained payment to substantiate that the borrower has the appropriate payment capacity at the time the restructuring or renewal is performed, so as to meet the new loan conditions.

u. It is clarified that the advance payment of installments of restructured or renewed loans, different from those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered to be sustained payment. This is the case with repayments of restructured or renewed loans which are paid before the calendar day's equivalent to loans with repayments that cover periods greater than 60 calendar days have elapsed.

v. The extension of the loan term is incorporated as a restructuring situation.

w. The respective standards for the recognition and valuation of financial factoring, discounting and credit right assignment transactions are included.

x. It is established that commissions and fees different from those collected for granting the loan will be recognized in results of the year on the date that they are accrued, and if part or all of the consideration received for the collection of the respective commission or fee is received before the accrual of the respective income, such advance must be recognized as a liability.

y. The item stating that overdrafts in customer checking accounts should be reported as non-performing portfolio is eliminated.

z. It is established that repayments which have not been fully settled under the terms originally agreed and are 90 days or more in arrears with the payments related to the loans which the entity acquired from the INFONAVIT or the FOVISSSTE, in accordance with the respective REA or ROA payment modality, as well as the loans made to individuals for the remodeling or improvement of the home for nonspeculative purposes which are backed by the savings from the borrower's housing subaccount, will be considered as non-performing portfolio.

aa. The transfer to non-performing portfolio of the loans referred to in the preceding point will be subject to the exceptional deadline of 180 or more days in arrears as of the date on which::

   i. The loan resources are used for the purpose for which they were granted,
   ii. The borrower begins a new employment relationship in which he has a new employer, or
   iii. The partial payment of the respective repayment was received. The exception contained in this subsection will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represents at least 5% of the repayment agreement.

bb. It is specified that loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, will be considered as non-performing portfolio as long as there is no evidence of sustained payment.

cc. It will be considered that loans granted under a new line of credit, revolving or not, which are restructured or renewed at any time, may remain in performing portfolio provided that there are grounds to justify the payment capacity of the borrower. Furthermore, the borrower must have:

   i. Settled the total amount of due and payable interest;
   ii. Settled all of the payments for which he is liable under the terms of the contract at the date of the restructuring or renewal

dd. It is established that when credit dispositions made under a line of credit are restructured or renewed independently from the line of credit that supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed disposition or dispositions.

   When as a result of such assessment it is concluded that one or more dispositions granted under a line of credit should be transferred to non-performing portfolio due to the effect of a restructuring or renewal, and such dispositions, individually or collectively, represent at least 25% of the total disposed balance of the line of credit at the date of the restructuring or renewal, such balance, together with its subsequent dispositions, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing portfolio, and the total of the dispositions granted under the line of credit have fulfilled the due and payable obligations at the date of the transfer to performing portfolio.

ee. The requirement that the borrower must have paid the total amount of the interest accrued at the date of renewal or restructuring to consider that a loan remains current will be considered as fulfilled, when after the interest accrued at the final cutoff date has been paid, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half of the payment period under way or 90 days.

ff. Performing loans with periodic partial payments of principal and interest which are restructured or renewed more than once may remain in performing portfolio if there are elements to justify the payment capacity of the borrower. It is specified that in the case of commercial loans, such elements must be duly documented and placed in the loan file.

gg. If different loans granted by the same entity to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to non-performing portfolio due to the effect of such restructuring or renewal, then the total balance of the consolidated loan must be transferred to non-performing portfolio.

hh. With regard to presentation standards in the balance sheet and the statement of income, it is established that:

i. Housing loans acquired from the INFONAVIT or the FOVISSSTE must be segregated inside the performing portfolio, into ordinary portfolio and extended portfolio.
ii. It is specified that the amount of loans for financial factoring, discount and credit rights assignment transactions will be presented net of the respective appraisal percentage guarantee.
iii. Any commissions received before the accrual of the respective revenue will be presented under "Deferred credits and advance collections".
iv. The financial revenue accrued in the financial factoring, discount and credit rights assignment transactions will be considered as interest income.

ii. It is established in Accounting Criterion B-7, *Foreclosed assets,* that in the case of assets whose valuation to determine fair value may be made through an appraisal, the latter must comply with the requirements established by the CNBV for providers of bank appraisal services.

jj. It is clarified in Accounting Criterion C-2, *Stock market operations,* that in the case of stock market instruments executed and recognized in the consolidated financial statement prior to January 1, 2009, it will not be necessary to reevaluate the transfer of recognized financial assets prior to such date.

In this regard, the principal effects that this exception might have on such financial statements should be disclosed in notes to the financial statements, as well as the effects of recognition of the adjustments for valuation of the profits on the remnant of the assignee (recognized in results or in stockholders' equity) and of the asset or liability recognized for administration of transferred financial assets.

kk. The definition of "Joint Arrangement", "Joint Control" is incorporated, and the definition of "Associate", "Control" "Holding Company", "Significant Influence", "Related Parties" and "Subsidiary" is modified in Accounting Criterion C-3, *Related parties.*

Individuals or business entities which, directly or indirectly, through one or more intermediaries exert significant influence on, are significantly influenced by, or are under significant influence of the entity, as well as agreements with joint control in which the entity participates, are now considered to be related parties.

ll. The disclosure requirements contained in Accounting Criterion C-3, *Related parties,* are extended to joint arrangements.

mm. As an amendment to Accounting Criterion C-4, *Information by segments,* the purchase and sale of foreign currency is incorporated within the segment of Treasury and investment banking operations.

nn. Different modifications are made to the presentation of the balance sheet to incorporate the opening of the performing and non-performing home loan portfolio in the following segments: medium and residential, low income, loans acquired from the INFONAVIT or FOVISSSTE, and remodeling and improvement with collateral granted by the development bank or public trusts.

oo. The requirement is established to present on the balance sheet as a liability under Inactive global deposits account", the principal and interest on deposit instruments which do not have a date of maturity or, when they do, they are renewed automatically, as well as the transfers or expired or unclaimed investments referred to in article 61 of the Credit Institutions Law.

pp. A heading named "Re-measurements for defined benefits to employees" is added as part of earned capital on the balance sheet, as a result of the enactment of NIF D-3, *Employee benefits.*

qq. The heading "Collateral granted" is incorporated at the foot of the balance sheet within memorandum accounts.

rr. It is specified that insurance and bonding, technical assistance expenses, maintenance expenses, fees different from those paid to the IPAB and consumables and fixtures should be included in the statement of income.

ss. The statement of changes in stockholders' equity should be included in the movements inherent to the recognition of comprehensive income, the re-measurements for defined employee benefits as a result of the enactment of NIF D-3, *Employee benefits.*

At the date of issuance of these consolidated financial statements, the adoption of these new standards did not have a material effect on the Financial Group's financial information.

On July 23, 2015 a modification was published in the Federal Official Gazette to the Provisions, which establish the accounting criteria for market participants in derivatives contracts listed on a stock exchange. This modification establishes that the markets for derivatives and traders who take part in the derivatives contracts market listed in the same market must keep their accounting in accordance with the NIF. For such purpose, the clearinghouses and the settlement partners who take part in the derivatives contracts markets, should observe for the same purposes the "Accounting Criteria for Clearinghouses" and "Accounting Criteria for Settlement Partners", respectively, established in such Provisions. These modifications went into effect on the day after their publication.

Changes in NIF issued by the CINIF applicable to the Financial Group

Improvements to NIF's 2016

Mejoras que generan cambios contables:

NIF B-7, *Business acquisitions* - Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling interest 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 Financial Group 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 Financial Group 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 these consolidated financial statements, the adoption of these improvements did not have a material effect on the Financial Group's financial information.

Change in accounting estimates applicable in 2016

Methodology for the determination of the allowance for loan losses from consumer credit portfolio related to credit card transactions and other revolving credits

On December 16, 2015, the Commission issued a Ruling that modifies the Provisions, whereby it made certain adjustments to the general methodology for the classification of the consumer credit portfolio in relation to credit card operations and other revolving credits, with the aim of more accurately calculating the reserves that the credit institutions have to create, taking into account the possible risks related to the payment behavior and the level of indebtedness of its borrowers, which is in line with the expected loss model, used as the basis of the methodology for the classification of the credit portfolio.

Such Provisions went into effect on April 1, 2016, and for purposes of establishing the reserves using the new methodology, the Financial Group recognized in stockholders' equity, as part of the result from previous years, the initial cumulative financial effect from applying the new methodology for the first time. The initial cumulative financial effect was the difference between the reserves to be created under the new methodology as of April 1, 2016, less the reserves that would be generated using the methodology in effect as of March 31, 2016. If such difference were greater than the balance of results from previous years, the effect would be carried to results for the year. Also, if the difference resulted in a release of reserves, the effect would be recognized in results for the year. The Financial Groups had a deadline of six months as of April 1, 2016 to establish 100% of the reserves.

The Financial Group recognized the initial cumulative financial effect which resulted in the recording of credit reserves on the consolidated balance sheet in the caption "Allowance for loan losses" for the amount of $265, with a corresponding charge in the consolidated statements of income under the caption "Allowance for loan losses" for the same amount as of and for the nine-month period ended September 30, 2016.

As of September 30, 2016 (application date of the change of methodology by the Financial Group), the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the previous methodology amounted to $1,770, compared to $2,035, which is the amount of the estimate calculated using the methodology based on an expected loss model.

Change in accounting estimates applicable in 2015

Methodology for the determination of the allowance for loan losses applicable to loans granted under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, indicating the term during which credit institutions may continue to use the methodology for the allowance for expected losses due to credit risks, with relation to the credits granted to borrowers declared commercially bankrupt with a prior restructuring plan. This Resolution establishes that once an agreement is adopted between the borrower and the recognized creditors, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.
It is also established that authorization may be requested from the Commission to continue using the methodology for the calculation of the allowances for expected losses due to credit risk, with regard to credits granted to borrowers declared commercially bankrupt with a prior restructuring plan, for a term which cannot exceed six months computed as of the adoption of the agreement.

The aforementioned changes did not have a material effect on the Financial Group's consolidated financial statements as of December 31, 2015.

Methodology for the determination of the allowance for loan losses applicable to loans granted under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, indicating the term during which credit institutions may continue to use the methodology for the allowance for expected losses due to credit risks, with relation to the credits granted to borrowers declared commercially bankrupt with a prior restructuring plan. This Resolution establishes that once an agreement is adopted between the borrower and the recognized creditors, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

It is also established that authorization may be requested from the Commission to continue using the methodology for the calculation of the allowances for expected losses due to credit risk, with regard to credits granted to borrowers declared commercially bankrupt with a prior restructuring plan, for a term which cannot exceed six months computed as of the adoption of the agreement.

The aforementioned changes did not have a material effect on the Financial Group's consolidated financial statements as of December 31, 2015.

The most significant accounting policies applied by the Financial Group's management for the preparation of its consolidated financial statements are described below:

Reclassifications - Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2015 have been reclassified to conform to the presentation of the 2016 consolidated financial statements, such reclassifications have no significant effect considering the consolidated financial statements as a whole.

Recognition of the effects of inflation in the financial information - Beginning on January 1, 2008, the Financial Group discontinued 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.

Cumulative inflation rates over the three-year periods ended December 31, 2016 and 2015 were 10.39% and 12.08%, respectively. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2016 and 2015 were 3.35% and 2.10%, respectively.

Significant estimates and assumptions - The preparation of the Financial Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported value of income, expenses, assets and liabilities, as well as disclosures to them and contingent liabilities. Uncertainty about these assumptions and estimates could lead to results that require a material adjustment to the carrying amount of the assets or liabilities in future periods.

The Financial Group relied on these assumptions and estimates on parameters available at the date of preparation of the consolidated financial statements. The circumstances and existing assumptions could be modified due to changes or circumstances beyond the control of the Financial Group. Such changes are recognized in assumptions when they occur.

Offsetting of financial assets and financial liabilities - The recognized financial assets and financial liabilities are subject to offsetting so that the debit or credit balance, are presented on the consolidated balance sheet, as the case may be, if and only if, there is a contractual right to offset the amounts recognized, and the intention to settle the net amount, or to realize the asset and cancel the liability simultaneously.

Registration of transactions - Transactions in securities, repurchase and securities lending, among others, for their own account or on behalf of third parties, are recorded on the date they are agreed, regardless of the date of their settlement.

Valuation of derivative financial instruments - *Fair value is determined based on recognized market prices provided by an external source authorized by the Commission, except for futures trading which value is established according to market prices determined by the clearing house of the stock market where they operate.*

Foreign currency operations – Transactions are recorded in the currency in which they are originally transacted. Assets and liabilities denominated in foreign currency are converted to Mexican peso applying the official foreign exchange rate published by the Central Bank on the business day following the date of issuance of the financial statements. Financial effects on foreign exchange rates affect income/loss from operations if related to the regular business activities of the entity, and results from intermediation, if related to other accounts.

Funds available - Cash is mainly represented by checking accounts and short term investments of not more than 90 days duration, which are presented at acquisition cost, plus accrued interest at the balance sheet date.

Call money transactions granted and received have a maximum term of three business days and are recorded within Cash and Demand Deposits, respectively. Accrued interest income and expense from call money transactions are recorded within Financial Margin in the Income Statement.

Time Deposits are recognized as cash equivalents, if they are collectible within 2 business days (if national) or 5 business days (if international) after the contract is signed. Deposits with maturities in excess of the above terms are classified as Loans or Other receivables.

In case time deposits are reclassified to other receivable accounts, within the next 15 days an allowance for doubtful accounts is recorded for the total amount.

Operations pending settlement

- **Purchase and sale of securities**

  These are recorded at the negotiated transaction price, recognizing the receipt or delivery of the securities subject matter of the transaction at the time it is made against the respective settlement account. The difference between the price of the securities assigned and the negotiated transaction price is recognized in results under "Net gain on financial assets and liabilities".

- **Purchases and sales of foreign currency**

  Purchases and sale of foreign currency are recorded at the negotiated prices. When the respective settlement is agreed with a maximum term of two banking business days after the date on which the deal is made, the transactions are recorded as restricted cash and cash equivalents (purchases) and outlays of cash and cash equivalents (sales) against the respective settlement account. The gains or losses obtained from the purchase and sale transactions of foreign currency are recognized in the statement of income under "Net gain on financial assets and liabilities".

  Transactions involving the purchase and sale of securities and foreign currencies in which the immediate settlement or same day value date is not agreed are recorded in settlement accounts for the Mexican peso amount to be received or paid. The debit and credit settlement accounts are presented under "Other accounts receivable" and "Payables arising from settlement of transactions", as the case may be, and are offset when there is a contractual right to offset the amounts recognized and the intention to settle net or to realize the asset and settle the liability simultaneously.

  When the debit settlement accounts are not recovered within the 90 days following their agreement, they are reclassified as overdue receivables under "Other accounts receivable" and an allowance for doubtful accounts is created for the total amount.

Margin accounts - The margin accounts given in cash (and other cash equivalents) required from entities when performing transactions with derivative financial instruments through recognized stock markets or exchanges are recorded at their face value.

In the case of margin accounts granted to the clearinghouse and composed by items other than cash, such as debt instruments or share certificates, the clearinghouse is entitled to sell the component assets embodied in these margin accounts or give them in guarantee. Financial assets given in guarantee are presented as restricted assets; the respective valuation and disclosure standards are then utilized according to the applicable accounting criterion based on the nature of these assets.

Margin accounts are used to ensure the fulfillment of obligations derived from the performance of transactions with derivative financial instruments on recognized stock markets and exchanges. Accordingly, they reflect the initial margin, contributions and withdrawals made during each contractual period.

Investments in securities - These consist of debt instruments and share certificates and their classification is determined based on management's intention at the time they are acquired. Each category has specific standards for recording, valuation and presentation in the financial statements, as described below:

- **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 from increases in fair value. Upon acquisition, they are initially recorded at fair value, which includes applicable the discounts or premiums. Furthermore, the cost is determined by the average costs method. They are subsequently valued at fair value determined by the price supplier engaged by the Financial Group in accordance with the Provisions of the Commission. The difference between the historical cost, which is determined using the average cost method, of the investments in debt securities plus accrued interest and of equity securities compared with their fair value is recorded in the consolidated statements of income under the item "Net gain on financial assets and liabilities". The effects of valuation will be treated 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.

  The transaction costs for the acquisition of trading securities are recognized in earnings on the acquisition date.

  Cash dividends of shares are recognized in earnings in the same period in which the right to receive such payment is generated.

  The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings. This heading is used to record outstanding transactions derived from the purchase-sale of assigned, unpaid securities, which are valued and recorded as securities held for trading purposes. The movements of the securities embodied in each transaction are recorded in the respective debit or credit settlement account.

  The accounting criteria used by the Commission allow for reclassifications of trading securities to available-for-sale only in extraordinary circumstances (for example, a lack of market liquidity, no active market for the instrument, among others), which will be evaluated and, if applicable, validated with the express authorization by the Commission. As of December 31, 2016 and 2015, the Financial Group did not make transfers of securities between categories.

- **Securities available for sale**

  Securities available for sale are debt instruments and equity shares that are not held for purposes of realizing gains derived from increases in fair value and, in the case of debt instruments, those that the Financial Group does not intend 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 Financial Group intends to trade them at some point in the future prior to maturity.

  Upon acquisition they are initially recorded at fair value plus the acquisition transaction cost, including applicable discounts or premiums, which is the acquisition cost for the Financial Group. They are subsequently valued at fair value.

The Financial Group determines the increase or decrease in the fair value using current prices provided by the price supplier, 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; such yield is recognized as earned in the consolidated statements of income under "Interest income". Unrealized gains or losses resulting from changes in fair value are recorded in comprehensive income items under stockholders' equity, specifically, under the heading "Result from valuation of available for sale securities, net", provided such securities were not defined as hedged in a fair value hedging relationship through a derivative financial instrument, in which case they are recognized in earnings.

Cash dividends of shares are recognized in earnings in the same period in which the right to receive such payment is generated.

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission. As of December 31, 2016 and 2015, the Financial Group did not make transfers of securities between categories.

- **Securities held to maturity**

Securities held to maturity are those with fixed or determinable payments and fixed maturity, which the Financial Group has both the intention and the ability to hold until maturity. These securities are initially recorded at fair value plus acquisition transaction costs, including applicable discount or premium. They are subsequently valued at amortized cost. Interest earned is recorded in the consolidated statements of income under "Interest income" using the imputed interest or effective interest method, in accordance with the nature of the instrument.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission.

The cash dividends of equity securities are recognized in earnings during the same period in which the fair value of these securities is affected as a result of the coupon cutoff date.

Impairment in the value of a financial instrument - The Financial Group must evaluate whether there is objective evidence that a financial instrument is impaired as of the consolidated balance sheet date.

A financial instrument is considered to be impaired and, accordingly, a loss from impairment is incurred if, and 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 financial instrument, which had an impact on its estimated future cash flows that can be reliably determined. It is very unlikely that one identified event can be 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 how probable they are occurring.

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 Financial Group.

    The management of the Financial Group has not identified objective evidence of impairment of a credit instrument held as of December 31, 2016 and 2015.

Sale and repurchase agreements - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and agrees within the agreed term and against reimbursement of the same price plus a premium, to transfer to the selling party the ownership of the other securities of the same kind. Unless otherwise agreed, the premium is for the buying party.

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

Sale and repurchase agreements are recorded as indicated below:

When the Financial Group acts as the buying party on the contracting date of the sale and repurchase agreements, the withdrawal of funds available or a credit settlement account is recognized, recording an account receivable, initially at the price agreed, which represents the right to recover the cash delivered. The account receivable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.
On the contracting date of the repurchase transaction, when the Financial Group 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, initially at the price agreed, which represents the obligation to repay such cash to the buying party. The account payable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.

When the transactions performed are considered to be cash-oriented, the transaction is intended to obtain cash financing by using financial assets as collateral for such purpose; by the same token, the buying party obtains a return on its investment at a certain rate, and as it is not seeking a specific value, receives financial assets as collateral to mitigate the exposure to credit risk which it faces in relation to the selling party. In this regard, the selling party pays the buying party the interest on the cash that it received as financing, calculated based on the rate negotiated in the sale and repurchase agreements. Also, the buying party obtains yields on its investment, whose payment is assured through the collateral.

When the transactions performed are considered to be securities-oriented, the intention of the buying party is to temporarily accept 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 rate negotiated in the sale and repurchase agreements for the implicit financing obtained on the cash that it received, which rate is generally lower by comparison than the rates specified in "cash-oriented" sale and repurchase agreements.

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

Collateral granted and received other than cash in sale and repurchase agreements - 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 Criterion B-9, Custody and Management of Assets, issued by the Commission, in the account named "Custody and management of assets". The securities vendor presents the financial asset on its consolidated balance sheet as a restricted asset. It then applies valuation, presentation and disclosure standards according to the respective accounting criterion.

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

When the buying party sells the collateral, the proceeds from the sale are recorded and an account payable for the obligation to repay the collateral to the selling party (measured initially at the agreed-upon price) is valued at fair value. If the collateral is pledged as guarantee in another repurchase or resale agreement, it will be measured at amortized cost (any difference between the price received and the value of the account payable is recognized in earnings).

Similarly, if the buying party becomes a selling party due to other sale and repurchase agreements with the same collateral received as guarantee of the initial transaction, the interest on the second sale and repurchase agreements must be recognized in earnings as accrued, according to the implied interest method or effective interest method, while also affecting the account payable valued at amortized cost.

For transactions where the buying party sells or pledges as guarantee the collateral received (for example, when another repurchase or resale agreement securities loan transaction is established), memorandum accounts are used to control the collateral sold or pledged as guarantee, which is valued using the standards applicable to custody transactions included in Criterion B-9 "Custody and Management of Assets" issued by the Commission.

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged as guarantee by the buyer, 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.

Collateral granted and received for derivatives transactions which are not performed on recognized stock markets or exchanges - The account receivable generated by granting collateral in cash for derivatives transactions which are not performed on recognized stock markets or exchanges is presented under the heading of "Other receivables (net)", while the account payable generated by receiving collateral in cash is presented under the heading of "Sundry creditors and other accounts payable".

Granted collateral other than cash remains under its original heading. The account payable, which represents the assignee's obligation to restitute sold collateral other than cash to the assignor, is presented in the consolidated balance sheet under the heading of "Collateral sold or pledged as guarantee".

The collateral other than cash for which a right is granted to enable it to be sold or given in guarantee is presented in memoranda accounts under "Collateral received and sold or delivered as collateral".

Credit portfolio - Represents the outstanding balance of cash disbursed to borrowers, plus the uncollected accrued interest. The "Allowance for loan losses" is presented as a reduction to the balances of the portfolio.

The Financial Group must classify their portfolios under the following headings:

a. *Commercial*: direct or contingent loans, including bridge loans denominated in Mexican pesos or foreign currency, investment units, multiples of the minimum wage (VSM) and accrued interest, granted to entities or individuals with business activities for commercial or financial purposes. These loans include those granted to financial entities other than interbank loans for periods of less than three business days, those involving factoring transactions or finance lease transactions performed with entities or individuals; credits granted to trustees acting under the auspices of trusts and credit schemes generally known as "structured" in which a net worth effect allows the associated risks to schemes be individually evaluated. Also included are the credits granted to States, Municipalities and their decentralized agencies, as well as those assumed by the Federal Government or with an express federal guarantee, registered with the General Department of Public Credit of the Mexican Treasury Department and Banco de México.

b. *Housing mortgage:* direct loans denominated in Mexican pesos, foreign currency, investment units or Minimum Daily Wage (SMG), as well as the interest generated, granted to individuals and intended for the acquisition, construction, remodeling or improvement of housing, without any speculative purpose; including those liquidity credits guaranteed by the borrower's home and those granted for such purposes to the former employees of the credit Institution. Furthermore, housing loans are considered to include those intended for remodeling or improvements of the home which are backed by the savings from the borrower's housing subaccount, or have collateral granted by a development bank or a public trust established by the Federal Government for economic development. Also, they include the credits granted for such purposes to the former employees of the states and those liquid credits secured by the home of the borrower.

c. *Consumer*: direct credits, including liquidity credits which do not have collateral from real estate property, denominated in Mexican pesos, foreign currency, UDIS or VSM, as well as any interest generated, granted to individuals, derived from credit card transactions, personal loans, payroll transactions (different from those granted through a credit card), loans for the acquisition of consumer durables (known as ABCD), which includes among others automotive loans and credits for capitalizable leases which are carried out with individuals, including those credits granted for such purposes to the former employees of the states.

Performing loan portfolio - The Financial Group has the following criteria to classify the loans as 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 have evidence of sustained payment.

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

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due or 30 days after principal is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.

– If loans are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, when payments have been outstanding for 60 or more days.
– Mortgage loans with periodic partial payments of principal and interest and are considered non-performing when a payment is 90 days or more non-performing.
– Customer checking accounts showing overdrafts will be reported in the non-performing portfolio at the date of the overdraft.
– If the borrower is declared bankrupt, except for:

  i. Loans for which the Financial Group continues receiving payment under the terms of that established in section VIII of article 43 of the Commercial Bankruptcy Law, or,
  ii. Must be granted under the terms of Article 75, in relation to sections II and III of article 224 of the aforementioned Law.

– The highly liquid notes referred to in Accounting Criterion B-1, Funds available, issued by the Commission, when they were not collected within the deadline (two or five days, as the case may be).

Non-performing portfolio which are restructured or renewed will remain in the non-performing portfolio, until there is evidence of sustained payment; i.e., performance of payment by the borrower without arrears for the total amount due and payable in terms of principal and interest, for at least three consecutive installments under the credit payment scheme, or in the case of credits with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in the accounting criteria of the Commission.

The credit payments referred to by the preceding paragraph must cover at least 20% of principal or the total amount of any interest accrued under payment restructuring or renewal schemes. However, accrued interest recognized in memoranda accounts is not considered for this purpose.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term, are classified as non-performing portfolio until there is evidence of sustained payment, as well as those in which at least 80% of the original term of the credit has not elapsed, which did not cover the total amount of the accrued interest or cover the principal of the original amount of the credit, and which should have been settled as of the date of renewal or restructuring in question.

The accrual of interest earned on the credit transactions is suspended at the time the credit is classified as non-performing portfolio, including those credits which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a credit remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When this non-performing interest is collected, it is directly recognized in results of the year under the heading of "Interest income".

With regard to ordinary uncollected accrued interest on credits which are considered as non-performing portfolio, the Financial Group creates an allowance for the total amount of the interest at the time the credit is transferred to non-performing portfolio.

Transfers to non-performing portfolio - When the repayments of commercial loans or accrued interest are not collected in accordance with the payment scheme, the total amount of principal and interest is transferred to non-performing portfolio, under the following circumstances:

- When it is known that the borrower is declared bankrupt, in accordance with the Commercial Bankruptcy Law; or
- When the repayments have not been fully settled under the original terms, as follows:

  · Loans with a single payment of principal and interest upon maturity are transferred to non-performing portfolio when the payment is 30 or more days in arrears;

- Loans with a single payment of principal upon maturity and periodic payments of interest are transferred to non-performing portfolio when interest payments are 90 or more days in arrears, or when principal payments are 30 or more days in arrears;
- Loans with periodic payments of principal and interest, including housing loans are transferred to non-performing portfolio when payments are 90 or more days in arrears;
- Revolving loans are transferred to non-performing portfolio when payment is non-performing by two monthly billing periods or, as the case may be, 60 or more days.

Non-performing loans are transferred to the performing portfolio if there is evidence of sustained payment, which consists of proper compliance by the borrower without delay, for the total due and payable amount of principal and interest for a minimum of three consecutive payments under the loan payment scheme or, in the case of loans with payments that cover periods in excess of 60 days, sustained payment is achieved with a single payment.

In the case of operating leases it is recognized as expired amount of amortization that has not been paid in full, within 30 calendar days of default. The accumulation of accrued uncollected income is also suspended when the lease has three non-performing rent payments under the scheme. While the operation is maintained in nonperforming loans, control of the income accrued is carried in Memorandum accounts.

Restricted loans - Are considered those loans for which there are circumstances which cannot provide or make used of them, having to be submitted as restricted; for example, the loan portfolio given the transferor as security or collateral in securitization transactions.

Evidence of sustained loan payment - Payment compliance by the borrower without arrears for the total due and payable amount of principal and interest, in relation to at least three consecutive repayments under the credit payment scheme, or, in the case of credits with repayments that cover periods longer than 60 calendar days, the payment of one repayment.

Restructuring and renewal processes - Credit restructurings consist of extensions of collateral which cover the disbursements taken by the borrowers, as well as modifications to the original conditions contracted for the loans with regard to the payment scheme, interest rates or currency, or granting a grace period during the credit term.

Loan renewals are operations in which the repayment term is extended during or upon the maturity of the loan or when it is settled at any time with financing derived from another loan contracted with the Financial Group by same borrower or another party, which due to common equity relationships with the original borrower, constitute common risks. Notwithstanding the above, a loan will not be considered renewed due to dispositions made during the effective term of a preestablished line of credit, provided that the borrower has settled the total amount of the payments due and payable therefrom under the original credit conditions.

Loans with a single payment of principal and/or interest upon maturity which are restructured during the credit term or renewed at any time are considered as non-performing portfolio as long as there is no evidence of sustained payment.

Credits granted under a line of credit, revolving or otherwise, which are restructured or renewed at any time, may be kept in performing portfolio provided that there are elements to substantiate the payment capacity of the borrower.

Furthermore, the borrower must have:

a. Settled the total amount of due and payable interest, and
b. Covered the total amount of payments due and payable under the terms of the contract at the date of the restructuring or renewal

Tratándose de Disposiciones de crédito hechas al amparo de una línea, cuando se reestructuren o renueven de forma independiente de la línea de crédito que las ampara, deberán evaluarse de conformidad con la presente sección atendiendo a las características y condiciones aplicables a la disposición o Disposiciones reestructuradas o renovadas. Cuando de tal análisis se concluyera que una o más de las Disposiciones otorgadas al amparo de una línea de crédito deban ser traspasadas a cartera vencida por efecto de su reestructura o renovación y tales Disposiciones, de manera individual o en su conjunto, representen al menos el 25% del total del saldo dispuesto de la línea de crédito a la fecha de la reestructura o renovación, dicho saldo, así como sus Disposiciones posteriores, deberán traspasarse a cartera vencida en tanto no exista evidencia de pago sostenido de las Disposiciones que originaron el traspaso a cartera vencida, y el total de las Disposiciones otorgadas al amparo de la línea de crédito hayan cumplido con las obligaciones exigibles a la fecha del traspaso a cartera vigente.

Los créditos vigentes que se reestructuren o se renueven, sin que haya transcurrido al menos el 80% del plazo original del crédito, se considerará que continúan siendo vigentes, únicamente cuando:

a. The borrower has covered the total amount of the interest accrued at the date of the renewal or restructuring, and
b. The borrower has covered the principal of the original amount of the credit which should have been covered at the date of the renewal or restructuring.

Absent compliance with all of the above conditions, they will be considered as overdue from the time they are restructured or renewed until there is evidence of sustained payment.

If as a result of a restructuring or renewal, different credits granted by the same entity to the same borrower are consolidated, each of the consolidated credits must be analyzed as if they were restructured or renewed separately, and if based on such analysis it is concluded that one or more of such credits would have been transferred to non-performing portfolio through such restructuring or renewal, the total balance of the consolidated credit must be transferred to non-performing portfolio.

Acquisition of loan portfolios - The contractual value of the portfolio acquired must be recognized under the loan portfolio line item as of the portfolio acquisition date based on the portfolio type classified by the originator; any difference in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than the contractual value, in earnings under "other operating income" up to the amount of the allowance for loan losses created as discussed above, and the excess as a deferred credit, which will be amortized as the respective collections are made, based on the percentage they represent of the total contractual value of the loan;

b) When the portfolio acquisition price exceeds its contractual value, it is considered as a deferred charge which is applied as outstanding amounts are collected, based on the proportion they represent of the contractual value of the credit;

c) When related to the acquisition of revolving loans, the difference will be directly recorded in earnings on the acquisition date.

For the year ended December 31, 2016, the Financial Group did not make acquisitions of loan portfolio at a discount or at a premium.

Classification of leasing transactions - Leases are recognized as finance leases if the contract implies a transfer of the risks and benefits from the lessor to the lessee; otherwise, they are considered operating leases. In this regard, a transfer of risks and benefits takes place if, at the starting date of the lease, any of the assumptions described below is fulfilled:

- The lease agreement transfers ownership of the leased good to the lessee at the end of the lease term.
- The lease agreement contains a purchase option at a reduced price.
- The lease term is substantially the same as the remaining useful life of the leased asset.
- The present value of the minimum payments is substantially the same as the market value of the leased asset or scrap value which the lessor may keep for itself.
- The lessee may cancel the lease agreement and the losses associated with the cancellation will be covered by the latter.
- The profits or losses derived from fluctuations in the residual value accrue to the lessee, or
- The lessee may extend the lease for a second term with a rental substantially lower than market value.

For the application of the above-mentioned requirements it is understood that:

- The lease term is substantially the same as the remaining useful life of the leased asset, if the lease agreement covers at least 75% of such useful life.
- The present value of the minimum payments is substantially the same as the market value of the leased asset, if it constitutes at least 90% of the value of the asset.
- The minimum payments consist of those payments which the lessee is required to make or may be required to make in relation to the property leased, plus the guarantee of a third party not related to the Financial Group, of the residual value or rental payments beyond the term of the lease agreement.

The classification of the leases based on the aforementioned policies presents differences, both in the legal form in which the transactions are contracted, and in the criteria of their classification for tax purposes. This situation generates effects in the recognition of the allowance for loan losses and of deferred taxes.

Finance lease transactions are recorded as direct financing, considering the total rentals agreed in the respective contracts as loan portfolio. The financial revenue from these operations is equivalent to the difference between the value of the rentals and the cost of the leased assets, which is recorded in results as it is accrued. The reduced-price purchase option of the finance lease agreements is recognized as revenue on the date that it is collected or as amortizable revenue during the remaining term of the lease, at the time that the lessee undertakes to exercise such option. For purposes of presentation, the balance of the portfolio refers to the unpaid balance of the loan granted, plus the uncollected interest accrued.

During the effective term of the contract the Financial Group recognizes interest income as it is accrued, canceling the deferred credit already recognized (financial charge). When the loan portfolio is considered non-performing the recognition of interest is suspended.

The rentals agreed in the operating leases are recognized as they are accrued. The costs and expenses associated with granting the lease are recognized as a deferred charge, which is amortized in results within the financial margin, as the rental income from the respective contracts is recognized.

Allowance for loan losses - The Financial Group creates the allowance for loan losses based on the portfolio classification rules established in the Provisions issued by the Commission, which establish methodologies for the recognition and measurement of reserves based as follows:

Commercial loans

The Financial Group rates commercial loan portfolio considering the Probability of Default, Loss Severity and Exposure at Default and classifies the aforementioned commercial loan portfolio into different groups and provides different variables for estimating the probability of default.

The Financial Group adopted this change of methodology on December 31, 2013, whereby the amount of the allowance for loan losses of each loan will be the result of applying the following formula::

$$R_i = PI_i \, x \, SP_i \, x \, EI_i$$

In which:

Ri = The amount of the allowance for loan losses to be created for the ith credit.
PIi = The Probability of Default of the ith credit.
SPi = The Loss Severity of the ith credit.
EIi = The Exposure at Default of the ith credit.

The probability of default of each credit (PI i), will be calculated by using the following formula:

$$PI_i = \frac{1}{1+e^{-(500-Total\ Credit\ Score_i)\ x\ \frac{\ln(2)}{40}}}$$

For the above purposes:

The total credit score of each borrower is obtained by applying the following formula:

$$Total\ Credit\ Score_i = \alpha \text{ x } (Quantitative\ Credit\ Score_i) + (1-\alpha) \text{ x } (Qualitative\ Credit\ Score_i)$$

which:

Quantitative credit scorei = Is the score obtained for the ith borrower when evaluating risk factors.

Qualitative credit scorei = Is the score obtained for the ith borrower when evaluating risk factors.

a = Is the relative weight of the quantitative credit score.

Unsecured loans

The Loss Severity (SPi) of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a) 45%, for Preferred Positions.
b) 75% for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.
c) 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure at Default (EIi) of each loan is determined based on the following:

I. I. In the case of uncommitted, utilized credit lines which can be unconditionally canceled or which can be automatically canceled at any time and without prior notice:

$$EI_i = S_i$$

II. In the case of all other credits lines:

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

In which:

Si: The outstanding balance of the ith credit at the rating date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less principal and interest payments, as well as forgiveness of debt, rebates and discounts. In any case, the amount to be rated must not include uncollected accrued interest recognized in memoranda accounts on the balance sheet for loans included in the non-performing portfolio..

Authorized Credit Line: The maximum authorized credit line amount at the rating date.

The Financial Group may recognize the security interests in real property, or personal or credit-derived collateral when estimating the Loss Severity of loans, so as to reduce portfolio rating reserves.

In any case, it can opt to not recognize credit enhancements if they result in larger reserves. For this purpose, the Provisions established by the Commission are utilized.

Loans granted under the Commercial Bankruptcy Law

On March 26, 2015, the Commission issued a Ruling which modifies the Provisions, whereby it adjusts the methodology applicable to the classification of commercial credit portfolio for credits granted under sections II and III of article 224 of the Commercial Bankruptcies Law in order to make it more consistent with the modifications made to such statute on January 10, 2015.

This methodology mainly contemplates the consideration of collateral created under the terms of Article 75 of the Commercial Bankruptcy Law for the determination of the Severity of the Loss by applying certain adjustment factors or discount percentages for each type of admissible security interest in real or personal property.

As discussed above, in the case of loans granted under Section II of Article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP_i = Max\ (Min\left(1 - \frac{Collateral + Adjusted\ Estate}{Si}, 45\%\right), 5\%\ )$$

In which:

Collateral = Any collateral created under the terms of Article 75 of the Commercial Bankruptcy Law by applying, as the case may be, the respective adjustment factors or discount percentages to each type of admissible security interest in real or personal property.

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in Section I of Article 224 of such law, and applying a 40% discount to the resulting amount.

S_i = Unpaid balance of the loans granted under section II of article 224 of the Commercial Bankruptcy Law as of the classification date.

In the case of loans granted under Section III of Article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP_i = Max\ (Min\left(1-\frac{Adjusted\ Estate}{Si}, 45\%\right), 5\%\ )$$

In which:

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in Section I of Article 224 of such law, and applying a 40% discount to the resulting amount.

Si = Unpaid balance of the loans granted under Section II of Article 224 of the Commercial Bankruptcy Law as of the classification date.

Credit portfolio of States and Municipalities

When classifying the credit portfolio of States and municipalities, the Financial Group considers the Probability of Default, Severity of Loss and Exposure to Default, while also classifying the aforementioned portfolio of States and municipalities into different groups and establishing different variables for the estimate of the Probability of Default of the commercial portfolio, in relation to credits granted to States and municipalities.

The allowance for loan losses of each credit will be the result of applying the following expression:

$$R_i = PI_i\, x\, SP_i\, x\, EI_i$$

In which:

Ri = Amount of allowance for loan losses to be created for the nth credit..
PIi = Probability of Default on the nth credit.
SPi = Loss Given Default on the nth credit.
EIi = Exposure at Default on the nth credit.

The Probability of Default on each credit (PI i), will be calculated by using the following formula:

$$PI_i = \frac{1}{1+e^{-(500-\textit{Total Credit Score}_i)\ x\ \frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PI_i he total credit score of each borrower is calculated by using the following expression:

Total Credit Score = √ (PCCt) + (1-√) PCCl

Where:

PCCt = Quantitative Credit Score = IA+ IB + IC
PPCl = Qualitative Credit Score = IIA + IIB
√ = 80%
IA = Average number of days in arrears with banks (IFB) + % of timely payments with IFB + % of timely payments with non-bank financial institutions.
IB = Number of recognized ratings agencies in accordance with the provisions which provide a rating to the State or Municipality

IC = Total debt to eligible participations + debt service to total adjusted revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.

IIA = Local unemployment rate + presence of financial services of regulated entities.

IIB = Contingent obligations derived from retirement benefits to total adjusted revenues + operating balance sheet to local GDP + level and efficiency of collections + soundness and flexibility of the regulatory and institutional framework for the approval and execution of the budget + soundness and flexibility of the regulatory and institutional framework for the approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the securities market.

Unsecured loans

The Loss Given Default (SPi) on the credits granted to States or Municipalities which have no real, personal or credit-based collateral will be:

a. 45%, for Senior Positions.

b. 100%, for Subordinated Positions or when the credit reports 18 or more months of payment arrears for the amount due and payable under the terms originally agreed.

The Exposure to Default on each credit (EIi) will be determined based on the following:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{\textit{Credit Line Authorized}}\right)^{-0.5794}, 100\%\right\}$$

Si = The unpaid balance of the nth credit at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reductions, amounts forgiven, rebates and discounts granted. In every case, the amount subject to the rating must not include the uncollected accrued interest, recognized in memorandum accounts within the consolidated balance sheet of credits in non-performing portfolio.

Credit Line Authorized = Maximum authorized amount of the credit line as of the classification date.

The Financial Group may recognize the real collateral, personal collateral and credit-based collateral in the estimate of the Loss Given Default on the credits, with the aim of reducing the allowance derived from the portfolio classification. For such purpose, they will use the provisions established by the Commission.

Eligible real collateral may be financial and non-financial. Furthermore, only the real collateral which complies with the requirements established by the Commission will be recognize.

Mortgage loan portfolio

When classifying the housing mortgage loan portfolio, considers the type of credit, the estimated Probability of Default of the borrowers, the Loss Given Default associated with the value and nature of the loan collateral and the Exposure at Default.

Furthermore, the Financial Group classifies, creates and records the allowances for loan losses on the housing mortgage loan portfolio as follows:

Due and Payable Amount - Amount the borrower has to pay in the billing period agreed, without considering any previous due and payable amounts that were not paid.

If the billing is half monthly or weekly, the due and payable amounts of the two half months or four weeks 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 loan contract for such purpose.

Payment made - Totals the 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 half monthly or weekly, the payments made for the two half months or four weeks 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 Vi - The value of the home at the time of the loan origination, restated in accordance with the following:

I. For loans with an origination date prior to January 1, 2000, in two stages:

a) First stage, based on the SMG

$$\text{Value of Home 1st. Stage} = \frac{SMG_{\ 31/DIC/1999}}{SMG_{\ \text{in the month of the orgigination}}} \times \text{Value of Home at Origination}$$

In which:

The value of the home on the origination date reflects the home value ascertained through an appraisal at the time the loan was originated.

b) Second stage, based on the monthly National Consumer Price Index (INPC).

$$\text{Value of Home} = \frac{INPC_{\ \text{month of classification}}}{INPC_{\ \text{Jan 1, 2000}}} \times \text{Value of Home 1st Stage}$$

II. For loans with an origination date prior to January 1, 2000, in accordance with subsection b) of numeral

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

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

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

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

Loan Denomination (MON) - This variable will take the value of one (1) when the housing loan is denominated in Investment Units (UDI), minimum wages or a currency other than Mexican pesos, and zero when it is denominated in Mexican 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 Financial Group will be equal to the allowance for loan losses, as follows:

$$R_i = PI_i \, x \, SP_i \, x \, EI_i$$

In which:

Ri = Amount of allowances for loan losses to be created for the nth credit.
PIi = Probability of Default on the nth credit.
SPi = Loss Given Default on the nth credit.
EIi = Loss Given Default on the nth credit.

In any case, the amount subject to the classification must not include uncollected accrued interest recorded on the consolidated balance sheet, of loans classified within non-performing portfolio.

Consumer loan portfolio

On August 27, 2015, the Commission made certain adjustments to the methodology applicable to the classification of consumer loan portfolio in order to recognize in such classification the expected losses coverage scheme, known as pari passu or first losses.

The Financial Group obtains the Loss Severity adjusted for actual financial guarantees (SP*) using the following formula:

$$SP_i^* = SP_i \left(\frac{EI_i}{EI_i} \right)$$

a) SP_i^* = Effective Severity of the Loss of the nth credit adjusted for financial security interest in real or personal property;

b) SP_i = 65% for loans from the nonrevolving consumer loan portfolio with no credit enhancements, different from group credit, or
79% for loans from the nonrevolving consumer loan portfolio with no credit enhancements for group credit, or
75% for credit card positions and other revolving credits with no credit enhancements.
100% for any of the loans described above with a number of monthly arrears equaling or exceeding 10 (ATRi M > 10), or its equivalent in less billing periods in accordance with article 91-Bis, section II or article 92, section III, subsection b), numeral 2, of the Provisions.

c) EI_i^* = Exposure to Default of the nth credit after the risk coverage by the comprehensive method, contained in articles 2- Bis 36, 2 Bis 37 and 2 Bis 38 of the Provisions, for the financial security interest in real or personal property referred to in Exhibit 24, section II subsection a) of the Provisions. This item is only used to calculate the effective Severity of the Loss. (SP*).

d) EI_i = Exposure to Default of the nth credit, in conformity with article 91 Bis 3 and article 92, section III, subsection c) of the Provisions, whether in relation to nonrevolving consumer loan portfolio or credit card portfolio and other revolving credits, respectively.

Increases or decreases in the allowance for loan losses as a result of the classification and rating process, are recorded in results adjusting the financial margin, up to the amount of the recognized estimate for the same type of loan; surplus allowances are released to "Other operating income (expense)".

The consumer credit portfolio related to credit card transactions

The allowances for credit card losses are calculated by considering a base credit by credit, using the figures for the last period of known payment and taking into account factors such as: i) balance payable, ii) payment made, iii) credit limit, iv) minimum payment required, v) nonpayment vi) amount payable to the Financial Group, vii) amount payable reported in the credit information companies, as well as viii) seniority of the borrower in the Financial Group.

- *Provisioning and classification by degree of risk*

The total amount of reserves to be created by the Financial Group for the loan portfolio is equal to the sum of the reserves for each loan.

Allowance for loan losses that should be create for credit portfolio are calculated based on the general methodology, should be classified according to risk levels A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E in accordance with the following table:

	Consumer		Commercial
	Nonrevolving	Other revolving loans	
A-1	0 to 2.0	0 to 3.0	0 to 0.9
A-2	2.01 to 3.0	3.01 to 5.0	3.01 to 1.5
B-1	3.01 to 4.0	5.01 to 6.5	1.501 to 2.0
B-2	4.01 to 5.0	6.51 to 8.0	2.001 to 2.50
B-3	5.01 to 6.0	8.01 to 10.0	2.501 to 5.0
C-1	6.01 to 8.0	10.01 to 15.0	5.001 to 10.0
C-2	8.01 to 15.0	15.01 to 35	10.001 to 15.5
D	15.01 to 35.0	35.01 to 75.0	15.501 to 45.0
E	35.01 to 100	Grater than 75.01	Grater than 45.0

Debtors for premium- Uncollected premiums receivable are canceled within the period stipulated by the Law of the insurance contract and the applicable regulations, releasing the reserve for risks in progress and in the case of rehabilitations, the reserve is reconstituted from the beginning of the validity of the insurance.

Reinsurance and reinsurance balances- The Financial Group has reinsurer, accounts receivable and receivable balances from reinsurers. The placement of businesses and their recovery is usually through intermediaries.

Reinsurers have the obligation to reimburse the Group for the claims paid based on their participation.

Foreclosed assets, net - Foreclosed assets are recorded at the lower of cost or fair value less direct and incremental costs and expenses incurred in the foreclosure process. In the case of foreclosures, the cost is the amount established for purposes of the foreclosure, whereas for accord and satisfaction, it is the price negotiated between the parties.

The Financial Group creates allowances on the book value of these assets based on percentages established by the Commission, by type of property (movable or real property) and based on the time elapsed as of the date of the foreclosure or accord and satisfaction.

The Financial Group records additional provisions on a quarterly basis on foreclosed judicial and extrajudicial assets or assets received as payment in kind, whether movable or real property, and the collection rights and investment in securities according to the following procedure:

I. For collection rights and property, the amount of reserves to be created will be the result of applying the reserve percentage shown in the table below, the value of the collection rights or the value of property obtained in accordance with the accounting criteria of the Commission.

Reserves for collection rights and property	
Time elapsed since collection or payment in kind (months)	Reserve percentage
Up to 6	0%
More than 6 until 12	10%
More than 12 until 18	20%
More than 18 until 24	45%
More than 24 until 30	60%
More than 30	100%

II. For investment in securities, the must be valued as set forth in Criterion B-2 "Investment in securities" of the accounting criteria issued by Commission, with annual audited financial statements and monthly reports.

After the foreclosure or payment in kind have been valued, the reserves shall be determined using the percentages in the table contained in section I, considering estimated values determined in accordance with the preceding paragraph.

III. For real estate assets, the amount of reserves to be created will be the result of applying the reserve percentage in the table below and the value of the foreclosed property calculated in accordance with the accounting criteria issued by the Commission.

Reserve for real estate assets	
Tiempo transcurrido a partir de la adjudicación o dación en pago (meses)	**Porcentaje de reserva**
Up to 12	0%
More than 12 until 24	10%
More than 24 until 30	15%
More than 30 until 36	25%
More than 36 until 42	30%
More than 42 until 48	35%
More than 48 until 54	40%
More than 54 until 60	50%
More than 60	100%

If valuations carried out subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of collection rights, securities or real estate assets, the loss reserve percentages referred to this Article may be applied to the adjusted value.

Property, furniture and fixtures, net - Property, installations expenses and leasehold improvements are recorded at acquisition cost. The assets currently on hand that were acquired prior to December 31, 2007 were adjusted for inflation by applying factors derived from the UDI from the date of acquisition until such date. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful lives or, in the case of leasehold improvements, based on the period for which contracts are executed with leaseholders, which is an average of five years, extendable for another similar period when requested by the leaseholder.

The consolidated financial statements present the cost of these assets, less accumulated depreciation. Depreciation is calculated by the straight-line method on the cost of the assets as follows:

	Rate
Real estate	5%
Computer equipment	30%
Furniture and equipment	10%
Transportation equipment	25%
Machinery and equipment	30%

Maintenance expenses and repairs are recorded in the income statement as incurred.

In the case of fixed assets subject to operating leases, depreciation is calculated on the restated value, less residual value, using the straight-line method over the term established in the respective contracts.

Long-term investment in shares - Permanent investments in entities in which significant influence is exercised, are recognized initially based on the net fair value of the identifiable assets and liabilities of the Financial Group at the acquisition date.

i. Venture capital investments (companies promoted by a mutual fund). - At the time of their acquisition, investments in shares of companies promoted by a mutual fund are recognized for the total amount of resources paid.

   In accordance the Criteria of the Commission, acquisitions of shares in promoted companies are considered permanent investments, whether or not in control of them. Under NIF, these investments are considered as risk capital investments and are stated at fair value.

   The value of investments in shares of companies promoted by a mutual fund is restated every quarter by the equity method, which consists of recognizing the Financial Group's participation in the results for the year and other stockholders equity' accounts reported in the financial statements of such promoted companies, and is recorded in results for the year under "Equity in results of unconsolidated subsidiaries and associates", and in stockholders' equity, under "Result from holding nonmonetary assets", respectively.

   At December 31, 2016 and 2015, the financial statements of the promoted companies used in the valuation of the investments are as of September 30, 2016 and 2015, respectively, or on acquisition dates for promoted companies that are acquired September of each year.

   The profit and loss obtained on the sale of shares of such promoted companies is recorded on the date that the transaction is performed.

ii. Associates and other investments.- Investments in associates and other permanent investments are recorded initially at acquisition cost and are subsequently valued under the equity method, on which basis the equity in results and in stockholders' equity is recognized.

Income taxes - Income tax (ISR) is recorded in earnings of the year in which they are incurred. Management determines, based on financial and tax projections, whether the Financial Group and its subsidiaries will incur ISR, and deferred taxes are recognized based on which tax system the Financial Group is expected to primarily be subject to. The Financial Group determines the deferred tax on the temporary differences, tax losses and tax credits, from the initial recognition of the items and at the end of each period. The deferred tax derived from the temporary differences is recognized by using the assets and liabilities method, which compares the accounting and tax values of the assets and liabilities. This comparison produces deductible and taxable temporary differences, which along with tax losses and the tax credit from the un-deducted allowances for loan losses, are then multiplied by the currently enacted tax rate that is projected to be in effect when the temporary differences will reverse, or when the tax benefit carryforward is realized.

The Financial Group management records a reserve for certain deferred tax assets to recognize only the deferred tax asset for which there is a high probability of recovery over a short-term period, considering for this treatment the amount generated by the tax credit for un-deducted allowances for loan losses expected to reverse in accordance with the financial and tax projections prepared by management. Therefore, the effect of such tax credit is not fully recorded. The deferred tax is recorded either to earnings or stockholders' equity, depending on the classification of the item originating the deferred tax.

Other assets - Software, system developments and intangible assets are recorded originally at the face value disbursed, and adjusted for inflation through December 31, 2007, using the factor derived from the UDI.

The amortization of software, informatics developments and intangible assets with defined lives is calculated by using the straight line method over their estimated useful lives.

Goodwill - Represents the excess of the price paid over the fair value of the net assets of the Financial Group acquired on the acquisition date, is not amortized and is subject to impairment tests at least once a year.

Acquired intangible assets - The intangible assets arising from the acquisition of business during the 2016 financial year of BSI and HF Wal-Mart are recognized in the balance sheet. The valuation of the intangible asset must be made considering the NIF C-8 "Intangible Assets".

Impairment of long-lived assets in use - The Financial Group reviews the book value of long-lived assets in use when detecting any sign of impairment that could indicate that this book value might not be recoverable, by considering the higher of the present value of net future cash flows or the net sales price, in the event of its disposal. The impairment is recorded when the book value exceeds the higher of the aforementioned values. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period, combined with a history or projection of losses, depreciation and amortization charged to earnings as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors.

Acceptance of funds - Liabilities from acceptance of funds through liquid and term deposits, as well as interbank loans and from other agencies, are recorded by taking the contractual value of the obligation as their base. Interest payable is recognized in results, within the financial margin, as it is accrued, based on the interest rate agreed.

The securities included in traditional acceptance of funds which form part of direct bank deposits, are classified and recorded as follows:

- Securities offered at face value; are recorded based on the contractual value of the obligation, recognizing the accrued interest directly in results.
- Securities offered at a price different from face value (with a premium or a discount); are recorded based on the contractual value of the obligation, recognizing a deferred charge or credit for the difference between the face value of the security and the amount of cash received for it, which is amortized by the straight-line method over the term of the security.
- Securities which are offered at a discount and do not accrue interest (zero coupon); are valued at the time of issue, taking the amount of cash received as their basis. The difference between the face value and the aforementioned amount is considered as interest, and should be recognized in results based on the effective interest method.

Term deposits, placed through promissory notes with realizable returns at maturity (PRLV), deposits that can be withdrawn on preestablished days and bank deposit certificates (CEDES), are offered at face value. The promissory notes issued in the interbank market are offered at a discount.

Commissions paid on the loans received by the Financial Group are recorded in results for the year, under the caption Commissions and charges paid, on the date they are generated.

Issue expenses, as well as the discount or premium on the debt offering, are recorded as a deferred charge or credit, as the case may be, and are recognized in results for the year as interest expense or income, if applicable, as and when accrued, taking into account the term of the underlying securities.

The placement premium or discount is presented as part of the underlying liability, whereas the deferred charge for the issue expenses are presented in the caption "Other assets".

Technical reserves -

a. Technical reserves

By decision of the Commission, all technical reserves must be annually audited by independent actuaries, within the first 60 days after the close of the financial year.

In regards to the 2016 financial year:

- On February 25, 2016 independent actuaries issued their confirmation letter informing the conclusion of their life, accident and illness and damage procedures, which indicate that in their opinion, the technical reserves of Seguros Inbursa, SA, Patrimonial Inbursa, SA, Seguros de Crédito Inbursa, SA and Fianzas Guardiana Inbursa, S.A. As of December 31, 2016 constitute a reasonable amount to meet their contractual obligations, in accordance with current legal provisions.

- Also, on February 24, 2016, the independent actuaries issued their opinion, in which they indicate that in their opinion, the existing risk reserves, contractual obligations and provisions as of December 31, 2016 were determined in accordance with legal provisions And in accordance with the rules, criteria and practices established and allowed by the Commission, and constitute an aggregate amount sufficient to meet the obligations derived from the pension portfolio that Pensiones Inbursa, SA Has subscribed.

In accordance with the provisions laid down by the Commission, the technical reserves are valued as follows:

I) Reserve of ongoing risks

The Financial Group determines the reserves of ongoing risks of life, accident and illness and damage insurance, based on actuarial methods that include sufficiency standards.

Actuarial methods consist of a projection model of future payments, considering the claims and benefits derived from the policies in force in the portfolio of the Financial Group, in each of the types of insurance in question. This methodology is registered and approved by the Commission through a technical note, which is applied after its approval.

About life insurance

Life insurance for less than or equal to one year - The current risk reserve is obtained by multiplying the non-accrued risk premium of the policies in force by the sufficiency factor, adding the non-accrued part of the administrative expenses.

The sufficiency factor is determined by dividing the expected value of future obligations for claims and benefits according to the reduced recorded valuation method of future net premiums, with the non-accrued risk premium of the policies in force.

In no case may the sufficiency factor be less than one. This factor is reviewed and analyzed on a monthly basis.

The provision for administrative expenses is calculated as the non-accrued portion, corresponding to the annual premium portion of the policies in force at the time of valuation. For this, the percentages of administration expenses established in the technical notes corresponding to each plan are used in the case of individual life and for each policy in life and group.

Life insurance for more than one year:

It is valued according to the actuarial method for the determination of the minimum reserve amount, provided that this method yields a greater amount to the method of sufficiency registered in the technical note authorized by the Commission, in case of not being greater, the risk reserve in Course is valued according to the sufficiency method.

For insurances with a period of more than one year, and in the specific case of plans in which the period of payment of the premium is less than the period of validity of the policy, the amount of leveled administration expense that is expected to be incurred is determined In each year of effectiveness of the policies, based on the present value of administrative expenses, which will be deducted from the premiums expected to be received. The provision of expenses is determined by accumulating the amounts of administrative expenses that were deducted from the premiums, reduced from the level of administration expense.

Investment life insurance (Inburdolar Product)

The Financial Group has reserves for the Inburdolar product, which corresponds to a flexible individual universal life insurance (investment insurance), whereby the Financial Group will pay the contracted sum insured, together with the accumulated reserve of the insured. The product reserve is constituted by the deposit of premiums and interest (70% of the United States Government treasury bond), discounted for the redemptions, expenses and cost of insurance.

Fianzas in force:

The bond reserve in force is intended to provide liquidity to the bondholders so that they can finance the payment of claims arising from the bonds granted, while the process of awarding and realizing the guarantees of recovery provided by the bond, As well as to support the payment of claims for bonds that do not require a guarantee of recovery under the terms of articles 22 and 24 of the LISF.

The increase in the reserve of bonds in force for judicial, administrative and credit bonds is determined by applying to the reserve premium corresponding to each annuity in force the factor of 0.87 and for fidelity and judicial bonds that cover drivers of automobiles, is constituted on the amount of the non-accrued reserve premium of retention at the valuation date.

Due to the guarantee operations carried out up to 1998 and subsequent to that year, the increase in the guarantee reserve in force was determined with 50% of the gross premium corresponding to the first effective annuity and with 100 % of premiums charged in advance for guarantees exceeding one year.

Reserve for Risks in progress Pensions:

Mathematical pension reserve

The mathematical reserve of pensions for the basic plans is determined monthly on all policies in force, based on an actuarial calculation, considering the demographic experiences of invalidity and mortality of invalids and non-invalids, according to the age and sex of Each of the insured members of the pensioner's family group, as well as the technical interest rate. Said reserve must guarantee the payment of future income according to the demographic tables adopted.

Mathematical reserve for additional benefits

It represents the amount of additional benefits granted to pensioners in addition to the basic benefits of pension insurance. For the policies issued, the corresponding reserve is constituted in accordance with the technical note registered in the matter with the Commission.

Special mathematical reserve

It aims to strengthen the mathematical reserve of pensions and is constituted only considering the Policies Prior to the New Operating Scheme corresponding to pensions other than disability or incapacity in course of payment as of December 31, 2012, which will be considered as a closed portfolio.

For the purpose of applying the Special Mathematical Reserve in January 2015, the proportion represented by the balance of the Mathematical Reserve of each policy, in relation to the total of said reserve, was determined. The resulting percentage for each policy was applied the balance of the Special Mathematical Reserve as of December 31, 2012.

For the following months, the portion of the Mathematical Reserve coming from the Special Mathematical Reserve at the end of the month is determined by policy as the minimum between the following:

I. The portion coming from the Special Mathematical Reserve of the previous month of the policy, multiplied by the accrual factor of the corresponding Mathematical Reserve of Pensions, determined as the quotient of the balance of the Mathematical Reserve to the month between the balance of the same Reservation to the previous month; and,,

II. The balance coming from the Special Mathematical Reserve at the end of the previous month, increased with its minimum creditable performance for the month.

The reserve for damage, accident and disease insurance operations is determined as follows:

The projection of the expected value of the future obligations for payment of claims and benefits is determined according to the registered valuation method and this value is compared with the non-accrued risk premium of the policies in force, in order to obtain the Sufficiency factor that will be applied for the calculation of the reserve in each of the branches or, as the case may be, the types of insurance that the Bank operates. In no case is the sufficiency factor applied for these effects less than one. The adjustment of the current risk reserve for insufficiency is the result of multiplying the non-accrued risk premium by the corresponding sufficiency factor minus one. In addition, the non-accrued portion of administrative expenses is added. Therefore, the current risk reserve is obtained by adding the non-accrued risk premium of the policies in force, plus the adjustment for insufficient reserves and the unrecognized portion of administrative expenses.

The provision for administrative expenses is calculated as the non-accrued portion corresponding to the portion of the annual premium of the policies in force at the time of valuation. For this purpose, the percentages of administrative expenses established in the technical notes corresponding to each plan are used.

The expected value of the obligations is determined by the payment patterns of the Financial Group in its own experience, frequency, severity and morbidity, which are registered with the Commission.

II) Contractual obligations

Claims and Expirations - Claims for life, accidents and illnesses and damages are recorded when they are known. For life claims their determination is made on the basis of the sums insured. For claims for damages and accidents and illnesses are recorded based on estimates of the amount of the obligations and, simultaneously, the recovery corresponding to the ceded reinsurance is recorded.

Accidental and unreported claims - This reserve is intended to recognize the estimated amount of claims occurring pending reporting to the Financial Group. The estimate is recorded based on the casualty occurred from previous years, adjusting the actuarial calculation on a quarterly basis, according to the methodology approved by the Commission.

Seguros Inbursa, SA, Grupo Financiero Inbursa, carried out the calculation of Reserves for Outstanding Claims and Claims Obligations to Be Fulfilled for Occurred and Unreported Claims and Adjustment Expenses Assigned to the Loss, from the Operation of Damages including Automobiles to 31 December 19, 2015 with No. SPV-0022-0002-2012 and IBNR S0022-05-2012 respectively, and in accordance with the determination made by No. 06-367-III-3.1 / 00248 and No.06-367-III-3.1 / 00244 dated January 14, 2016 respectively, Seguros Inbursa, SA, Grupo Financiero Inbursa, may apply the Actuarial Method for valuations Of the Reserve for Outstanding Claims and for Accidental and Unreported Claims and Adjustment Costs Assigned to the Loss of the Damage Operation including Automobiles in accordance with the Technical Notes On December 19, 2015, particularly in the event that the amount in a quarter of development is less than zero due to adjustments of less, the corresponding cell will be considered with that amount.

In applying the proposed methodology to the claims or expenses matrices and their respective adjustments of less in the corresponding cell, a substantial amount of reserve release is obtained because in the Technical Notes previously registered to Seguros Inbursa, SA, Grupo Financiero Inbursa, did not consider adjustments of less in the respective cell, assigning it the value "one". The amount of the release amounted to approximately Ps. 940 million, which was reflected in the Income Statement, under the Cost of Loss, claims and other contractual obligations.

Dividends on policies - The dividends are established in the insurance contract and are determined based on the technical notes of the products that pay dividends, considering the general experience (based on the loss paid) and own experience (results obtained by each policy). The administration pays dividends for life insurance policies, personal accidents, medical expenses, automobiles and transportation.

Insurance funds in administration - The fund is formed by the financial contributions made by insured persons who have traditional individual life insurance plans with investment, as well as by the financial product generated by the same fund.

Premiums on deposit - They represent amounts of collections of policies pending to be applied to the debtor for the premium.

Reserve for outstanding claims - This reserve corresponds to the expected value of future claims for accidents and illness and damage claims that, having been reported in the year in question or in previous years, may be paid in the future and not known A precise amount of these due to not having a valuation, or when it is anticipated that there may be additional future payment obligations arising from a previously valued loss.

III) Forecast

Catastrophic –

Earthquake:

This reserve is intended to cover the obligations assumed by the Financial Group for the earthquake insurance in respect of the withholding, is cumulative and can only be affected in case of claims, with prior authorization, by the Commission.

In accordance with the provisions of the Commission, it is established that the maximum accumulation limit of this reserve will be 90% of the average probable maximum loss corresponding to the last 5 years, determined according to technical bases.

The increase to the reserve is determined by the monthly release of the risk reserve in the course of retention of the earthquake branch and the capitalization of the financial products derived from the investment of the reserve, until the maximum accumulation limit is reached.

During October 2012, the Commission changed the technical bases for the calculation of the earthquake risk reserve, towards a new stochastic model that incorporates more variables and which, consequently, led to an increase in the calculation base. Therefore, in order to adapt to this new limit Seguros Inbursa, SA, Grupo Financiero Inbursa, reflected an increase in the base of catastrophic earthquake reserves, and consequently an impact on the results of the year 2015 of approximately $500 million pesos, which are reflected in the net increase of other technical reserves.

Hydrometeorological:

This reserve is intended to cover the obligations assumed by the Financial Group for the insurance of hydrometeorological phenomena charged with retention, is cumulative and can only be affected in the case of claims, with the prior authorization of the Commission.

In accordance with the provisions of the Commission, it is established that the maximum accumulation limit of this reserve will be 90% of the average probable maximum loss corresponding to the last five years, determined according to technical bases.

The increase to the reserve is determined by the monthly release of the retention risk reserve for the risks of hydrometeorological phenomena and the capitalization of the financial products derived from the investment of the reserve, until the maximum limit of accumulation.

Contingency –

Bonds. The contingency reserve is intended to provide the bondholders with resources to meet the financing for possible deviations from the payment of claims. It must be constituted only by the retained premiums, both in the direct operation and in the re-forfeiture taken. This reserve is cumulative and may only be increased when determined by the Ministry of Finance and Public Credit (SHCP).

The calculation to establish and increase this reserve shall be made by applying the factor of 0.13 to the reserve premium corresponding to each of the annuities.

Pensions. This reserve is intended to cover deviations in the demographic assumptions used for the determination of the constituent amounts, which translate into an excess of obligations as a result of a greater number of survivors than those foreseen in the demographic table adopted.

The calculation of this reserve is determined by applying 2% to the mathematical reserve of pensions and to the risk of additional benefits of existing pension plans.

Specials –

Reserve for investment fluctuation. This reserve is constituted with the purpose of dealing with possible shortfalls in the expected returns of the investments that cover the technical reserves.

The monthly contribution to this reserve is made of 25% of the surplus of the real return obtained by the investment of the assets that support the technical reserves.

The balance of this reserve can not exceed 50% of the gross solvency requirement.

Liabilities, provisions, contingent assets and liabilities and commitments - Liability provisions are recognized when: (i) there is a present obligation (legal or assumed) as a result of a past event, (ii) it is probable the outflow of economic resources as a required to settle the obligation and (iii) the obligation can be reasonably estimated.

The Financial Group records contingent liabilities only when there is a high probability of outflow of resources.

Employee profit sharing (PTU) - The PTU is recorded in the results of the year in which it is caused. On the occasion of the Fiscal Reform 2015, as of December 31, 2016 and 2015, the OCT is determined based on the taxable income according to fraction I of article 10 of the ISR Law.

The PTU is recorded in the results of the year in which it is caused. On the occasion of the Fiscal Reform 2014, as of December 31, 2016, the PTU is determined based on the taxable income according to fraction I of article 10 of the Income Tax Law. Deferred PTU is determined by the temporary differences resulting from the comparison of the accounting and tax values of the assets and liabilities and is recognized only when it is probable the settlement of a liability or generate a profit and there is no indication that it will To change that situation, in such a way that said liability or benefit is not realized.

The impact on the income statement of current and deferred PTU as of December 31, 2016 was $228. As of December 31, 2016, the deferred PTU liability amounted to $686.

Assets and liabilities in Investment Units (UDI's) - Assets and liabilities denominated in UDI's are presented on the balance sheet at the peso value of the UDI at the date of the consolidated financial statements. As of December 31, 2016 and 2015, the value of the UDI (in pesos) was $5.562883 and $5.381175, respectively. The value of the UDI at the date of issuance of these consolidated financial statements, February 27, 2017, is $5.685467.

Recognition of interest - Interest generated on performing loan credits is recognized and applied to results as it is accrued. Penalty interest on non-performing portfolio is recorded in results at the time it is collected, and its accrual is controlled in memorandum accounts. -Interest returns on financial instruments are applied to results on an accrual basis.

The amortization of commissions collected in the initial granting of loans and for loan restructurings is recognized as interest income.

The interest on liability transactions is recorded in results as accrued, regardless of the date on which it becomes due and payable.

Financial margin - The financial margin of the Financial Group 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 negotiated interest rates, the application of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, sale and 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 in the Financial Group, bank loans, sale and repurchase agreements and securities loans, and subordinated debentures, as well as debt placement discount and issuance expenses. The amortization of costs and expenses related to initial loan granting is also included under interest expense.

Commissions charged and associated costs and expenses - Commissions charged for initial loan granting are recorded as deferred revenues under "Deferred revenues and other advances", and are amortized to earnings under "Interest income", using the straight line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

The commissions collected for restructuring or renewal are added to those originally generated according to the terms of the preceding paragraph and are recognized as a deferred credit which is applied to results by using the straight line method during the new credit period.

Commissions recognized after the initial loan grant, those incurred as part of the maintenance of such loans, or those collected on undrawn loans are recognized in earnings when they are incurred.

Commissions collected for credit card annual fees, whether the first or subsequent renewal fees, are recognized as deferred revenues under "Deferred revenues and other advances", and are amortized over a 12 month period against earnings under "Commission and fee income".

The incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against earnings as "Interest expense" during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in earnings as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to earnings over a 12 month period under the respective line item that corresponds to the nature of such cost or expense. On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12 month period are recognized directly in results for the year under the heading "Commissions and fees collected".

Net gain on financial assets and liabilities - This mainly refers to the result from valuation at fair value of securities, credit instruments to be received or delivered in repurchase agreements and derivatives trading transactions, as well as the result from the purchase and sale of securities, financial derivatives and foreign exchange.

Earnings per share - Basic earnings per share is calculated by dividing the net income attributable to controlling interest from continuing operations (excluding extraordinary items) by the weighted average number of shares outstanding in each period, thus giving a retroactive effect to shares issued due to the capitalization of additional paid-in capital or retained earnings.

Information by segments - The Financial Group has identified the operating segments for its different activities by considering each one as a component of its internal structure with specific yield, risks and opportunities. These components are reviewed regularly in order to make decision about allocating monetary resources to the segments and assessing their performance.

Statement of cash flows - The consolidated statement of cash flows presents the Financial Group's capacity to generate cash and cash equivalents, as well as the way in which the Financial Group uses such cash flows to meet its needs. The preparation of the Statement of Cash Flows is under the indirect method, based on the net result of the period, in conformity with that established in Treatment D-4, Statements of Cash Flows, issued by the Commission.

Cash flows, in conjunction with all of the financial statements, provide information which enables the Financial Group to:

- Evaluate changes in the Financial Group's assets and liabilities and in its financial structure.
- Evaluate both the amounts and the dates of collection and payment, in order to adapt to circumstances and opportunities for generation and/or application of cash and cash equivalents.

Memorandum accounts (Note 32) -

Memorandum accounts are used to record assets or commitments which do not form part of the Financial Group's consolidated balance sheets because the respective rights are not acquired or such commitments are not recognized as a liability until such eventualities materialize, respectively.

- *Customer securities received in custody, repurchase agreements on account of customers, securities loans transactions on account of customers and collateral received as surety on account of customers:*

  The operations of "Settlement of customer transactions", "Customer securities received in custody", "Repurchase agreements on account of customers", "Securities loan transactions on account of customers" and "Collateral received as surety on account of customers" were valued based on the price provided by the price supplier.

  Securities in custody and administration are deposited in the company S. D. Indeval, S.A. de C.V. (S.D. Indeval).

- *Credit commitments:*

  The balance represents the amount of letters of credit granted by the Financial Group which are considered as irrevocable commercial loans not utilized by the borrowers, and includes credit lines granted to customers which have not been exercised. The items recorded in this account are subject to classification.

- *Assets in trust under mandate:*

  The value of the assets received in trust is recorded as assets held in trust, and the data related to the management of each one are kept in independent records. The declared value of the assets comprising the subject matter of the agency agreements executed by the Financial Group is recorded as assets held under agency agreement.

- *Assets in custody or under administration:*

  This account is used to record the movement of assets and securities of third parties which are received in custody, or to be administered by the Financial Group.

– *Collateral received by the Financial Group:*

This balance represents the total collateral received in repurchase agreements when the Financial Group acts as the purchasing party, and the collateral received in a securities loan transaction in which the Financial Group acts as the lender and the securities received when the Financial Group acts as the borrower.

– *Collateral received and sold or pledged as guarantee by the Financial Group:*

This balance represents the total collateral received in repurchase agreements in which the Financial Group acts as the purchasing party, which in turn was sold by the Financial Group when it acted as the selling party. Furthermore, the balance representing the obligation of the borrower (or lender) to repay the value subject matter of the securities loan transaction to the lender (or borrower) assumed by the Financial Group, is reported in this heading..

– *Uncollected interest earned on non-performing portfolio:*

The interest accrued is recorded in memorandum accounts once a performing portfolio credits is transferred to non-performing portfolio.

– *Other record accounts:*

This account is used to record the control maturity of the portfolio, control of maturity of liabilities, the classification of the portfolio by degree of risk, inflationary component and control of notional derivatives.

– *Guarantees issued:*

Through the guarantees issued, the Financial Group supports the payment capacity of an obligation in case of default, so until the event occurs the guarantee will materializes. Meanwhile, it represents only a commitment that is recorded in memorandum accounts.

4. *Basis of consolidation*

As of December 31, 2016 and 2015 and, the Financial Group's equity percentage is as follows:

	2016 % Equity percentage	% Equity percentage
Asesoría Especializada Inburnet, S.A. de C.V.	99.9993%	99.9993%
Banco Inbursa, S.A.	99.9997%	99.9997%
Fianzas Guardiana Inbursa, S.A.	99.9999%	99.9999%
Inversora Bursátil, S.A. de C.V., Casa de Bolsa	99.9956%	99.9956%
Pensiones Inbursa S.A.	99.9999%	99.9999%
Operadora Inbursa de Sociedades de Inversión, S.A. de C.V.	99.9985%	99.9985%
Out Sourcing Inburnet, S.A. de C.V.	99.9980%	99.9980%
Seguros Inbursa, S.A.	99.9999%	99.9999%
SAI Inbursa S.A. de C.V. (antes Sawsa Adelante, S. de R.L. de C.V.)	99.9999%	99.9999%
SP Inbursa, S.A. de C.V. (antes Saw Supervisión, S. de R.L. de C.V.)	99.9999%	99.9999%

5. *Net monetary position in foreign currency*

As of December 31, 2016 and 2015, the significant foreign currency position in US dollars (USD), and is comprised as follows:

	2016		2015	
Assets (USD)	USD	13,403,837,346	USD	12,380,960,224
Liabilities (USD)		13,417,820,715		12,610,881,067
Net monetary position (USD)	USD	(13,983,369)	USD	(229,920,844)
Exchange rate (pesos)	$	20.6194	$	17.2487
Total (pesos)	$	(288)	$	(3,966)

As of December 31, 2016 and 2015, the exchange rate was $20.6194 Mexican pesos and $17.2487 Mexican pesos, respectively per US dollar. These exchange rates are set by Banxico for the settlement of foreign currency denominated liabilities. The exchange rate to settle operations at the date of issuance of these consolidated financial statements issuance (February 27, 2017) is $19.8322 Mexican pesos.

In accordance with regulations established by Banxico, the daily net monetary position in foreign currency maintained by the financial institution must be managed such way that it does not exceed 15% of net equity. As of December 31, 2016 and 2015, the Financial Group is in compliance with this regulation.

6. *Funds available*

As of December 31, 2016 and 2015 funds available were as follows:

	2016		2015	
Deposits in Banxico (a)	$	9,033	$	9,250
Foreign currency purchase-sale transactions settled in 24-48 hours (b)		6,933		4,491
Call Money (c)		204		-
Cash		1,995		1,930
Deposits in local and foreign banks		947		1,296
Other		33		33
	$	19,145	$	17,000

a. ***Deposits in Banxico*** - As of December 31, 2016 and 2015, bank deposits were as follows:

	2016		2015	
Special accounts (1)				
Compulsory deposits	$	9,026	$	8,623
TIIE		3		-
Accrued interest		-		619
Current accounts:		-		4
Depósitos en dólares americanos		4		4
	$	9,033	$	9,250

(1) Banxico requires financial institutions to constitute compulsory deposits, which are established according to traditional deposits in local currency. As the term of this compulsory deposit is indefinite, the Central

Bank will timely notify the date and procedure to withdraw the respective balances. Interest accrued on this deposit is based on the Weighted Average Funding Rate.

b. ***Foreign currency purchase-sale transactions (settled in 24-48 hours)*** - This item refers to purchase-sale operations involving foreign currency, which mature over periods not exceeding two business days, and which remain classified as restricted cash until then. For the years ended December 31, 2016 and 2015, foreign currency transactions were as follows:

	2016		
	Purchase (sale) of foreign currency	Exchange rate average value	Mexican pesos (in millions)
Purchase of foreign currency (US dollar)	USD 451,976,403	$ 20.6633	$ 9,339
Sale of foreign currency (US dollar)	(115,742,959)	20.6633	(2,391)
	USD 336,233,444		6,948
Exchange rate at the end of the period (pesos)	$ 20.6194		
Net monetary position (local currency)	$ 6,933		

	2015		
	Entrada (salida) disponibilidades en moneda extrajera	Tipo de cambio promedio pactado	Cuenta liquidadora (acreedora) deudora en moneda nacional
Purchase of foreign currency (US dollar)	USD 409,417,740	$ 17.3300	$ 7,096
Sale of foreign currency (US dollar)	(149,027,503)	17.3188	(2,581)
	USD 260,390,237		4,515
Exchange rate at the end of the period (pesos)	$ 17.2487		
Net monetary position (local currency)	$ 4,491		

As of December 31, 2016 and 2015, debtor and creditor settlement accounts are presented in Other receivables (Note 16) and Payables arising from settlement of transactions, respectively.

c. ***Call Money*** - As of December 31, 2016, balance related to these operation was as follows:

	2016		
	Amount	Interest rate	Maturity (days)
Local banks	$ 204	5.75%	3

As of December 31, 2015, there were not agreed call money operations.

7. Margin accounts

Margin account deposits are necessary for the Financial Group to operate derivative contracts in the derivatives exchange. These are restricted until the operations expire. These deposits are carried out to ensure compliance with financial obligations concerning derivative operations to which the Financial Group is subject to (Note 10).

As of December 31, 2016 and 2015, the margin accounts for futures were as follows:

	2016	2015
Chicago Mercantil Exchange (CME)	$ 3,584	$ 2,610
Mexican Derivatives Market (Mercado Mexicano de Derivados - Mexder)	1,311	113
	$ 4,895	$ 2,723

For the years ended December 31, 2016 and 2015, these deposits generated interest income of $15 and $4, respectively.

8. *Investment in securities*

As of December 31, 2016 and 2015, the investments in marketable securities were as follows:

a. TTrading securities

	2016				2015
	Acquisition cost	Accrued interests	Fair Value Gain (Loss)	Total	Total
Corporate Debt	$ 6,607	$ 164	$ (1,326)	$ 5,445	$ 4,571
Unsecured Bonds	6,583	91	333	7,007	8,245
Stock	8,897	-	11,611	20,508	16,523
Federal Treasury Securities (CETES)	50,001	172	26	50,199	386
Bank promissory note	237	-	-	237	180
CEDES	6,780	3	-	6,783	11,481
Eurobonds	21	-	-	21	19
Euronotes	836	11	101	948	893
PRLV	6,527	1	1	6,529	4,922
Commercial paper	-	-	-	-	8
Fixed rate bond	-	-	-	-	346
Others	9,160	123	18	9,301	8,572
	$ 95,649	$ 565	$ 10,764	$ 106,978	$ 56,146

As of December 31, 2015 and 2014, the maturity period approximately of debt instruments classified as trading securities less than three years were 60.87% and 10.43%, respectively.

The Financial group manages, supervises and monitors the credit quality of investments in securities that are not impaired, through the rating granted by two securities ratings to the issues that form part of the position that has a rating higher than "BBB ".

b. ***Available for sale securities*** - As of December 31, 2016 and 2015, the investments in corporate debt securities, were as follows:

	2016				2015
	Acquisition cost	Accrued interests	Fair Value Gain (Loss)	Total	Total
Unsecured Bonds	$ 6,511	$ 63	$ 1,033	$ 7,607	$ 1,231
Stock	47	-	40	87	78
Other	565	-	(8)	557	-
Eurobonds	1,445	25	(23)	1,447	377
Total of available for sale securities	$ 8,568	$ 88	$ 1,042	$ 9,698	$ 1,686

The Financial group manages, supervises and monitors the credit quality of investments in securities that are not impaired, through the rating granted by two securities ratings to the issues that form part of the position that has a rating higher than "BBB ".

c. ***Securities held to maturity*** – As of As of December 31, 2016 and 2015, the securities held to maturity were as follows:

	2016				
	Acquisition	Accrued interest	Fair Value Gain	Total 2016	Total 2015
Securities certificates	$ 6,446	$ 76	$ 1,239	$ 7,761	$ 14,519
Bank securities certificates	420	6	85	511	495
Depositary receipt	302	11	209	522	2,446
Eurobonds	-	-	-	-	3,070
Euronotes	-	-	-	-	155
Udibonds	797	3	323	1,123	1,151
Obligations	750	18	297	1,065	1,511
Segregable securities certificates udis	1,509	54	1,291	2,854	3,243
Others	1,826	14	271	2,111	2,523
	$ 12,050	$ 182	$ 3,715	$ 15,947	$ 29,113

As of December 31, 2016 and 2015, the Financial Group has no positions in debt securities, other than government securities issued by an issuer that represent more than 5% of net capital Financial Group.

9. *Sale and repurchase agreements*

a. ***Repurchase agreements*** - As of December 31, 2016 and 2015, debtors under repurchase agreements were as follows:

	2016		2015	
	Receivables from repurchase agreements	Creditors in repurchase agreements	Receivables from repurchase agreements	Creditors in repurchase agreements
Negotiated price [1]	$ 38,714	$ 11,101	$ 55,088	$ 19,963
Accrued premium	110	114	26	28
	38,824	11,215	55,114	19,991
Less:				
Collaterals sold or pledged as guarantees [1] [2]	38,515	-	47,732	13,590
	$ 309	$ 11,215	$ 7,382	$ 6,401

(1) As of December 31, 2016 and 2015, the average period for the repurchase agreements is between 3 and 7 days, respectively.

(2) As of December 31, 2016 and 2015, this item relates to repurchase agreements in which the Financial Group acted as purchaser, i.e. received financing, granting as a guarantee the financial instruments that were simultaneously received in guarantee from other sale agreements (in which the acted as Financial Group). The financial instruments were comprised as follows:

	2016	2015
CETES	$ -	$ 2,374
Federal Government Development Bonds (BONDES)	29,157	27,325
IPAB Bonds	-	13,001
Securities certificates	9,358	5,032
	38,515	47,732
Fair value adjustment	$ -	$ (122)
Recognized value	$ 38,515	$ 47,610

b. ***Premiums earned and paid*** - For the year ended December 31, 2015 and 2014, the total amount of premiums earned and paid for sale and repurchase agreements were as follows:

	2016	2015
Premiums earned (purchaser)	$ 1,715	$ 1,790
Premiums paid (seller)	1,789	1,695
	$ (74)	$ 95

c. ***Collateral received by the Financial Group*** - As of December 31, 2015 and 2014, the collateral received by the Financial Group concerning sale and repurchase agreements, were comprised as follows:

	2016	2015
CETES	$ 2,346	$ 2,373
BONDES	35,128	28,747
IPAB bonds	13,536	18,870
Participation bonds	-	85
Unsecured bonds	6,842	5,013
	57,852	55,088
Fair value adjustment	-	(99)
Recognized value	$ 57,852	$ 54,989

10. *Derivatives*

As of December 31, 2016 and 2015, derivative instruments positions were as follows:

	2016			
	Accounting amount		Total net	
	Asset	Liability	Asset	Liability
Derivatives				
Futures	$ 30,730	$ 33,132	$ -	$ 2,402
Forward contracts	106,794	107,910	1,514	2,630
Options	-	808	-	808
Swaps				
Currency swaps	55,561	60,383	299	5,121
Rates – Us dollars	16,296	14,751	2,742	1,197
Rates – Mexican peso	46,815	45,941	3,070	2,196
	$ 256,196	$ 262,925	$ 7,625	$ 14,354
Hedging derivatives				
Swaps:				
Currency swaps	19,864	33,306	-	13,442
Rates – Mexican peso	15,670	12,421	3,249	-
	35,534	45,727	3,249	13,442
	$ 291,730	$ 308,652	$ 10,874	$ 27,796

	2015			
	Accounting amount		Total net	
	Asset	Liability	Asset	Liability
Derivatives				
Futures	$ 28,066	$ 28,996	$ -	$ 930
Forward contracts	95,529	98,378	973	1,822
Options	-	423	-	423
Swaps				
Currency swaps	16,069	20,247	81	4,258
Rates – Us dollars	16,945	17,591	1,750	2,396
Rates – Mexican peso	58,628	57,560	3,918	2,940
	215,237	223,195	6,722	12,769
Hedging derivatives				
Swaps	19,843	27,237	-	7,394
Currency swaps	3,707	3,291	558	142
Rates – Mexican peso	23,550	30,528	558	7,536
	$ 238,787	$ 253,723	$ 7,280	$ 20,305

Delivered			
Heading	Collateral	2016	2015
Accounts receivable (Net)			
Financial Institutions		$ 21,961	$ 19,428

Received			
Heading	Collateral	2016	2015
Sundry creditors and other payables			
Financial Institutions		$ 2,264	$ -

For “Over the Counter” (OTC) operations with financial derivative instruments on unknown markets, the Financial Group arranges the delivery and/or reception of the collateral guarantees in order to mitigate credit and market risk exposure. These collaterals are arranged by contract with each of the counterparties with which the Financial Group operates.

Currently, the collaterals assigned to operations with Mexican and foreign financial entities are comprised principally of cash deposits.

Management of derivative financial instrument usage policies

The policies of the Financial Group 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 are:

- Forwards
- Futures
- Trading and hedging swaps
  - Currency swaps
  - Rates swaps

- Options
  - Mexican peso, currency and udis
  - Nominal interest, real or surcharges rates and debt securities

Additionally, the Financial Group is authorized to operate in Credit Derivatives OTC credit default (Credit Default Swap), Total Return (Total Return Swap) and Securities Credit Linkage (Credit Link Note).

According to the portfolios, implemented strategies can be of a hedge or trading nature.

Trading markets:

Listed
Over the Counter (OTC

Trading markets are listed and OTC, in which eligible counterparties may be domestic and foreign with internal authorizations.

The designation of calculation agents is determined in the legal documentation signed with counterparties. The prices published by authorized Price Suppliers are used to value derivative financial instruments.

The main terms or conditions of the contracts are based on the International Swap Dealers Association (ISDA) or a local outline agreement.

The specific policies on margins, collateral and lines of credit are detailed in the internal manuals of the Financial Group.

Authorization levels and processes

Pursuant to internal regulations, all products or services sold by the Financial Group are approved by the authorized areas in accordance with the approved Development of New Products procedure.

All of the areas involved in the operation of the product or service, depending on their nature, as well as those responsible for their accounting, legal documentation, tax treatment, risk assessment participate in the Committee. The authorizations of the Committees must be unanimous as there are no authorizations granted by a majority of members. In addition to the Committees' approval, certain products require the authorization of local authorities; therefore, the approvals of the Committees are conditional upon the authorization required by competent authorities, as applicable.

Finally, all politics and procedures of new products are presented to the Internal Audit Committee and in other cases to the Board of Directors

Independent reviews

The Financial Group is subject to the supervision and oversight of the Commission and Banxico, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports.

Likewise, periodic reviews are performed by Internal Auditors.

Generic description of valuation techniques

Derivative financial instruments are valued at their fair value according to the accounting standards detailed in the Sole Circular for Credit Institutions issued by the Commission through Criterion B-5, Derivative financial Instruments and Hedge Transactions.

Valuation methodology

1. For hedging purposes:

   The Financial Group suspends hedge accounting when the derivative has matured, has been sold, cancelled or exercised, when it does not reach a sufficiently high effectiveness level to offset the changes in the fair value or cash flows of the hedged item, or when the hedging designation is cancelled.

   It must be shown that the hedge effectively complies with the objective for which the derivatives were contracted. This effectiveness requirement assumes that the hedge must comply with a maximum deviation range of 80% to 125% in regard to the initial objective.

   The effectiveness of the hedges must be proven by applying two tests:

   a. Prospective test: Shows that in the future the hedge will remain within the maximum range.

   b. Retrospective test: reviews whether the hedge has remained within the maximum range from its establishment to date.

   At December 31, 2016 and 2015, fair value and cash flow hedges are prospectively and retrospectively efficient and are located within the maximum permitted departure range.

2. Reference variables

   The most relevant reference variables are:
   - Exchange rates
   - Interest rates

3. Valuation frequency

   The frequency with which the derivatives are valued is in accordance with the Provisions established by the Commission.

As of December 31, 2016 and 2015, the number of matured derivative financial instruments and closed positions was as follows (unaudited):

Description		2016 Early Maturity	2016 Closing Positions
Forwards	Purchase	31	168
	Sell	83	178
		114	346
Swaps		76	28
Future	Purchase	123	5
	Sell	122	-
		245	5
		435	379

Description		2015 Early Maturity	2015 Closing Positions
Forwards	Purchase	21	154
	Sell	21	137
		42	291
Swaps		61	48
Future	Purchase	165	15
	Sell	101	8
		266	23
		369	362

As of December 31, 2016 and 2015 there are no impairments in the value of financial derivative instruments arising from credit risk.

a. ***Futures*** - As of December 31, 2015 and 2014, net amount of contracts of futures operations contracted with CME and MexDer were as follows:

	2016 Amount of contracts			2015 Amount of contracts		
	CME	MexDer	Expiration	CME	MexDer	Expiration
Purchase	47,690	-	March 17	52,919	-	March 16
Sale	-	37,800	March 17	-	9,800	March 16

As of December 31, 2016, the net position for futures contracted with CME and MexDer are referred to notional values of $25,243 and $7,144, respectively. As of December 31, 2015 the position with CME and MexDer are referred to a notional values of $27,300 and $1,687, respectively.

b. ***Forwards*** - As of December 31, 2016 and 2015, forwards operations, were as follows:

		2016		
Due date	Total US dollars	Settled price	Fair value	Fair value Gain (loss)
Compra				
Ene 2017	130,000,000	$ 2,656	$ 2,687	$ 31
Feb 2017	85,000,000	1,747	1,764	17
Mar 2017	1,998,226,804	44,001	43,098	(903)
Abr 2017	2,000,000	39	42	3
Ago 2017	7,000,000	133	149	16
Oct 2017	5,000,000	88	107	19
Dic 2017	2,000,000	40	43	3
Ago 2018	40,000,000	785	891	106
	2,269,226,804	$ 49,489	$ 48,781	$ (708)

		2016		
Due date	Total US dollars	Settled price	Fair value	Fair value Gain (loss)
Venta				
Mar 2017	2,604,507,111	$ 69,677	$ 69,206	$ (471)
Mar 2017	2,000,000	42	43	1
Jun 2017	8,843,602	397	396	(1)
Jul 2017	58,838,863	2,700	2,756	56
Ago 2017	7,000,000	150	151	1
Dic 2017	2,000,000	44	44	-
Ago 2018	40,000,000	910	915	5
	2,723,189,576	$ 73,920	$ 73,511	$ (409)
			Neto	$ (1,117)

		2015		
Due date	Total US dollars	Settled price	Fair value	Fair value Gain (loss)
Compra				
Ene 2016	197,000,000	$ 3,322	$ 3,401	$ 79
Feb 2016	191,000,000	3,163	3,305	142
Mar 2016	1,840,974,241	33,839	33,904	65
Abr 2016	176,000,000	3,020	3,059	39
Jun 2016	7,200,000	121	126	5
Oct 2016	2,000,000	34	35	1
Dic 2016	60,000,000	1,207	1,067	(140)
Oct 2016	5,000,000	88	90	2
	2,479,174,241	$ 44,794	$ 44,987	$ 193

		2015		
Due date	Total US dollars	Settled price	Fair value	Fair value Gain (loss)
Venta				
Ene 2016	600,000	$ 10	$ 10	$ -
Feb 2016	1,600,000	26	25	(1)
Mar 2016	2,709,574,241	47,951	46,941	(1,010)
Abr 2016	600,000	10	10	-
May 2016	600,000	10	10	-
Jun 2016	600,000	10	10	-
Jul 2016	20,011,224	408	408	-
Ago 2016	600,000	10	10	-
Sept 2016	600,000	10	10	-
Oct 2016	2,600,000	44	42	(2)
Nov 2016	33,718,675	678	663	(15)
Dic 2016	60,600,000	1,218	1,358	140
	2,831,704,140	$ 50,385	$ 49,497	(888)
			Net	$ (695)

c. *Swaps* - As of December 31, 2016 and 2015, the position in swaps were as follows:

	2016			
	Reference amount	**Present value of future cash flows to be received**	**Present value of future cash flows to be delivered**	**Net valuation**
Trading				
Foreign currency swaps				
Mexican peso-US dolar				
2017	$ 1,765	$ 1,767	$ 2,515	$ (748)
2018	10,975	10,999	12,448	(1,449)
2019	12,761	12,788	13,483	(695)
2020	2,677	2,683	3,117	(434)
2021	2,277	2,283	2,292	(9)
2022	1,665	1,927	2,117	(190)
2023	4,593	5,318	5,851	(533)
2024	2,441	2,447	2,478	(31)
2025	2,848	2,854	2,885	(31)
2027	916	1,110	2,107	(997)
	42,918	44,176	49,293	(5,117)

	2016			
	Reference amount	**Present value of future cash flows to be received**	**Present value of future cash flows to be delivered**	**Net valuation**
Trading				
Foreign currency swaps				
Mexican peso-US dolar				
2023	8,610	11,385	11,090	295
	$ 51,528	$ 55,561	$ 60,383	$ (4,822)
Interest rate swaps				
US dolar				
2017	$ 451	$ 1	$ 6	$ (5)
2026	2,837	2,892	2,879	13
2027	8,207	866	624	242
2039	4,124	2,099	2,088	11
2041	10,516	5,994	5,884	110
2046	7,011	3,767	2,812	955
	33,146	15,619	14,293	1,326
Euros				
2046	2,175	677	457	220
2047	653	-	-	-
2049	3,045	-	-	-
	5,873	677	457	220
Mexican peso				
2017	$ 6,400	$ 336	$ 281	$ 55
2018	400	47	47	-
2020	4,043	968	890	78
2021	45,334	11,413	11,174	239
2022	7,313	2,264	2,235	29
2023	1,400	530	528	2
2024	3,050	1,337	1,237	100
2026	1,892	763	755	8
2027	4,300	2,488	2,474	14
2028	1,600	984	981	3
2029	4,600	2,779	2,765	14
2033	11,910	7,195	7,046	149
2034	8,400	6,061	6,029	32
2040	11,498	9,650	9,501	149
	112,140	46,815	45,943	872
	$ 202,687	$ 118,672	$ 121,076	$ (2,404)

	2016							
	Reference amount		Present value of future cash flows to be received		Present value of future cash flows to be delivered		Net valuation	
Cash flow hedge								
Foreign exchange swap								
Mexican peso – US dollar								
	$	1,217	$	1,220	$	2,063	$	(843)
2022		3,260		3,265		5,319		(2,054)
2023		9,247		9,272		15,447		(6,175)
2025		1,251		1,253		2,123		(870)
2028		1,693		1,696		2,904		(1,208)
2033		3,150		3,158		5,450		(2,292)
		19,818		19,864		33,306		(13,442)
Mexican peso								
2017		6,300		172		132		40
2018		11,400		1,355		1,040		315
2019		14,100		2,409		1,880		529
2020		3,700		862		623		239
2021		1,500		427		293		134
2023		1,300		532		476		56
2024		500		223		153		70
2025		200		100		93		7
2026		500		265		185		80
2028		1,300		591		476		115
2029		8,096		4,665		3,765		900
2030		800		532		390		142
2033		1,000		757		551		206
2034		3,000		2,279		1,900		379
		53,696		15,169		11,957		3,212
	$	73,514	$	35,033	$	45,263	$	(10,230)

	2015							
	Reference amount		Present value of future cash flows to be received		Present value of future cash flows to be delivered		Net valuation	
Trading								
Foreign currency swaps								
Mexican peso – US dollar								
2016	$	8,149	$	8,178	$	9,732	$	(1,554)
2017		715		716		928		(212)
2018		1,299		1,302		1,773		(471)
2019		3,278		3,279		4,354		(1,075)
2020		619		619		862		(243)
2022		207		259		348		(89)
2027		916		1,139		1,753		(614)
		15,183		15,492		19,750		(4,258)
US dollar – Mexican peso								
2025		437		577		497		80
		15,620		16,069		20,247		(4,178)

	2015			
	Reference amount	Present value of future cash flows to be received	Present value of future cash flows to be delivered	Net valuation
Interest rate swaps				
US dollar				
	394	2	14	(12)
2017	410	4	27	(23)
2026	2,233	2,275	2,263	12
2027	7,507	798	623	175
2039	3,450	1,826	1,817	9
2040	5,347	2,992	2,977	15
2041	8,797	5,197	5,102	95
2043	562	208	351	(143)
2044	7,177	3,644	4,417	(773)
	35,877	16,946	17,591	(645)

	Reference amount	Present value of future cash flows to be received	Present value of future cash flows to be delivered	Net valuation
Mexican peso				
2017	300	161	203	(42)
2018	5,400	693	676	17
2020	4,105	971	1,141	(170)
2021	46,792	12,972	12,231	741
2022	7,360	2,445	2,408	37
2023	2,700	1,059	1,124	(65)
2024	3,050	1,311	1,421	(110)
2025	200	95	109	(14)
2026	1,951	819	810	9
2027	4,300	2,639	2,587	52
2028	2,900	1,592	1,597	(5)
2029	12,696	7,322	7,242	80
2030	800	508	448	60
2033	11,975	7,589	7,416	173
2034	11,400	8,498	8,450	48
2040	11,498	9,954	9,787	167
	127,427	58,628	57,650	978
	$ 178,924	$ 91,643	$ 95,488	$ (3,845)

	Reference amount	Present value of future cash flows to be received	Present value of future cash flows to be delivered	Net valuation
Cash flow hedge				
Foreign exchange swap				
Mexican peso				
	1,217	1,218	1,711	(493)
2022	3,260	3,264	4,402	(1,138)
2023	9,247	9,260	12,683	(3,423)
2025	1,251	1,252	1,733	(481)
2028	1,693	1,695	2,346	(651)
2033	3,150	3,154	4,362	(1,208)
	19,818	19,843	27,237	(7,394)

	2015			
	Reference amount	Present value of future cash flows to be received	Present value of future cash flows to be delivered	Net valuation
Mexican peso				
2016	9,650	191	230	(39)
2017	6,300	371	437	(66)
2018	2,700	624	296	328
2020	1,500	318	297	21
2021	1,500	401	369	32
2024	500	208	181	27
2026	500	251	215	36
2033	1,000	725	630	95
	23,650	3,089	2,655	434
	43,468	22,932	29,892	(6,960)
	$ 222,392	$ 114,575	$ 125,380	$ (10,805)

Impairment of financial derivatives -

As of December 31, 2016 and 2015, there is no evidence of impairment in credit risk (counterparty) that required change the book value of financial assets from rights under derivative financial instruments.

Operations with financial derivative instruments imply liquidity, market, credit and legal risks. In order to reduce risk exposure, the Financial Group has established specific risk management policies and procedures (Note 41).

Operations with derivative financial instruments for hedge accounts -

As of December 31, 2016 and 2015 the Financial Group holds swaps (Interest Rate and Cross Currency) to cover the financial margin with cash flow and fair value hedges during the period of these hedges.

As of December 31, 2016, fair value hedges were entered into with notional amounts of $500, further, as of December 31, 2015, there is not swaps classified in this category. The primary positions which are covered are commercial credit loans.

As of December 31, 2016, derivative positions for fair value hedges were as follows:

Nominal value (in millions)	Nominal value (in millions)		Element and hedged risk
Swap IRS	500	US dollar	Commercial loans – Interest rate risk

Cash flow hedges

During 2016, the Financial Group assigned cash flow hedges objectives so as to cover foreign exchange rate risk and the interest rate risk on commercial loans and debt issuances. As of December 31 2016, the cash flows hedges are as follows:

Nominal value (in millions)	Nominal value (in millions)		Element and hedged risk
Swap CCS	19,818	US dollars	Commercial loans - Foreign Exchange rate risk
Swap IRS	21,096	Mexican pesos	Unsecured bonds - Interest rate risk
Swap IRS	2,800	Mexican pesos	Commercial loans - Interest rate risk

Durante el ejercicio de 2015, el Grupo Financiero designó coberturas de flujo de efectivo sobre cartera de crédito comercial y emisión de deuda de la siguiente forma:

Nominal value (in millions)	Nominal value (in millions)		Element and hedged risk
Swap CCS	19,818	US dollars	Commercial loans - Foreign Exchange rate risk
Swap IRS	19,600	Mexican pesos	Unsecured bonds - Interest rate risk
Swap IRS	4,050	Mexican pesos	Commercial loans - Interest rate risk

The recycling effect generated by the anticipated maturity of cash flow swaps for each year amounts to $259 charged to stockholders' equity, of which, during 2016 and 2015, $32 (for each year) was charged to the income for the year, The remaining $184 remaining amount will be recycled over an average term of 12 years.

During November 2015, Financial Group designated certain swaps as cash flow hedging instruments in order to cover the risk of exchange rate and interest rate in Mexican pesos.

The effective portion of the cash flow hedges recognized in stockholders' equity as part of the comprehensive income is adjusted to the lesser absolute value between the accumulated gain or loss on the hedging derivative and the accumulated change in the fair value of the cash flows of the hedged item. At December 31, 2016, $27 was recognized in income for the year corresponding to the ineffective portion of cash flow hedges in accordance with the criteria established by the Commission.

The effective portion of cash flow hedges, which is recognized within equity as part of other comprehensive income was as follows:

	2016		2015	
Initial balance		$ (619)		$ (305)
Swaps CCS valuation	(702)		(376)	
Swaps IRS MXP valuation	1,280		(144)	
Amount due of recycling	32		32	
Total	610		(488)	
Exchange rate effect	-		-	
Net value before Income Tax (ISR)	610		(488)	
Amount reclassified from equity to income in the period	4		(5)	
Taxes	(382)		179	
Total amount recognized as other comprehensive income within equity account during the period (net of deferred taxes)		$ 232		$ (314)
Ending balance		$ (387)		$ (619)

(1) The movement of recycling by breaking the cash flow hedges is integrated as follows:

	2016	2015
Amount pending recycling	$ (216)	$ (248)
Amount recycled in the period	32	32
Total pending recycling	$ (184)	$ (184)

Formal hedge documentation -

Once cash flow and fair value hedges are structured, the Financial Group prepares an individual file for each containing the following documentation:

– The strategy and objective of the Financial Group's risk management, as well as the justification to carry out the hedging operation.

– The specific risk or risks to be hedged

– Hedge structure identifying the derivative financial instruments contracted for hedging purposes and the item generating the hedged risk.

– Definition of the elements composing the hedge, its objective and a reference to the effectiveness valuation method.

– Contracts for the hedged item and hedging instrument, as well as confirmation from the counterparty.

– Periodic hedge effectiveness tests at the prospective level regarding its estimated future evolution and at the retrospective level, concerning its past behavior. These tests are applied at least at the end of each quarter, according to the valuation method defined when creating the hedge files.

11. *Valuation adjustment from hedging of financial assets*

The Financial Group determines the valuation adjustment from the hedging of financial assets by individual and portfolio loans from fair value hedges for interest rate risks.

According to the inherent risk of the loans, the portfolio is classified into three groups: National currency portfolio with fixed interest rate, foreign currency portfolio with fixed interest rate (in US dollars) and foreign currency loan portfolio with variable interest rate. For each of these groups, loans which are required to be hedge are identified. Consumer loans, mortgage loans and commercial loans are included within these groups.

As of December 2016, the valuation effect regarding the hedged risk by type of loan was $500, which is detailed as follows:

	2016			
	Valuation adjustment balance as of Dec 31, 2015	Result from valuation	Valuation adjustment amortization (1)	Valuation adjustment balances as of Dec 31, 2016
Loan portfolio with fixed interest rate - Mexican pesos	$ 537	$ -	$ (26)	$ 511
Loan portfolio with fixed interest rate - US dollars	627	-	(133)	494
Loan portfolio with variable interest rate - US dollars	(61)	-	14	(47)
Automatically hedged	223	-	-	223
Ineffective loan portfolio	(398)	-	(136)	(534)
	$ 928	$ -	$ (281)	$ 647

	2015			
	Valuation adjustment balance as of Dec 31, 2014	Result from valuation	Valuation adjustment amortization (1)	Valuation adjustment balances as of Dec 31, 2015
Loan portfolio with fixed interest rate - Mexican pesos	$ 572	$ -	$ (35)	$ 537
Loan portfolio with fixed interest rate - US dollars	668	106	(147)	627
Loan portfolio with variable interest rate - US dollars	(95)	-	34	(61)
Automatically hedged	223	-	-	223
Ineffective loan portfolio	(302)	-	(96)	(398)
	$ 1,066	$ 106	$ (244)	$ 928

For those cases in which the fair value hedge on primary position is revocated, the valuation effect regarding the hedged risk is amortized over the remaining period of the loan. As of December 31, 2016, 2015 and 2014, changes in the fair value of derivatives were recognized as financial margin within the income statements, and are comprised as follows (Note 28a):

	2016	2015
Results from changes in value of hedging instruments (Note 34a)	$ (8)	$ (118)
Result from valuation on hedged positions (Note 34a)	-	106
Amortization from valuation of primary position hedge	(281)	(243)
	$ (289)	$ 256

As of December 31, 2016 and 2015, effectiveness tests on the Financial Group hedges were within the range of 80% and 125%, required by the accounting standards of Commission.

12. *Loan portfolio*

a. *Detail of performing and non-performing loan portfolio by type of loan*

As of December 31, 2016 and 2015, the loan portfolio was as follows:

	2016					
	Performing loan portfolio			Non-performing loan portfolio		
Concept	Capital	Interest	Total	Capital	Interest	Total
Consumer	$ 44,265	$ 564564	$ 44,8294,829	$ 3,427	$ 89	$ 3,516
Discounted loans	365	-	365	213	-	213
Unsecured loans	18,811	421	19,232	28	-	28
Secured loans	332	2	334	-	-	-
Simple and current accounts	177,172	1,358	178,530	1,870	33	1,903
Mortgage loan	6,502	32	6,534	346	7	353
Leasing	553	-	553	28	-	28
Restructured (Note 11f)	24,868	82	24,950	1,734	31	1,765
Re-discount	177	-	177	-	-	-
	$ 273,045	$ 2,459	$ 275,504	$ 7,646	$ 160	$ 7,806

	2015					
	Performing loan portfolio			Non-performing loan portfolio		
Concept	Capital	Interest	Total	Capital	Interest	Total
Consumer	$ 38,724	$ 392	$ 39,116	$ 1,911	$ 79	$ 1,990
Discounted loans	422	-	422	210	-	210
Unsecured loans	13,710	33	13,743	83	-	83
Prendarios	696	1	697	-	-	-
Simple and current accounts	142,789	678	143,467	1,755	31	1,786
Mortgage loan	3,980	18	3,998	189	4	193
Leasing	948	-	948	27	-	27
Restructured (Note 11f)	27,655	43	27,698	2,911	56	2,967
Re-discount	133	-	133	-	-	-
	$ 229,057	$ 1,165	$ 230,222	$ 7,086	$ 170	$ 7,256

b. Loan portfolio classified by currency

As of December 31, 2016 and 2015, the loan portfolio classified by currency were as follows:

	2016			
Concept	**Mexican peso**	**Foreign currency**	**UDIs**	**Total**
Performing loan portfolio:				
Consumer	$ 44,829	$ -	$ -	$ 44,829
Discounted loans	365	-	-	365
Unsecured loans	7,392	11,840	-	19,232
Collateral credit	334	-	-	334
Simple and current accounts	91,173	87,357	-	178,530
Mortgage loan	6,533	-	1	6,534
Leasing	97	456	-	553
Restructured (Note 12f)	13,921	11,029	-	24,950
Re-discount	103	74	-	177
	164,747	110,756	1	275,504

	2016			
Concept	**Mexican peso**	**Foreign currency**	**UDIs**	**Total**
Non-performing loan portfolio:				
Consumer	3,516	-	-	3,516
Discounted loans	211	2	-	213
Unsecured loans	29	-	-	29
Simple and current accounts	1,791	112	-	1,903
Mortgage loan	352	-	-	352
Leasing	28	-	-	28
Restructured (Note 12f)	676	1,088	1	1,765
	6,603	1,202	1	7,806
	$ 171,350	$ 111,958	$ 2	$ 283,310

	2015			
Concept	**Mexican peso**	**Foreign currency**	**UDIs**	**Total**
Performing loan portfolio:				
Consumer	$ 39,116	$ -	$ -	$ 39,116
Discounted loans	422	-		422
Unsecured loans	12,725	1,018	-	13,743
Collateral credit	690	7	-	697
Simple and current accounts	88,331	55,137	-	143,468
Mortgage loan	3,997	-	1	3,998
Leasing	174	774	-	948
Restructured (Note 12f)	16,659	11,038	-	27,697
Re-discount	119	14	-	133
	162,233	67,988	1	230,222
Non-performing loan portfolio:				
Consumer	1,990	-	-	1,990
Discounted loans	209	1	-	210
Unsecured loans	83	-	-	83
Simple and current accounts	1,769	17	-	1,786
Mortgage loan	193	-	-	193
Leasing	27	-	-	27
Restructured (Note 12f)	2,064	902	1	2,967
	6,335	920	1	7,256
	$ 168,568	$ 68,908	$ 2	$ 237,478

Loans granted to financing institutions

As of December 31, 2016 and 2015, loans granted to financing institutions by currency are comprised as follows:

Concept	2016 Mexican peso	2016 Foreign currency	2016 Total
Non-performing loan portfolio:			
To non-bank financial institutions	$ 5,148	$ 6,223	$ 11,371

Concept	2015 Mexican peso	2015 Foreign currency	2015 Total
Performing loan portfolio:			
To non-bank financial institutions	$ 3,522	$ 5,242	$ 8,764

Loans granted to governmental institutions

As of December 31, 2016 and 2015, loans granted to governmental institutions by currency, were as follows:

Concept	2016 Mexican peso	2016 Foreign currency	2016 Total
Performing loan portfolio:			
To decentralized entities	-	11,268	11,268
To State Governments and Municipalities or with its guarantee	12,412	-	12,412
	$ 12,412	$ 11,268	$ 23,680

As of December 31, 2015 the financial group had not granted loans to received guarantees from the Federal Government.

Concept	2015 Mexican peso	2015 Foreign currency	2015 Total
Performing loan portfolio:			
To State Governments and Municipalities or with its guarantee	$ 14,340	$ -	$ 14,340

As of December 31, 2016 and 2015, there were no non-performing loans balances from governmental institutions.

c. ***Limits for operations*** - The Commission and the Mexican Banking Law (Ley de Instituciones de Crédito "LIC") establish limits which financial credit institutions must take into consideration when granting loans. The main limits are described below:

- **Financing of common risk**

Loans granted to the same person or group of people, which are considered to be issued to one borrower due to common risk, must adhere to the following maximum limits established:

Limit as a percentage of the basic capital	Capitalization level of the financing
12%	More than 8% and up to 9%
15%	More than 9% and up to 10%
25%	More than 10% and up to 12%
30%	More than 12 and up to 15%
40%	More than 15%

Loans granted with unconditional and irrevocable guarantee to institutions or financial foreign entities that are rated in the lowest risk classification may exceed the maximum limit established for that type of entity. However it cannot represent more than 100% of the financial group's basic capital. As of December 2016 and 2015, the financial group's loan portfolio was within the described limits.

- **Loans granted to related parties**

The LIC establishes limits for loans granted to related parties. As per regulations, the total sum of loans with unconditional and irrevocable guarantees granted to related parties cannot exceed the 50% of the basic net capital. As of December 31, 2016 and 2015, the loan portfolio granted to relate parties do not exceed this limit (Note 40).

Related parties	2016	2015
Minera Frisco	$ 4,692	$ 3,799
Grupo IDESA	2,579	758
Cementos Portland Valderrivas	1,752	-
Etileno XXI	915	1,399
Galas de México	696	591
Janel	603	551
Artes Gráficas Unidas	522	492
Caixia de Estalvis i Pensions de Barcelona la Caixia	450	406
Grupo Convertidor Industrial	449	419
Persona física relacionada	302	300
Parque Acuático Nuevo Veracruz	150	41
Grupo Piscimex	63	72
Giant Motors Latinoamerica	63	65
Productos Dorel	56	69
CIII	54	34
Aspel de México	40	51
Sears Operadora México	32	43
Bicicletas de México	25	12
Grupo Sanborns	25	21
Tabasco Oil Company	11	14
Grupo Sedas Cataluna	10	10

Partes relacionadas	2016	2015
Selmec Equipos Industriales	6	5
Operadora Cicsa	4	3
CE G Sanborns Monterrey	2	-
Sociedad Financiera Inbursa	1	1
Autopista Arco Norte	-	3,280
Promotora del Desarrollo de America Latina	-	2,203
Fundación Telmex	-	21
Carso Oil and Gas	-	17
Laboratorio Medico Polanco	-	6
Total	13,502	14,683
Basic capital (Sep 2016 and 2015)	61,844	61,369
Basic capital to 40%	24,737	30,684
Surplus	11,235	16,001

- **Other financing limits**

The sum of loans granted to the Financial Groups three largest borrowers, loans granted exclusively to other banks and loans taken out by government agencies and state-owned entities, including public trust funds, may not exceed 100% of the financial group's net capital.

As of December 31, 2016 and 2015, the maximum balance of loans granted to the three major clients were $23,236 and $21,099, this represented 37.57% and 34.38% of the Financial Groups basic capital, calculated at the end of 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the financial group had granted financing 9 and 5, respectively, that exceed 10% of the basic capital. As of December 31, 2016, this funding amounted was $85,307 and represented 13.8% of basic capital, while at the end of 2015 was $41,530, represented by 67.67% of basic capital.

As of December 31, 2016 and 2015, loans granted to multiple purpose financing entities were $0 and $406, respectively. As of December 31, 2016 exists one loan of $11,268 granted to governmental institutions, the financial group did not have loans granted to governmental institutions during 2015.

d. *Risk concentration analysis*

- **Portfolio by economic sector**

As of December 31, 2016 and 2015, the percentages of concentration by economic sector were as follows:

	2016		2015	
	Amount	Percentage of concentration	Amount	Percentage of concentration
Private (business and personal)	$ 193,014	69%	$ 169,059	71%
Finance	11,371	4%	8,764	4%
Consumer	48,346	17%	41,107	17%
Mortgage	6,899	2%	4,208	2%
Credits to governmental institutions	23,680	8%	14,340	6%
	$ 283,310	100%	$ 237,478	100%

- **Portfolio by region**

As of December 31, 2016 and 2015, the percentages of concentration by region were as follows:

Area	2016 Amount	2016 Percentage of concentration	2015 Amount	2015 Percentage of concentration
Center	$ 171,497	61%	$ 156,480	66%
North	49,705	18%	36,085	15%
South	12,542	4%	13,616	6%
Foreign countries	49,566	17%	31,297	13%
	$ 283,310	100%	$ 237,478	100%

The financial group's main policies in determining the percentages of concentration are described in detail in Note 40.

e. ***Distressed portfolio analysis*** - Distressed loans include loans that carry risk ratings of D and E. As of December 31, 2016 and 2015, the distressed portfolio were as follows:

	2016					
	Performing loan portfolio			Non-performing loan portfolio		
	Principal	Interest	Total	Principal	Interest	Total
Leasing	$ 1	$ -	$ 1	$ 28	$ -	$ 28
Simple loans	507	9	516	1,870	33	1,903
Restructured loans	28		28	1,726	31	1,757
Consumer loans	3,204	100	3,304	3,383	89	3,472
Mortgage loans	128	2	130	293	6	299
Descounted loans	-	-	-	210	-	210
Unsecured loans	-	-	-	28	-	28
	$ 3,868	$ 111	$ 3,979	$ 7,538	$ 159	$ 7,697

	2015					
	Performing loan portfolio			Non-performing loan portfolio		
	Capital	Interest	Total	Capital	Interest	Total
Leasing	$ 1	$ -	$ 1	$ 27	$ -	$ 27
Simple loans	582	8	590	1,755	31	1,786
Restructured loans	540	3	543	2,910	56	2,966
Consumer loans	2,733	67	2,800	1,787	83	1,870
Mortgage loans	54	1	55	138	3	141
Descounted loans	-	-	-	210	-	210
Unsecured loans	155	1	156	83	-	83
	$ 4,065	$ 80	$ 4,145	$ 6,910	$ 173	$ 7,083

In Note 40, the principal policies for classifying a loan as distressed are described in detail.

f. Restructured loan portfolioa

- Balances

As of December 31, 2016 and 2015, restructured loan portfolio balances were as follows:

Concept	2016					
	Performing loans			Non-performing loans		
	Principal	Interest	Total	Principal	Interest	Total
Simple credits with mortgage guarantee	$ 6,049	$ 11	$ 6,060	$ 1,415	$ 1	$ 1,416
Simple credits with pledged guarantee	2,184	8	2,192	182	-	182
Simple credits with endorsement	435	1	436	103	4	107
Simple credits with other guarantees	11,699	52	11,751	-	26	26
Simple credits with no real guarantees	4,377	10	4,387	8	-	8
Unsecured loans	-	-	-	18	-	18
Consumer	-	-	-	1	-	1
Consumer	124	-	124	7	-	7
	$ 24,868	$ 82	$ 24,950	$ 1,734	$ 31	$ 1,765

Concept	2015					
	Performing loans			Non-performing loans		
	Principal	Interest	Total	Principal	Interest	Total
Simple credits with mortgage guarantee	$ 7,475	$ 15	$ 7,490	$ 552	$ 3	$ 555
Simple credits with pledged guarantee	2,048	6	2,054	1,424	31	1,455
Simple credits with endorsement	2,707	9	2,716	89	-	89
Simple credits with other guarantees	10,484	11	10,495	825	22	847
Simple credits with no real guarantees	4,447	2	4,449	12	-	12
Unsecured loans	340	-	340	-	-	-
Consumer	144	-	144	-	-	-
Consumer	-	-	-	1	-	1
Vivienda	10	-	10	8	-	8
	$ 27,655	$ 43	$ 27,698	$ 2,911	$ 56	$ 2,967

Additional guarantees for restructured loans

As of December 31, 2016 and 2015, additional guarantees received for restructured loans were as follows:

2016		
Type of credit	**Balance**	**Nature guarantee**
Loans granted in national currency		
Simple with mortgage guarantee	$ 10,127	Pledged, mortgage
Simple with other guarantees	19,341	Pledged, mortgage
Simple with pledged guarantee	4,526	Pledged, mortgage
Simple with no real guarantees	4,452	Mortgage
Simple with endorsement	46	Mortgage
Mortgage	199	Mortgage
	$ 38,691	

Type of credit	2015 Balance		Nature guarantee
Loans granted in national currency:			
Simple with mortgage guarantee	$	15,829	Pledged, mortgage and insurance
Simple with other guarantees		6,289	Pledged, mortgage
Unsecured loans		2,987	Endorsement
Simple with pledged guarantee		2,188	Pledged and cash
Simple with no real guarantees		4,452	Mortgage
Simple with endorsement		195	Mortgage
Mortgage		2	Mortgage
Consumer		1	Pledged
	$	31,943	

g. ***Non-performing loan portfolio***

- **Aging**

As of December 31, 2016 and 2015, the aging of non-performing loan portfolio were as follows:

		2016		2015
From 1 to 180 days	$	4,372	$	1,783
From 181 to 365 days		1,189		1,129
More than one year		2,245		4,344
	$	7,806	$	7,256

As of December 31, 2016 and 2015, the analysis above included balances from non-performing loan portfolio regarding consumer loans and mortgage loans of $915 and $690 in 2016 and $160 and $126 in 2015, respectively. The aging analysis of the non-performing loan portfolio is not presented separately as management deems such amounts to be immaterial.

- **Transfers**

For the years ended December 31, 2016 and 2015, transfers to non-performing portfolio were as follows:

		2016		2015
Opening balance	$	7,256	$	7,430
Addition (subtraction):				
Net transfers from performing portfolio to non-performing portfolio and viceversa (1)		5,716		3,171
Foreclosures		(82)		(218)
Impairments		(5,084)		(3,127)
Ending balance	$	7,806	$	7,256

(1) For the years ended December 31, 2016 and 2015, the financial group carried out, based on the policy described in Note 3, transfers of current loans of $47,182 and $46,633, respectively, for those same years, transfers from non-performing loan to performing portfolio were $43,284 and $55,465, respectively.

13. *Allowance for loan losses*

On December 16, 2015, the Commission issued a Ruling which modifies the General Provisions Applicable to Credit Institutions, whereby it made certain adjustments to the general methodology for the classification of the consumer credit portfolio related to credit card operations and other revolving credit, with the aim of more accurately calculating the reserves that credit institutions have to create, taking into account the possible risks related to the payment behavior and level of indebtedness of its borrowers, which is in line with the expected loss model used as the basis of the methodology for the classification of credit portfolio.

Such Provisions went into effect on April 1, 2016, and for purposes of establishing the reserves based on the new methodology, the financial groups had to recognize in stockholders' equity, as part of the result from previous years, the initial cumulative financial effect derived from applying the new methodology for the first time. The initial cumulative financial effect will be the difference between the reserves to be established using the methodology as of April 1, 2016, less the reserves that would be generated under the methodology in effect as of March 31, 2016. If such difference exceeds the balance of the results from previous years, the effect would be carried to the result for the year. Furthermore, if the difference resulted in a release of reserves, the effect would be recognized in results for the year. The financial groups had a deadline of six months as of April 1, 2016 to establish 100% of the reserves.

The financial group recognized the initial cumulative financial effect which originated the record of credit reserves on the consolidated balance sheet under the caption "Allowance for loan losses" in the amount of $265, with a corresponding charge in the consolidated statement of income under the caption "Allowance for loan losses", for the same amount as of September 30, 2016.

As of September 30, 2016 (application date of the change methodology by the financial group), the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the previous methodology is $1,770, compared to $2,035, which is the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the methodology based on an expected loss model.

For the years ended December 31, 2016 and 2015, the allowance for loan losses were as follows:

	2016	2015
For commercial loans (a)	$ 5,926	$ 6,494
For consumer loans (b)	5,907	4,105
For mortgage loans (c)	255	140
	$ 12,088	$ 10,739

As of December 31, 2016 and 2015, the additional allowance were $38, $43, respectively.

As of December 31, 2016 and 2015, the allowance for loan losses disaggregated were as follows:

a. Commercial loans (includes credits granted to financial and governmental institutions)

Degree of credit risk	2016 Classification of the portfolio by credit risk	2016 Amount of allowance recorded	2015 Classification of the portfolio by credit risk	2015 Amount of allowance recorded
A-1	$ 167,328	$ 772	$ 128,087	$ 894
A-2	55,373	690	29,130	343
B-1	12,351	199	20,093	347
B-2	3,481	76	5,064	109
B-3	4,529	409	13,092	439
C-1	1,177	83	999	68
C-2	313	39	542	61
D	1,325	503	3,543	1,395
E	3,145	3,145	2,810	2,810
Rated portfolio	$ 249,022	5,916	$ 203,360	6,466
Additional allowance		10		28
Allowance created		$ 5,926		$ 6,494

b. Consumer loans

Degree of credit risk	2016 Classification of the portfolio by credit risk	2016 Amount of allowance recorded	2015 Classification of the portfolio by credit risk	2015 Amount of allowance recorded
A-1	$ 18,865	$ 432	$ 15,348	$ 294
A-2	3,183	165	2,555	131
B-1	2,255	135	2,584	172
B-2	8,357	420	10,801	523
B-3	3,989	241	1,363	99
C-1	1,994	226	1,666	142
C-2	2,927	517	2,119	314
D	2,838	1,052	2,203	742
E	3,938	2,694	2,468	1,675
Rated portfolio	$ 48,346	5,882	$ 41,107	4,092
Additional allowance		25		13
Allowance created		$ 5,907		$ 4,105

c. Mortgage loans

Degree of credit risk	2016 Classification of the portfolio by credit risk	2016 Amount of allowance recorded	2015 Classification of the portfolio by credit risk	2015 Amount of allowance recorded
A-1	$ 3,141	$ 8	$ 1,551	$ 3
A-2	1,683	10	91	1
B-1	574	5	1,473	13
B-2	313	4	537	6
B-3	151	3	63	1
C-1	405	12	210	6
C-2	203	16	79	7
D	203	46	109	24
E	227	148	95	77
Rated portfolio	$ 6,900	252	$ 4,208	138
Additional allowance		3		2
Allowance created		$ 255		$ 140

d. *Allowance for loan losses*

For the years ended December 31, 2016 and 2015, the movements of the allowance for loan losses were as follow:

	2016	2015
Opening balance	$ 10,696	$ 15,354
Addition (subtraction):		
Increase in allowance	6,614	3,841
Release surplus reserve	-	(6,178)
Transfer to reserves from foreclosed assets	(2,399)	(386)
Reclassification Wal Mart	-	575
Applications	(3,216)	(3,130)
UDI's and foreign currency valuation	352	620
Ending balance	$ 12,047	$ 10,696

During 2015, as a result of changes relating to the assessment methodology for commercial loans applicable from December 31, 2014, the Financial Group determined a surplus reserve of $6,178, which, in accordance with the Commission's rules, the Financial Group may release so long as the loans are not canceled, renewed or restructured. The effects were recognized in "Other operating income" in accordance with the accounting criteria established by the Commission.

	2015
1st quarter	$ 3,461
2nd quarter	1,071
3rd quarter	1,594
4th quarter	52
	$ 6,178

14. *Accounts receivables from Insurance and Bonding Companies, net*

As of December 31, 2016 and 2015 were as follows:

	2016	2015
Collateralized loans	$ 43	$ 59
Unsecured loans	-	1,383
Loans on policies	380	324
Non-performing loans	1,333	53
	1,756	1,819
Allowance for doubtful accounts	(40)	(39)
	$ 1,716	$ 1,780

15. *Premiums debtors*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Premium debtors from accident and health, and property and casualty lines of business	$ 5,498	$ 5,914
First year premiums receivable	744	156
Renewal premiums receivable	485	159
Premiums due for sureties	402	415
Debt receivable from Federal government agencies and entities	696	622
	$ 7,825	$ 7,266

16. *Receivable from reinsurers and rebounders, net*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Reinsurers' share	$ 31,402	$ 32,603
Insurance companies	540	404
Retained premiums from ceded reinsurance and rebounding	1	1
	31,943	33,008
Estimación preventiva de riesgos crediticios de Reaseguradores extranjeros	(5)	-
	$ 31,938	$ 33,008

17. *Other receivables, net*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Recoverable Income Tax	$ 320	$ 984
Debtors due to liquidation of operations in foreign currency	2,376	2,622
Debtors due to swap margin accounts	17,066	16,705
Commission receivable	5	-
Other debtors	3,043	2,292
	22,810	22,603
Allowance for losses	(146)	(169)
	$ 22,664	$ 22,434

18. *Foreclosed assets, net*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Securities, sundry assets and rights allocated	$ 1,329	$ 2,155
Foreclosed assets	2,474	2,320
	3,803	4,475
Less - Allowance for losses on foreclosed assets	(1,792)	(1,474)
Total	$ 2,011	$ 3,001

19. *Property, furniture and fixtures, net*

As of December 31, 2016 and 2015, were as follows:

	Tasa	2016	2015
Buildings	5%	$ 4,934	$ 4,855
Office furniture	10%	909	801
Computers and communication system	30%	1,991	1,931
Plant and equipment	30%	110	54
Vehicles	25%	414	367
Land		440	440
Leased assets		639	674
Others		154	84
		9,591	9,206
Less-			
Accumulated depreciation and amortization		(3,190)	(3,089)
Total		$ 6,401	$ 6,117

For the years ended December 31, 2016 and 2015, the depreciation expense was $101 and $276, respectively.

As of December 31, 2016 and 2015, leasing assets under operating leases had carrying values of $393 and $447, respectively.

20. *Long-term investment in shares*

As of December 31, 2016 and 2015, long term investment in shares were as follows:

	2016					
Issuer	Balance 2015	Contributions	Dividends	Contribution to results	Other changes	Balance 2016
Venture capital investments						
Infraestructura y Transportes México	$ 618	-	-	154	-	772
Havas Media	24	-	-	1	-	25
Argos Comunicación	90	-	-	(7)	-	83
In Store de México	69	-	-	9	-	78
Soficam	13	-	-	1	-	14
Parque Acuático Inbursa	93	-	-	0	-	93
Star Medica	1,500	-	-	75	(24)	1,551
GMéxico Transportes	2,491	-	-	491	(150)	2,832
Salud Interactiva	192	-	-	16	(22)	186
Salud Holding	40	-	-	9	(8)	41
Giant Motors Latinoamérica	135	-	-	3	-	138
Gas Natural México	1,549	-	-	199	(56)	1692
Patiacan	3	-	-	-	-	3
Enesa	446	(312)	-	47	-	181
Patia Biopharma	13	8	-	(6)	-	15
Sistemas de Administración y Servicios	1	-	-	0	-	1
Grupo IDESA	1,607	373	-	(176)	(4)	1,800
Excellence Freights de México	25	8	-	6	(3)	36
Hitss Solutions	496	-	-	11	-	507
Aspel Holding	625	-	-	129	(33)	721
Fideicomiso GEO	439	-	-	-	-	439
	$ 10,469	$ 77	$ -	$ 962	$ (300)	$ 11,208

	2016					
Issuer	Balance 2015	Contributions	Dividends	Contribution to results	Other changes	Balance 2016
Other investments:						
Asociación de Bancos de México, A.C.	14	-	-	-	(2)	12
Inbursa Siefore, S.A. de C.V.	407	-	-	31	-	438
Inbursa Siefore Básica, S.A. de C.V.	133	-	-	10	-	143
Inbursa Siefore Básica 3, S.A. de C.V.	472	-	-	41	-	513
Inbursa Siefore Básica 4, S.A. de C.V.	327	-	-	32	-	359
Inbursa Siefore Básica de Pensiones, S.A. de C.V.	62	-	-	2	-	64
Procesar, S.A. de C.V.	8	-	-	-	-	8
Sociedades de Inversión	(67)	-	-	48	3	(16)
Promotora Ideal	81	-	-	25	229	335
Autopista Arco Norte	34	(30)	-	-	-	4
Claro Shop.com	-	155	-	-	-	155
Guardiana LLC	62	-	-	(39)	40	63
Others	(15)	-	-	(101)	128	12
	1,518	125	-	49	398	2,090
	$ 11,987	$ 202	$ -	$ 1,011	$ 98	$ 13,298

Issuer	Balance 2014	Contributions	Dividends	Contribution to results	Other changes	Balance 2015
			2015			
Venture capital investments						
Infraestructura y Transportes México	$ 2,529	$ -	$ -	$ 277	$ (2,188)	$ 618
HITS Solutions	-	517	-	(22)	1	496
Grupo IDESA	1,636	-	-	81	(110)	1,607
Excellence Freights de México	20	-	(6)	6	5	25
Havas Media	27	-	-	(3)	-	24
Argos Comunicación	73	15	-	2	-	90
In Store de México	53	-	-	30	(14)	69
Parque Acuático Inbursa	-	93	-	-	-	93
Grupo IDESA	1	-	-	-	(1)	-
Star Médica	-	1,500	-	-	-	1,500
GMéxico Transportes	-	2,187	-	304	-	2,491
Salud Interactiva	186	-	-	19	(13)	192
Salud Holding	44	(3)	(4)	3	-	40
Giant Motors Latinoamérica	131	-	-	4	-	135
Gas Natural México	1,343	-	-	207	(1)	1,549
Patiacan	-	3	-	-	-	3
HF Wal-Mart	-	2,191	-	93	(2,284)	-
Enesa	380	-	-	66	-	446
Patia Bioparma	19	-	-	(6)	-	13
Hitss Solutions	86	-	-	(1)	(85)	-
Aspel Holding	564	-	-	126	(65)	625
Fideicomiso GEO	439	-	-	-	-	439
Soficam	12	-	-	1	-	13
Sistemas de Administración y Servicios	1	-	-	-	-	1
	$ 7,544	$ 6,503	$ (10)	$ 1,187	$ (4,755)	$ 10,469

Issuer	Balance 2014	Contributions	Dividends	Contribution to results	Other changes	Balance 2015
			2015			
Other investments:						
Asociación de Bancos de México, A.C.	12	-	-	-	2	14
Inbursa Siefore, S.A. de C.V.	405	-	-	2	-	407
Inbursa Siefore Básica, S.A. de C.V.	132	-	-	1	-	133
Inbursa Siefore Básica 3, S.A. de C.V.	472	-	-	-	-	472
Inbursa Siefore Básica 4, S.A. de C.V.	329	-	-	(2)	-	327
Inbursa Siefore Básica de Pensiones, S.A. de C.V.	60	-	-	2	-	62
Procesar, S.A. de C.V.	8	-	-	-	-	8
Sociedades de Inversión	29	-	-	(26)	(70)	(67)
Promotora Ideal	59	-	-	18	4	81
Autopista Arco Norte	34	-	-	-	-	34
Guardiana LLC	35	-	-	4	22	61
Others	13	-	-	(64)	37	14
	1,588	-	-	(65)	(5)	1,518
	$ 9,132	$ 6,503	$ (10)	$ 1,122	$ (4,760)	$ 11,987

21. *Other assets, deferred charges and intangibles, net*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Software licenses	$ 964	$ 1,009
Prepaid expenses	1,478	811
Goodwill	1,512	1,517
Premium on credit operations, net	-	12
Guarantee deposits	567	873
Labor obligations fund	16	34
Unamortized discounts on securities placed	145	164
Others	702	802
	5,384	5,222
Accumulated amortization of software licenses	(513)	(486)
Other accumulated amortization	(132)	(128)
	$ 4,739	$ 4,608

The amortization of software licenses during 2016 and 2015, was $27 and $4, respectively.

22. *Deposits*

a. ***Demand deposits*** - As of December 31, 2016 and 2015, demand deposits were as follows:

Checking accounts	Mexican pesos		Foreign currency		Total	
	2016	2015	2016	2015	2016	2015
Accounts with interest rate	$ 77,480	$ 72,377	$ 3,208	$ 3,425	$ 80,688	$ 75,802
Accounts with no interest rate	1,031	820	56	12	1,087	832
	$ 78,511	$ 73,197	$ 3,264	$ 3,437	$ 81,775	$ 76,634

For the years ended December 31, 2016 and 2015, the interest expense from demand deposits on checking accounts were $2,747 and $1,877, respectively (Note 35c).

b. ***Time deposits*** - Time deposits - Time deposits include fixed-term deposits, deposits from companies and foreign Banks and PRLV's. For those deposits in Mexican pesos, the interest rate relates to the interest rate of the CETES and the Mexican equilibrium interest rate (tasa de interés interbancaria de equilibrio or "TIIE"). For those deposits in foreign currency, the interest rate relates to Libor.

As of December 31, 2016 and 2015, time deposits were as follows:

	2016	2015
Fixed-term deposits:		
US dollars (1)	$ 322	$ 732
UDI's (2)	422	42
UDI's (1)	552	533
Mexican peso (1)	572	599
Mexican peso (2)	19,708	-
	21,576	1,906

	2016	2015
PRLV		
Placed on the market [2]	-	6
Placed on the counter [1]	9,788	4,830
	9,788	4,836
Withdrawals deposits on pre-established days [1]	10,472	9,260
	$ 41,836	$ 16,002

[1] Placed within general public.
[2] Placed within money market.

As of December 31, 2016 and 2015, time deposits maturing over periods less than one year, were $19,288 and $16,653, respectively.

For the year ended December 31, 2016 and 2015, the interest expense from fixed-term deposits were $1,642 and $675, respectively (Note 35c).

In accordance with regulations, the Commission must be given notice when financial institutions have deposits with one person or group of people legally considered as one person, that represent more than 100% of the basic capital. As of December 31, 2016 and 2015, the financial group does not exceed this limit.

c. ***Negotiable instruments issued*** – As of December 31, 2016 and 2015, negotiable instruments issued as unsecured bonds, were as follows:

	2016			2015		
Issuance	Amount of	Balance	Interest	Amount of	Balance	Interest
Binbur 12-4	-	-	-	16,240,000	1,625	3.83%
Binbur 13	-	-	-	60,000,000	6,000	3.80%
Binbur 13-2	-	-	-	60,000,000	6,012	3.60%
Binbur 13-3	60,000,000	6,002	6.36%	60,000,000	6,000	3.80%
Binbur 13-4	114,999,996	11,146	6.38%	108,319,280	8,247	3.82%
Binbur 14	64,999,991	5,660	6.35%	56,680,006	5,671	3.78%
Binbur 14-2	20,000,000	2,027	5.07%	20,000,000	2,025	5.07%
Binbur 14-3	30,000,000	2,973	5.79%	30,000,000	3,004	3.55%
Binbur 14-4	5,000,000	501	5.79%	5,000,000	501	3.55%
Binbur 14-5	50,000,000	4,973	6.29%	50,000,000	5,004	3.72%
Binbur 14-6	39,999,997	3,710	5.78%	39,000,000	3,906	3.54%
Binbur 14-7	116,580,642	11,824	7.00%	100,000,000	10,155	7.00%
Binbur 15	52,000,000	5,206	6.29%	52,000,000	5,204	3.72%
Binbur16	30,000,000	2,968	5.80%	-	-	-
Binbur16-2	17,424,750	1,749	5.95%	-	-	-
Binbur16-3	24,471,150	2,448	6.31%	-	-	-
Binbur16-4	5,528,850	553	6.34%	-	-	-
Binbur16-5	30,021,845	1,551	6.30%	-	-	-
Binbur16-6	10,196,108	721	6.35%	-	-	-
BINBL53	1,000,000	20,676	4.125%	1,000,000	17,296	5.17%
	2016			2015		

Issuance	Amount of	Balance	Interest	Amount of	Balance	Interest
CF CREDIT 00115	-	-	-	27,400,454	2,745	3.61%
CF CREDIT 00151	49,999,977	2,697	5.61%	50,000,000	5,007	3.68%
CF CREDIT 00615	-	-	-	50,000,000	4,995	3.31%
CF CREDIT 00516	37,000,000	3,615	4.62%	-	-	-
CF CREDIT 00616	35,000,000	3,500	5.67%	-	-	-
SFOMIBU 00215	-	-	-	50,000,000	4,981	3.36%
SFOMIBU 00315	-	-	-	50,000,000	4,974	3.39%
SFOMIBU 00716	40,000,000	4,013	5.26%	-	-	-
SFOMIBU 00816	35,000,000	3,504	5.22%	-	-	-
SFOMIBU 00916	20,000,000	2,003	5.22%	-	-	-
SFOMIBU 01016	15,000,000	1,502	5.22%	-	-	-
SFOMIBU 01116	50,000,000	5,012	5.26%	-	-	-
SFOMIBU 01216	15,000,000	1,502	5.78%	-	-	-
		$ 112,036			$ 103,352	

On September 23, 2015, the Commission released an official 153/107353/2014, authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is $100,000 or its equivalent in UDIs equivalent, without all the current issues amount exceed authorized.

As of December 31, 2016 and 2015, the issues represent 95% and 19% respectively, of the total amount authorized.

On February 1, 2013, the Commission released an official 153/6117/2013, authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is $30,000 or its equivalent in UDIs, without all the current issues amount exceed authorized.

As of December 31, 2016 and 2015 the total issued under this program represented 95% and 95% respectively, of the total authorized amount.

For the years ended December 31, 2016 and 2015, the interest expense from unsecured bank bonds were $5,070 and $3,855 (Note 35b), respectively, and issuance expenses were $73 and $71, respectively.

On June 30, 2010, the Commission released an official communication (reference no.153/3618/2010), authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is not to exceed $50,000 or its equivalent in UDIs equivalent.

Each issuance of securities that is carried out through the program will have its own characteristics: the issuance price, the total balance of each issuance, its nominal value, the issuance and settlement date, the period, the maturity date, the interest rate and the periodicity of interest payments. All of these, will be determined by the issuer and its intermediary agent, and will be documented at the time of each issuance in the respective prospectus.

As of December 31, 2016 and 2015, these issuances represent 68% and 39%, respectively, of the total authorized amount.

23. *Bank and other loans*

This includes loans received from other financial and governmental institutions, at market interest rates.

As of December 31, 2016 and 2015, bank and other loans were as follows:

	2016			2015		
	Capital	Interest	Total	Capital	Interest	Total
Demand loans						
Loans in Mexican pesos						
Received "call money" transactions (1)	$ -	$ -	$ -	$ 1,070	$ -	$ 1,070
Short-term portion						
Loans in mexican peso						
Banxico	1,350	7	1,357	598	1	599
NAFIN	380	2	382	1,382	-	1,382
Loans for multiple purpose financing entities		-		4,070	2	4,072
	1,730	9	1,739	6,050	3	6,053
Foreign currency loans						
NAFIN	71	-	71	14	-	14
Total short term loans	1,801	9	1,810	6,064	3	6,067
Long-term portion						
Loans in Mexican pesos						
BANOBRAS	7,667	2	7,669	-	-	-
Discounted portfolio (FIRA)	71	-	71	82	-	82
NAFIN	14,444	25	14,469	-	-	-
Sociedad Hipotecaria Federal	1,500	4	1,504	-	-	-
	23,682	31	23,713	82	2	82
Foreign currency loans						
Loans for multiple purpose financing entities	2,681	4	2,685	-	-	-
Total long term loans	26,363	35	26,398	-	-	-
	$ 28,164	$ 44	$ 28,208	$ 7,216	$ 3	$ 7,219

(1) As of December 31,2015, received "call money" transactions were as follows:

	Amount 2015	Interest rate	Maturity (days))
Loans for multiple purpose financing entities	$ 1,070	2.90 %	4

As of December 31, 2016, there are not Call Money transactions received.

As of December 31, 2016 and 2015, short term portion loans in Mexican pesos accrue average interest rates of 5.56% and 3.9%, respectively. For the years ended December 31, 2016 and 2015, the long term portion loans in Mexican pesos accrued average interest rates were 10.7% and 5.51%, respectively.

For the years ended December 2016 and 2015, the interest expense from bank loans were $272 and $8, respectively (Note 35c).

As of December 31, 2016 and 2015, no guarantees were granted in relation to loans payable.

24. Technical reserves

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Of risk in progress	$ 38,085	$ 38,826
Obligations to be fulfilled	34,036	33,664
Of contingency	1,159	1,429
Specialized insurance	527	408
From catastrophic risk	11,265	10,965
	$ 85,072	$ 85,292

25. Payables to reinsurance and surety, net

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Insurance companies	$ 708	$ 1,829
Bonding companies	2	14
Retained premiums from ceded reinsurance and rebounding	2	2
Other businesses	61	43
	$ 773	$ 1,888

26. Income tax

According to the tax reform, the main changes affecting the financial group are detailed below:

Main tax reforms on Income Tax Law (ISR)

a. Income tax (ISR)

The rate is 30%.

An additional income tax was established, on dividends paid 10% when they are distribute to individuals and foreign residents. This income tax is paid via retention and is a final payment by the stockholder. In the case of taxes payable by foreigners, international treaties may be applied in order to avoid double taxation. This tax will apply for the distribution of profits generated from 2014.

The amendments made to the LISR that come into force on January 1, 2016, which replace the deduction of increases made to the global preventive reserve of banking institutions by deducting those penalties approved by the Commission corresponding to the loan portfolio generated As from 2016, could have an important effect on the determination of the effective tax rate of these institutions. The banking guild is making various efforts both with the regulatory authority and with the prosecutor, in order to establish a treatment that recognizes for tax purposes the reality of its loan portfolio, efforts that it is not possible to estimate the result.

The deduction of payments to workers who represent themselves exempt income for the 47% or 53% if certain requirements are met limited. Also, the deduction is limited to the contribution to the pension fund and retirement in the same percentages.

Workers fees paid by the employer are considered non-deductible 100%.

The special calculation of the PTU is modified. The base is determined by subtracting the taxable income of authorized deductions, without incorporating the PTU paid in the exercise or the fiscal losses of previous exercises. For purposes of the PTU all payments to workers who are exempt income are deductible for them.

The Financial Group as a legal entity did not generate taxable income in the years ended December 31, 2016 and 2015.

For the years ended December 31, 2016 and 2015, the tax on income is comprised as follows:

	ISR			
	2016		2015	
Banco Inbursa, S.A.	$	2,277	$	2,592
Seguros Inbursa, S.A		558		437
Pensiones Inbursa S.A.		207		232
Fianzas Guardiana Inbursa, S.A		406		155
Sociedad Financiera Inbursa		-		53
Inversora Bursátil, S.A. de C.V., Casa de Bolsa		68		144
Operadora Inbursa de Sociedades de Inversión, S.A. de C.V		88		92
Other subsidiaries		24		14
	$	3,628	$	3,719

At the date of the issuance of these consolidated financial statements, the annual tax return of 2016, has not been submitted to the tax authorities, therefore the tax to be presented may be amended; however, management estimates these will not be relevant.

Reconciliation of effective ISR - For the years ended December 31, 2016 and 2015, the effective ISR rates were 19% and 15%, respectively. A reconciliation of legal and effective tax rate is detailed below:

	2016		2015	
Annual inflation adjustment	$	15,500	$	13,625
Annual inflation adjustment		(3,207)		(1,639)
Non-deductible expenses		506		599
Result in subsidiaries		1,260		(1,120)
Difference in the tax cost of shares		(1,011)		(1,122)
Other permanent items		(1,445)		(4,038)
Income before ISR and PTU, plus reconciling items		11,603		6,231

	2016	2015
Statutory tax rate	30%	30%
Income Tax	3,481	1,869
Deferred ISR from prior years	449	-
Total current and deferred tax according to the income statement	$ 3,032	$ 1,869
Effective income tax rate	19%	15%

ISR is calculated considering as taxable or deductible certain inflation effects, such as depreciation which was calculated on Mexican pesos. The inflation effects of certain monetary assets and liabilities are accumulated and deducted through the annual inflation for adjustment.

The income tax rate for the years ended December 31, 2016 and 2015 were 30%. Tax reforms mentioned above establish that the income tax rate will be 30% for 2016 and subsequent years

27. *Cash collaterals received*

Guaranteed cash deposits for derivative contracts from derivative contracts at other markets, especially with swaps, are required to comply with obligations from counterparties. As of December 31, 2016 and 2015, the credit balances were $2,264 and $0, respectively.

28. *Sundry creditors and other payables*

As of December 31, 2016 and 2015, were as follows:

	2016	2015
Value added tax payable	$ 3,010	$ 2,474
Sundry creditors	1,814	2,021
Orders on behalf of clients	15	26
Guaranteed deposits	2	75
Money orders to pay	66	35
Cashier's checks	230	195
Provisions for other obligations	158	162
Certified checks	48	51
Contributions to the contingency fund	78	76
Current account agents	129	109
Unearned commissions	410	245
Provision for clearinghouse	196	138
Provision for memberships	-	5
Withheld taxes payable by third parties	91	87
Unapplied deposits	-	-
Other	201	112
	$ 6,448	$ 5,811

29. *Benefits to employees*

In compliance with the accounting standard NIF D-3, the actuarial valuation was carried out which considers that the actuarial losses and / or gains are no longer amortized, that is to say, they are immediately recognized at the time they occur in the capital in the concept Of "Other Comprehensive Income", as well as the recycling of the provision as derived from "Prior Year Results", both items reflect the difference between labor liabilities and the recognition already exercised in previous years based on the employees' The labor cost in net interest will be included in the income statement.

As of December 31, 2016 and 2015, the net periodic cost for obligations under pension plan and seniority premiums and termination benefits were $115 and $84, respectively.

The Financial Group has a pension plan with defined benefits covering all employees who reach 65 years of age, who have 20 years of service at least and who joined before 1 October 1998. The plan is to give the supplementary pension granted by the Mexican Social Security Institute, according to the years of service in the Financial Group. From the effective date of retirement, the participant under this plan, receive a retirement annuity whose amount is calculated at 2.5% for each year of service, calculated on the average earnings of the past 24 months for salaries, compensation for seniority and annual bonus.

This plan also covers seniority premiums, which consist of a single payment of 12 days for each year worked based on the final salary, limited to twice the minimum wage established by the Federal Labor Law (LFT). Also, the provision of employment termination benefits in accordance with the LFT and the terms of the benefit plan is included. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the method of projected unit credit.

a. As of December 31, 2016 and 2015, the main concepts of actuarial calculation were as follows:

	2016	2015
Projected benefit obligation (OBD)	1,677	1,769
Fair value of plan assets	1,689	1,369
Situation (unfunded liability) or fund	(12)	400
Charges to results in excess of contributions	28	1
Past service, change in methodology and plan modifications	(11)	(55)
Actuarial gains and losses not recognized	(5)	(346)
Net projected assets	$ 115	$ 84

b. Additional information used in the actuarial calculations:

	2016 %	2015 %
Discount rate:		
Antiuity premium:	8.00	6.50
Legal compensation:	7.50	6.50
Pension plan:	7.50	6.50
Rate of salary increases	5.25	4.50
Rate of increase in the minimum wage	4.00	4.00

c. Net periodic cost are as follows:

	2016	2015
Labor cost of current service	$ 65	$ 61
Financial cost	25	(1)
Expected return on plan assets	26	-
Labor cost of past services	-	5
Actuarial losses (gains)	-	19
Net periodic cost	$ 116	$ 84

As of December 31, 2016 and 2015, the types of instruments and in which plan assets have invested and related amounts were:

	2016	2015
Government securities	$ -	$ 23
Variable income	698	675
Fixed Income	137	34
Net valuation	835	613
	1,670	1,345
Interest receivable	1	1
Mortgage loans	18	23
	$ 1,689	$ 1,369

30. *Deferred taxes*

As of December 31, 2016 and 2015, deferred taxes were as follows:

	2016	2015
Deferred tax liability:		
Valuation of shares	$ 1,305	$ 942
Valuation of financial instruments	2,695	2,077
Premium on credit operations	-	11
Derivative financial instruments	1,532	996
Other	2,617	1,850
	$ 8,149	$ 5,876
Deferred tax asset:		
Tax on assets paid	$ 197	$ 195
Fiscal losses to be amortized	31	26
Commercial loans amortization	7	7
Valuation of financial instruments	1,078	938
Valuation of available for sale securities	-	-
Derivative financial instruments	12	33
Other	4,615	4,514
	5,940	5,713
Deferred tax liability, net	2,209	163
Deferred employee profit sharing liability	697	682
Total	$ 2,906	$ 845

Deferred tax expense or benefit reported in the consolidated income statements for the years ended December 31, 2016 and 2015, were $(596) and $(1,884), respectively.

The tax rate of 30% was applied to temporary differences as of December 31, 2016 and 2015

31. Commitments and contingencies

a. ***Liability agreement*** - In conformity with Article 28 of the Law Regulating Financial Groups, the Financial Group and its subsidiaries signed a liability agreement whereby the Financial Group accepts responsibility jointly and severally and without limitation for the performance of the obligations of its subsidiaries and for the losses derived from the performance of their own activities, even for those obligations incurred prior to the incorporation of the related subsidiaries into the Group.

The Financial Group shall similarly be liable for their monetary obligations due to third parties, bankruptcy declared by the regulatory authorities, and the deterioration of their financial position to the point that they are unable to meet legally specified capital requirements.

b. ***Leasing*** - The Financial Group has several leasing contracts from the bank branches facilities, parking lots and computer systems. Some of these contracts were celebrated by the affiliated companies and are not considered to be not material in relation to the financial statements taken as a whole. For the years ended December 31, 2016 and 2015, the leasing expense were $48 and $46, respectively.

Considering the leasing contracts as of December 31, 2016, the Financial Group expects to pay $351 for leasing obligations over the next five years.

c. ***Credit commitments***

- **Letters of credit**

The Financial Group grants letters of credit to its clients, which can generate a collection or delivery obligation at any time. Some of these operations are entered into with related parties. As of December 31, 2016 and 2015, letters of credit granted by the Financial Group were $20,706 and $8,780, respectively.

- **Credit lines**

The Financial Group has granted lines of credits that have not yet been exercised. As of December 31, 2016 and 2015, the total amounts of credits granted by the Financial Group were $141,684 and $372,924, respectively, of which the amounts outstanding for exercising were $81,873 and $63,006, as appropriate for those dates.

d. ***Review of tax reports*** - As of December 31, 2016 in connection with a review by financial industry section of the Tax Administration Service (SAT) of the fiscal year 2007, the Financial Group presented on time all documentation required to the Administration of Major Taxpayers of the SAT. As of December 31, 2016, there is no evidence of disputed taxes. The Financial Group, based on the views of its legal counsel, believes that the final result of tax reviews will be favorable.

At the same time, at the date of issuance of the attached financial statements, the Tax Administration Service on Financial Industry (SAT) is reviewing fiscal year ended on December 31, 2008.

About the subsidiary Seguros Inbursa, the Central Administration of the Financial Sector Supervision, the Tax Administration Service determined credits on income tax for fiscal years 2004 and 2005 and the value added tax for fiscal years 2004 and 2005. The Financial Group filed in a timely manner, the mass corresponding defense to the Federal Court of Fiscal and Administrative Justice, to this date we don´t have definitive results, however, management believes will be favorable or in its remote case disburse the possibility of significant resources.

e. ***Claims on contractual obligations*** - Various lawsuits and claims have been filed against the Financial Group in the courts, and with the CNSF. At the present time, it is not possible to predict what the final outcome of these cases will be. In some cases, the Financial Group has provided for these potential losses through charges to reinsurers and its retained business, if applicable, and these provisions include accrued interest computed as required under the established rules.

f. ***Labor*** - The Financial Group is party to a number of labor disputes filed against it with different local and Federal labor conciliation and arbitration boards. Such cases are currently in different stages and pending resolution or settlement.

Changes to the Mexican Federal Labor Law became effective on December 1, 2012. These changes may affect how the Financial Group receives professional and personnel services from its affiliated companies. As of December 31, 2012, management evaluated the potential effects of these changes on the Group's financial information, and has concluded that there will be no material effects to be reported or disclosed. Management will conduct its own on-going assessment of the effects of the changes to the law, especially with regards to the determination, calculation and recognition of employee benefits and how the changes in the law may affect this are.

32. Stockholders' equity

a. ***Capital Stock*** - As of December 31, 2016 and 2015, the capital stock is composed of 6,667,027,948 shares of series "O" with an expression of nominal value of $0.4137108 pesos each.

As of December 31, 2016 and 2015, the historical value of stockholders' paid capital stock was $2,758.

The book value as of December 31, 2016 and 2015 is $14,193 and $14,207, respectively, due to share repurchases as well as to the incorporation of the effects of inflation that were recognized up to December 31, 2007.

The additional share capital will be represented by series "L" shares which, in accordance with the Law to Regulate Financial Groupings, may be issued up to 40% of the ordinary share capital, subject to prior authorization by the Commission.

Representative series "L" shares have limited voting rights, as their holders may only vote in matters involving a change in the Group's corporate purpose, as well as mergers, spin-offs and the Financial Group's transformation, dissolution, liquidation, and cancellation of stock exchange registration. Such series "L" shares may also confer the right to a cumulative preferred dividend, and a higher dividend than the one paid to holders of shares representing ordinary capital stock. In no circumstances may the dividends paid on series "L" shares be less than those paid on the other series of shares.

As per the LIC, the minimum stockholders' equity paid to credit institutions must be 90 million UDIs. As of December 31, 2016 and 2015, the Financial Group was in compliance with this regulatory requirement.

	Number of shares		Amount	
	2016	2015	2016	2015
Fixed capital- Shares Series "O"	6,667,027,948	6,667,027,948	$ 2,758	$ 2,758

Participation in other equity accounts of subsidiaries - As of December 31, 2016, the main items that make up this effect arising from the adoption of the Accounting Criteria mentioned in Note 1 are mainly due to the valuation surplus of the current risk reserve, Employee benefits, technical reserves of the insurance sector and sureties and results by valuation of securities available for sale. This effect is presented as financing activities in the consolidated statements of cash flows.

b. Restrictions to stockholders' equity

Beneficial ownership – At no time may foreign entities that hold shares may perform official functions in the financial group. This restriction is also applicable to Mexican financial entities, even those which belong to the Financial Group, unless acting as institutional investors per Article 19 of the LRAF.

Any natural or legal person can acquire by one or several operations, Series "O" shares control, from a multiple purpose financial entity, in all cases with previous authorization from SHCP, and favorable opinion from the Commission, when exceeding 5% of the share capital.

Capital Reserve- As of December 31, 2016 and 2015, capital reserves were $907 and 1,917, respectively, corresponding to the reserve for repurchase of own shares and $1,181 in both years of legal reserve.

Reserve for repurchase own stocks - The reserve for repurchase of own stocks, originated in the agreements by the Shareholders using part of retained earnings for constitution.

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

Capital reductions- n the event of a capital reduction, the reimbursement to shareholders in excess of the amount of the restated capital contributions, in accordance with the Mexican Income Tax Law, shall be subject to taxation at the enacted rate at the time of such reduction.

c. Availability of earnings– ISR Law establishes that dividends derived from net income that has been subject to ISR will not be subject to additional ISR. In order to qualify for this exclusion, tax income must be controlled with the Tax Net Income Account (CUFIN). Distributions in excess of the balance of CUFIN will be subject to ISR.

In accordance with the ISR Law, the Financial Group must regulate in a separate account known as Capital Contribution Account (CUCA), all capital contributions and net premiums due to shares´ subscriptions and all capital reductions as well. This account must be updated according to Mexican annual inflation from the date in which the capital contribution was made until there is a capital reduction.

In accordance with the ISR Law, the amount of capital reduction is not subject to taxes, only if it does not exceed the CUCA balance; otherwise the difference must be considered as distributed income which is subject to tax payable by the Financial Group.

As of December 31, 2016 and 2015, tax equity balances were as follows:

	2016		2015	
CUCA	$	38,999	$	37,731
CUFIN (LISR 2002)	$	3,320	$	3,205
CUFIN (LISR 2016)	$	1,391	$	(3)

At a regular shareholders' meeting held on April 30, 2016, a cash dividend was declared at a rate of $0.44 per each of the 6,654,366,528 common registered shares issued and outstanding. The total dividend paid was $2,928.

33. Earnings per share and other comprehensive income

a. ***Earnings per share*** - The earnings per share for years ended December 31, 2016 and 2015, were as follows:

	2016		2015	
Net controlling interest income	$	12,432	$	11,727
Weighted average number of common shares outstanding		6,667,027,948		6,667,027,948
Earnings per share (Mexican pesos)	$	1.8647	$	1.7589

b. ***Other comprehensive income*** - For the years ended December 31, 2016 and 2015, other comprehensive income were as follows:

	2016		2015	
Net income attributable to equity holders of the parent	$	12,432	$	11,727
Equity interest in other shareholders' equity accounts of subsidiaries		3,224		(120)
Other comprehensive income	$	15,656	$	11,608

34. Information by segments

For the years ended December 31, 2016 and 2015, the Financial Group's operations by business segment were as presented in the tables below. Balances presented below are classified differently from the presentation adopted for the consolidated financial statements as they were grouped according to operation and accounting records.

	2016		2015	
a) Lending operations				
Income				
Interests from loans (Note 35a)	$	22,855	$	17,599
Exchange rate and UDIs (Note 35a)		186		71
Commissions from opening of credit lines (Note 35a)		544		239
Commissions (Note 36)		4,987		3,891
Other operating income		3,595		8,228
Swaps valuation		-		106
		32,167		29,773

	2016	2015
Expenses		
Exchange rate and UDIs (Note 35c)	61	32
Allowance for credit losses (Note 13d)	6,614	3,841
Interests from deposits (Note 35c)	9,732	6,465
Commissions	1,791	698
Other operating expenses	807	352
Unrealized gain on swap hedges (Note 10)	8	118
Amortization from loan portfolio valuation (Note 11)	281	243
	19,294	11,749
Results from loan operations	$ 12,873	$ 18,385

		2016	2015
b)	Operations from money market and capital market		
	Income		
	Interest from investments (Note 35a)	$ 5,977	$ 4,044
	Premiums from sale and repurchase agreements (Note 35a)	1,715	1,790
	Commissions (Note 35)	125	214
	Results from securities operations (Note 36)	969	471
	Results from investment in securities (Note 37)	2,991	(3,398)
	Interest income and returns from margin accounts	109	184
		11,886	3,305
	Expenses		
	Discount for debt placement	28	23
	Premiums from sale and repurchase agreements (Note 35c)	1,789	1,695
	Commissions	3,323	3,255
		5,140	4,973
	Results from money market and capital market operations	$ 6,746	$ (1,668)

		2016	2015
c.	Operations from derivatives and foreign currency (Note 36)		
	Results from foreign exchange transactions	$ 5,302	$ 1,912
	Results from foreign currency exchange	466	433
	Results from operations from derivatives	(4,317)	(2,526)
	Insurance, pensions and securities	(1,652)	422
		(201)	241

		2016	2015
d.	Reconciliation		
	Loan portfolio transactions	$ 12,873	$ 18,385
	Money market and capital market transactions	6,746	(1,668)
	Derivatives and foreign currency transactions	(201)	241
	Insurance, pensions and securities	3,752	2,540
	Commissions from management of retirement accounts (Note 35)	1,009	1,129
		24,179	20,627
		9,690	8,124
		$ 14,489	$ 12,503

The aforementioned segment information refers to credit, money market and capital market, and insurance and bonding transactions carried out mostly by the subsidiaries of the Financial Group.

35. *Financial margin*

For the years ended December 2016 and 2015, the main items comprising the financial margin were as follows:

a. *Interest income*

	2016	2015
Loan portfolio (1) (Note 34a)	$ 22,855	$ 17,599
Commissions from opening of credit lines (Note 34a)	544	239
Premiums from sale and repurchase agreements (Note 9b)	1,715	1,790
Investments in securities (Note 33b)	5,210	3,474
Deposits on Banxico (Note 33b)	370	264
Financing on national and foreign banks (Note 33b)	41	5
Amortization from loan portfolio valuation (Note 11)	(289)	(256)
Valuation of foreign currency and UDI'S (Note 34a)	186	71
Dividends from equity instruments, net (Note 34b)	356	301
From margin accounts	109	185
	$ 31,097	$ 23,672

(1) Interest from foreign exchange rate were as follows:

	2016	2015
Simple	$ 9,574	$ 7,556
Unsecured loans	535	527
Subject to Value Added Tax (IVA)	429	30
Re-structured	1,465	1,486
Financing institutions	86	(82)
Other discounted loans	10	22
Governmental institutions	1,455	1,109
Discounted loans	40	27
Leasing	10	641
Mortgage loans	506	307
Pledged loans	10	49
Consumer loans	8,735	5,927
	$ 22,855	$ 17,599

b. ***Premium income***

	2016		2015	
Premium issued	$	22,105	$	21,446
Ceded Premium		(4,491)		(5,949)
	$	17,614	$	15,497

c. ***Interest expense***

	2016		2015	
Premiums from sale and repurchase agreements (Note 8b)	$	1,789	$	1,695
By checking deposits (Note 22a)		2,747		1,877
Promissory notes with returns that can be realized at maturity (Note 21b)		486		267
Time deposits (Note 22b)		1,156		408
For instruments issued (Note 22c)		5,070		3,855
For bank loans (Note 23)		272		58
Valuation of foreign currency and UDIs		61		32
Interest on insurance and bonding companies		1		1
Discount debt placement		28		22
	$	11,610	$	8,215

d. ***Net increase in technical reserves***

	2016		2015	
Reserve for unexpired risks	$	2,741	$	1,294
Catastrophic risk reserve		796		1,224
Other		(650)		(5)
	$	2,887	$	2,513

Losses, claims and other contractual obligations, net

	2016		2015	
Claims and contractual obligations	$	8,565	$	8,245
Net claims		1,445		955
Social security pensions		965		1,244
	$	10,975	$	10,444

36. *Commissions and fees collected*

For the years ended December 31, 2016 and 2015, commissions and fees collected were as follows:

	2016	2015
Retirement's accounts management	$ 1,009	$ 1,129
Credit portfolio services	2,299	2,644
Intermediation in the stock market	125	214
Fees for account management	425	302
Consumer credit card	2,104	870
Other commissions	159	75
	$ 6,121	$ 5,234

37. *Net gain on financial assets and liabilities*

As of December 31, 2016 and 2015, the net gain on financial assets and liabilities were as follows:

	2016	2015
Other products and benefits from sale and purchase contracts of securities		
Foreign exchange transactions	$ 5,302	$ 1,912
Transactions in securities	969	471
Transactions in financial derivatives	(4,317)	(2,526)
	1,954	(143)
Results from valuation at market		
Foreign exchange transactions	466	433
Transactions in securities	2,991	(3,398)
Transactions in financial derivatives operations	(1,652)	422
	1,805	(2,543)
	$ 3,759	$ (2,686)

38. *Memorandum accounts*

As of December 31, 2016 and 2015, the main off-balance sheet accounts are shown below. These accounts represent rights and obligations of the Financial Group arising from transaction with third parties, and the recording unit values, mandates and custodies arising from own operations.

a. *Transactions on behalf of others*

iii. Customers' securities received for safekeeping

	2016	2015
Government debt	$ 135,780	$ 93,945
Bank debt	104,143	161,430
Other debt	138,038	123,064
Equity instruments	1,889,983	1,759,932
	$ 2,267,944	$ 2,138,371

b. ***Proprietary transactions***

iv. Contingent assets and liabilities

As of December 31, 2016 and 2015, the values of contingent assets and liabilities were as follows:

	2016	2015
Societal values given in custody		
Shares of variable capital	$ 52,531	$ 49,874
Unsecured bonds	3,104	2,856
CETES	1,390	-
PRLV	82	39
	$ 57,107	$ 52,769

v. Assets held in trust or under mandate

As of December 31, 2016 and 2015, the balances of transactions in which the Financial Group acts as a trustee or operates under mandate are as follows:

	2016	2015
Trusts		
Administrative	$ 320,706	$ 309,867
Investment	63,654	63,182
Guarantee	42	42
Transfer of title	95	95
	384,497	373,186
Mandate	1,288	967
	$ 385,785	$ 374,153

For the years ended on December 31, 2016 and 2015, income from fiduciary activities were $34 and $38, respectively.

c. ***Assets in custody or management***

As of December 31, 2016 and 2015, the balance were as follows:

	2016	2015
Securities held for safekeeping (1)	$ 154,168	$ 156,910
Securities held in guarantee	235,380	224,508
Notes subject to collection	21,150	18,399
Other	1,886	1,578
	$ 412,584	$ 401,395

(1) As of December 31, 2016 and 2015, the Financial Group has custody of ADR. Information on the composition and fair values of the issuances is as follows:

		2016		2015	
Issuer	Series	Securities	Fair value	Securities	Fair value
VOLAR	A	663,277,800	$ 20,568	698,786,570	$ 20,649
AMX	L	6,804,854,675	88,668	6,635,878,222	80,427
AMX	A	166,190,826	2,164	191,447,586	2,321
GCARSO	A1	480,832	40	920,602	65
GFINBUR	O	4,715,410	148	5,449,410	170
GOMO	*	10,068,500	-	10,068,500	-
RASSINI	CPO	5,773	-	5,773	1
SITES	A	-	-	9,572,379	123
SITES	L	-	-	331,872,199	3,720
MFRISCOA-1	CPO	526,400	8	834,376	7
Total		7,650,120,216	$ 111,596	7,884,835,617	$ 107,483

39. *Other Operating Income (expense)*

For the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Recovery of loans previously written	$ 355	$ 145
Settlement of liabilities and reserves	533	6,178
Lease income	403	145
Impairments and write-offs	(388)	(343)
Impairment loss or reversal of impairment	-	(49)
Income from administrative services	1,147	1,147
Rights products or policies	288	274
Credit portfolio acquisition	34	-
Foreclosures	-	33
Other	416	346
Total	$ 2,788	$ 7,876

40. *Operations with related parties*

According with accounting Criteria C-3 “Related parties” issued by the Commission, operations with related parties subject to disclosure are those that represent more than 1% of net capital prior month of the date of preparation of financial reporting. As of December 31, 2016 and 2015, the balance were $1,081 and $1,061, respectively.

Operations with related parties are done using market terms, according to existing conditions at the date of the operation.

a. **Contracts** - The most important contracts entered into with related parties are described below:

- Open-ended brokerage intermediation agreements with each Group company for the safekeeping of securities through which Inversora Bursátil renders intermediation services for the trading and the safekeeping and management of financial instruments..

- Stock distribution agreement entered into with Operadora Inbursa de Sociedades de Inversión, whereby the Group promotes and sells shares in the related party's investment funds. This agreement is for an indefinite term.
- The Group has entered into administrative trust agreements with its related parties.
- The Group has outstanding loans extended to its related parties.
- The Financial Group (regularly) issues letters of credit to related parties.
- The Financial Group has demand deposits and time deposits with related parties; however, the balances for these deposits do no exceed the limit established by the Commission.
- Permanent investments in stock as of December 31, 2016 and 2015 are described in detail in Note 20.

b. ***Operations*** - As of December 31, 2016 and 2015, principal operations celebrated with related parties were as follows:

Relation	Operation	2016	2015
Income:			
Affiliated	Interest income	$ 1,781	$ 1,315
Affiliated	Premiums collected from sale and repurchase operations	53	40
Affiliated	Commissions and fees collected	153	135
Affiliated	Commission from shares distribution	253	262
Affiliated	Utilities from derivatives	485	1,223
Affiliated	Fiduciary operations	35	25
		$ 2,760	$ 3,000

Relation	Operation	2016	2015
Expenses:			
Affiliated	Interest expense	$ 62	$ 46
Affiliated	Premiums paid from sale and repurchase agreements	555	606
Affiliated	Personnel service administration	2,118	1,954
Affiliated	Leasing	70	70
Affiliated	Commissions from public share offering	59	40
		$ 2,864	$ 2,716
Variations in capital:			
Shareholders		1,024	-
Shareholders	Dividends paid	$ 2,928	$ 2,800

c. ***Benefits for key officials and relevant management*** - The Financial Group's management is performed by the CEO and top-level managers. The amount paid to such officers and directors in the year 2016 and 2015, corresponding to short-term benefits, amounted to $228 and $184 respectively. There is no provision of benefits based on payment in shares.

d. ***Balances*** - Main accounts receivable and payable with related parties as of December 31, 2016 and 2015, were as follows:

Relation	Operation	2016	2015
Affiliated and associated	Derivative financial instruments (1)	$ 15,198	$ 2,367
Affiliated	Loan portfolio	13,502	14,683
Affiliated	Debtors in repurchase agreements	-	1,952
Affiliated	Deposits	1,804	3,319
Affiliated	Time deposits	70	-
Affiliated	Credit commitments (letter of credits)	2,013	983
Affiliated	Management and safekeeping of securities	2,404,158	2,261,982
		$ 2,436,745	$ 2,285,286

(1) Al 31 de diciembre de 2016 y 2015, el Grupo Financiero tiene contratos adelantados (forwards) y contratos de intercambio de flujos (swaps) con entidades relacionadas. Respecto a las operaciones de forwards vigentes al 31 de diciembre de 2016 y 2015, el Grupo Financiero mantiene 10 y 31 contratos con partes relacionadas con un valor nocional de $26,018 y $43,842 respectivamente; en cuanto a las operaciones con swaps a esas mismas fechas, el Grupo Financiero tiene 130 y 105 contratos con partes relacionadas con un valor nocional de $46,337 y $51,465, respectivamente.

41. *Administración de riesgos (información no auditada)*

To prevent the risks to which the financial group is exposed as a result of its transactions, management has prepared policies and procedures manuals that adhere to the guidelines established by the Commission and Banxico.

The provisions issued by the Commission establish the obligation whereby credit institutions must disclose, through notes to their financial statements, information on the policies, procedures, methodologies and other measures adopted for risk management purposes, together with data regarding the potential losses they face by risk type in the different markets in which they participate.

On December 2, 2005, the Commission issued the general provisions applicable to credit institutions (Sole Circular), which requires that the Internal Audit area perform a comprehensive risk management audit at least once a year or at the yearend close. The Internal Audit area performed this activity according to current standards and subsequently presented its results to the Board of Directors' meeting on January 26, 2016.

a. ***Environment*** - Through comprehensive risk management, the financial group promotes the corporate governance structure used to support the Comprehensive Risk Management Unit (UAIR) and the Risks Committee. Similarly, through these entities, the financial group identifies, measures, controls and monitors its quantifiable and unquantifiable operating risks.

The Risk Committee analyzes the information systematically provided by operating areas.

It also has a contingency plan focused on mitigating the weaknesses detected at the operating, legal and recording levels as a result of performing transactions that exceed the maximum risk tolerances approved by the Risks Committee.

b. ***Market risk*** - To measure and evaluate the risk assumed through its financial transactions, the financial group utilizes computerized tools to calculate the Value at Risk (VaR), while also analyzing the results of sensitivity and stress tests performed under extreme conditions.

To demonstrate statistically that the market risk measurement model generates reliable results, the financial group tests the reliance level of the hypothesis used to make this measurement. The hypothesis test involves applying a Ji-Squared test (Kupiec Test) to the proportion represented by the number of times that the loss actually observed exceeds the estimated risk level.

The financial group currently calculates the market risk of its money market, international bond, variable income and derivatives portfolios.

The value at Risk at the end of 2016, was as follow:

Instrument		Market value		Value at risk (1)	% VaR vs Basic capital
Exchange market	$	14,781	$	136	0.22%
Nominal rate		42,334		51	0.08%
Real rate		5,116		10	0.02%
Derivatives (1)		(6,747)		838	1.36%
Variable income		7,392		175	0.28%
Total	$	62,876	$	1210	1.96%
Basic capital as of September, 30 2016	$	61,844	$	-	

Value at Risk with a 95% reliance level and a one-day horizon.

Using a sensitivity scenario of 100 basis points (bps) and 500 bps, the shortfalls that would be recognized if the derivative instrument positions in effect at December 31, 2016, would be of $(643) and $(3,269), respectively.

The VaR or Value at Risk estimates the maximum loss that could be recorded by the exchange market, fixed rate, derivatives and variable income portfolios

A monthly summary of market risk exposures is presented below:

Date		VaR
30/01/2016	$	1,617
27/02/2016		947
30/03/2016		797
30/04/2016		790
29/05/2016		953
30/06/2016		832
31/07/2016		347
31/08/2016		521
30/09/2016		437
30/10/2016		471
30/11/2016		632
31/12/2016		696
Weighted average	$	697

To measure its market risk, the financial group used the VaR Montecarlo model to one-day with a 95% reliance level based on the risk factor values of the last 252 days.

The Financial Groups' most significant risk position is its derivatives position, which is composed by futures and forward currency, options and swaps in Mexican pesos and US dollars. The presented information includes the market value of these positions, the generated surplus value/shortfall and the daily Value at Risk with a 95% reliance level.

The model assumes the normality of the distribution of risk factor variations; back testing is utilized to validate this assumption.

Market risk management is supplemented with stress tests based on two sensitivity scenarios of 100bps and 500bps, respectively, together with the replication of historical catastrophic conditions with up to four standard deviations and a 60-day horizon, which simulate the manner in which adverse movements will have an accumulated effect on the portfolio at the calculation date. The new stressed risk factor conditions are used to value portfolios and determine their Value at Risk and new mark-to-market.

Under the new conditions stressed of the risk factors the portfolio valuation is made, as well as its risk value and its new brand to market. In addition, the financial group has mechanisms of investment that includes prepayment dynamics of the different types of credits

c. ***Liquidity risk*** - To monitors the liquidity, the Risk Management area calculates the liquidity gaps, so it considers the financial group's financial assets and liabilities, as well as the credits it grants.

The financial group also measures the adverse margin by considering the difference between the purchase and sales prices of financial assets and liabilities.

Furthermore, the market risk in foreign currency is monitored according to the regime established for investments and the admission of liabilities denominated in foreign currency by Banxico.

	2016		2015	
	Balance as per index	**Liquidity index**	**Balance as per index**	**Liquidity index**
January	$ 537	1.35%	$ 285	0.71%
February	632	0.97%	457	1.07%
March	1,122	2.48%	231	0.80%
April	3,039	6.00%	272	0.78%
May	2,147	2.89%	823	1.66%
Junie	636	1.78%	302	0.81%
July	776	2.10%	282	0.85%
August	863	1.03%	390	0.72%
September	850	1.46%	693	2.07%
October	780	2.20%	253	0.63%
November	633	0.89%	532	1.03%
December	1,035	2.09%	1,034	2.91%
Average	$ 1,087	2.02%	$ 462	1.15%

For the determination of the liquidity ratio, the financial group considers liquid assets denominated in foreign currency according to the provisions of Circular 3/2012 issued by the Bank of Mexico so as to hedge foreign currency liabilities within transaction maturity periods.

Transactions with financial derivative instruments

With regard to the liquidity risk of derivative financial instruments, the following is an analysis of the asset and liability maturities of the liquidity gaps, which shows the remaining contractual maturities.

The risk system uses the traditional asset and liabilities management model, which consists of classifying the active and passive components of each instrument recorded in the portfolio based on the different maturity windows; e.g., the US dollar analysis of a long-term currency forwards position will contain the active receivable component denominated in dollars at the Spot exchange rate plus the interest accrued by the cost of converting this amount to the passive dollar rate. Similarly, the Mexican peso analysis considers the interest accrued by the portion of the conversion cost incurred based on the active position denominated in pesos, i.e., liquidity risk analyses can be performed for different time frames and horizons classified by market type and currency.

The calculation of repricing GAPs allows the financial group to determine the rate risk assumed based on liability period differences and investment portfolio duration (assets), while also enabling it to evaluate the liquidity risk of the day by matching the current net cash flow values recorded in the balance sheet, as detailed below:

	(In millions of Mexican Pesos)	Unweighted amount (Average)	Weighted amount (average)
Cash outlays			
1	Total computable liquid assets	Not applicable	39,269
Cash outlays			
2	No Guaranteed Retail Financing	79,880	5,187
3	Stable financing	46,213	1,820
4	Less stable financing	33,667	3,367
5	Unsecured wholesale financing	36,581	9,132
6	Operational deposits	-	-
7	Nonoperational deposits	36,581	9,132
8	Unsecured debt		
9	Secured wholesale financing	Not applicable	128
10	Additional requirements	100,394	7,805
11	Outlays related to financial derivatives and other and other collateral requirements	21,574	2,282
12	Outlays related to losses of debt securities	-	-
13	Lines of credit and liquidity	78,820	5,523
14	Other contractual financing obligations	159,215	17,206
15	Other contingent financing obligations	19,919	-
16	Total cash outlays	Not applicable	39,458
Cash receipts			
17	Cash receipts from secured transactions	15,117	2
18	Cash receipts from unsecured transactions	258,763	10,705
19	Other cash receipts	6,764	6,764
20	Total cash receipts	280,645	17,471
21	Total computable liquid assets	Not applicable	39,269
22	Net total cash outlays	Not applicable	21,987
23	Coeficiente de cobertura de liquidez	Not applicable	193.54%

The liquidity model considers the liquidity quality of portfolio assets, as well as the collateral exposure of assets and liabilities and their condition during the period.

Category	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Greater than 360 days
Assets	$ 84,920.39	$ 14,439.85	$148,641.60	$ 15,974.77	$ 14,160.10	$ 16,345.54	$355,195.23
Liabilities	112,903.13	39,709.19	134,927.45	8,500.72	41,042.13	12,143.71	224,532.33
Gap	(27,982.74)	(25,269.33)	13,714.15	7,474.05	(26,882.03)	4,201.83	130,662.89
Cum.Gap	(27,982.74)	(53,252.08)	(39,537.93)	(32,063.87)	(58,945.90)	(54,744.08)	75,918.82

d. ***Credit risk:*** The Financial Group analyzes credit risk models based on the estimation of the probability of default of each borrower. In addition, in order to manage the risk, the financial group considers a number of quantifiable economic factors and variables, as well as qualitative factors that can not be quantified, and the overall effect of these factors on total portfolio exposure.

In the case of borrowers, the expected loss is calculated using the regulatory model, whose components include the probability of default, severity of loss and exposure to default. The unexpected loss (PNE) is calculated using the Monte Carlo methodology by means of simulations and stress is tested by considering different percentiles of the simulated distribution of losses.

The value at risk and its classification as of December 31, 2016 are as follows:

	Total	Mortgage	Consumer	Commercial
Balance	$ 243,503	$ 6,900	$ 3,783	$ 232,820
Expected loss	6,009	252	759	4,998
VaR (95%)	-	264	767	9,577
Unexpected loss	4,599	12	9	4,579

Currency	Performing loan portfolio	Non-performing loan portfolio	Expected loss (PE)	Number of times for allowance in non-performing loans	% Expected loss / Performing loan
Mexican peso	$ 125,364	$ 3,220	$,912	1.21	3.12%
UDI'S	1	1	1	1	100%
US dollars	113,715	1,202	2,096	1.74	1.84%

The average value of the risk credit exposure is as follow:

Expected impairment as of	Total
31/01/2016	$ 7,259
28/02/2016	6,967
31/03/2016	6,876
30/04/2016	6,529
31/05/2016	6,199
30/06/2016	6,097
31/07/2016	6,023
31/08/2016	5,981
30/09/2016	6,111
31/10/2016	5,998
30/11/2016	6,179
31/12/2016	6,009
Promedio	$ 6,352

Details of the performing portfolio are presented below:

Concept	Importe
Non-revolving consumer	$ 2,791
Corporate	90,678
Financial entities	26,047
States and municipalities - guaranteed	12,412
Mortgage	5,648
MyPyMes	99,984
	$ 237,560

The Unexpected Loss (PNE) as of December 31, 2016, is below.

	Balance	Reserve: Expected loss	VaR (95%)	PNE
Mortgage	$ 6,900	$ 252	$ 264	$ 12
Consumer	$ 3,783	$ 759	$ 767	$ 9
Commercial	$ 232,820	$ 4,998	$ 9,577	$ 4,579

Credit Risk Potential to Maturity, as of December 31, 2016, are as follow:

Credit Risk Financial Instruments	2016 Credit Risk Potential to Maturity	2015 Credit Risk Potential to Maturity
Swaps	$ 185	$ 119
Foreign exchange and forwards	1,151	1,812
Nominar rate	14	47
Real rate	13	13
	-	-
	$ 1,363	$ 1,979

Furthermore, the Credit Analysis Area performs quarterly portfolio quality follow-up by rating borrowers; it also prepares a daily sectorial analysis of Mexico's main economic sectors. Aside from this quarterly credit follow-up, credit risk concentrations are determined by borrower, group and economic activity.

When executing transactions involving futures and forwards contracts, the financial group acts in its own name with financial intermediaries and participants authorized by Banxico, as well as with other participants, which must guarantee the obligations detailed in the contracts executed with the involved parties.

- **Credit management**

  The credit management evaluation and analysis activities performed by the financial group for credit granting, portfolio control and recovery purposes are described below:

- **Credit analysis**

  Credit control and analysis begin when information is received and continue until the credit is fully paid; during this period, this information passes through the filters applied by the financial group's different areas.

In the case commercial credits, a detailed analysis is performed of the company's financial situation and qualitative aspects; the financial group also reviews the borrower's background and consults a credit bureau.

As regards consumer and housing credits and certain products granted to small and medium enterprises (SMEs), the financial group performs parametric analyses and verifies the credit background of each borrower by consulting a credit bureau.

Credit follow-up and evaluation is performed monthly by issuing regulatory reports to ensure fulfillment of the requirements established by the financial group's regulatory authorities. Likewise, it prepares monthly internal reports and updates..

The Financial Group has developed specific credit granting policies according to the requested product or credit type. As regards commercial credits: i) the empowered entities (Credit Committee) determine basic credit conditions involving amounts, guarantees, periods, rates and commissions, among others; ii) the credit operation area ensures the proper documentation of approved credits; iii) credits cannot be utilized without the approval of the credit operation.

With regard to the evaluations performed before granting consumer credits, the Credit Committee authorizes the retail credit analysis area to approve or reject credits requested for up to the amount of ten million Mexican pesos, albeit with specific limits regarding amounts, periods, rates, and guarantees, among others. In this regard, the retail credit analysis area is responsible for the authorization, instrumentation, custody and provision of documentation follow-up for this type of credit.

The financial group has established different credit recovery procedures, which includes credit restructuring negotiations and legal collection procedures.

- **Risk concentration determination**

  The policies and procedures used by the financial group to determine the credit portfolio risk concentrations are summarized below:

  - The Financial Group requires that borrowers with authorized credit lines equal to or exceeding the amount of thirty million investment units (UDIs) provide the information detailed in instruction guidelines to determine joint risks. This data is included in a customer association process to determine and update credit portfolio risks.

  - Before credit lines are authorized, the Credit Analysis area verifies that not exceed the maximum quarterly financing levels established by the Financial Group or those determined by the regulatory authorities.

  - If a credit transactions exceed the limits established by the financial group for reasons other than credit granting, the involved areas are notified of the implementation of the required corrective measures.

  - The Credit Analysis area is responsible to notifying the Commission whenever joint risk limits are exceeded.

- **Distressed portfolio identification**

  The Financial Group monthly analyzes the economic environment in which its borrowers operate so as to timely identify any indications of a distressed portfolio.

  The Financial Group has the policy of identifying and classifying commercial credits in which, based on current information and facts and the credit review process, the principal and interest established according to the originally agreed terms and conditions are unlikely to be fully recovered. Both performing and non-performing portfolios may be identified as distressed portfolios.

e. ***Risk policies applied to derivative products*** - When performing transactions with derivative financial instruments, the financial group's objectives include the following: i) ensuring active short and medium-term participation in these markets; ii) providing derivative market products to fulfill its customers' requirements; iii) identifying and taking advantage of derivative product market conjunctures; and iv) hedging against the risks derived from any unusual underlying variations (currencies, rates, shares, etc.) to which it is exposed.

In general terms, the risk assumed by the financial group when performing currency derivative transactions involves the Mexican peso rate because US dollar futures are placed as a credit portfolio or other assets. These transactions involve a counterparty risk.

The Financial Group's policies establish that risk positions in securities and derivative financial instruments cannot be taken by a broker. The decision to assume risks is exclusively made by senior management through its collegiate entities. The Risks Committee determined that the financial group's positions must be adjusted in the following manner:

	Maturity less than a year (*)	Maturity more tan a year (*)
Nominal rate	2.5	2
Real rate	2.5	2
International Bonds	2.5	2
Derivatives	4	2.5
Capital (1)	-	-

(*) Multiplied by the basic capital of the prior quarter calculated by Banxico..
(1) Until to the limits described in sections I and II of article 75 of the LIC.

- **Documentation of hedge files**

In the case of derivative financial instruments held for hedging purposes, the financial group's management documents hedge file so as to demonstrate their efficiency according to the considerations detailed in the accounting criteria issued by the Commission. Hedges file are designated when a transaction involving a derivative financial instrument is contracted or at a later date, provided the instrument can be classified as such and the formal documentation conditions established by accounting standards are fulfilled.

The documentation prepared by the financial group regarding hedge ratios includes the following aspects:

1) The risk management strategy and objective, as well as the rationale used to perform the transaction.

2) The specific risk or risks to be hedged.

3) The identification of the primary position covered by the hedge and the derivative financial instrument utilized for this purpose.

4) The manner in which hedge effectiveness is initially evaluated (prospectively) and subsequently measured (retrospectively) by applying exposure to the fair value changes of the primary position attributed to hedged risks.

5) The treatment of the total gain or loss generated by the hedge instrument when determining its effectiveness.

The effectiveness of financial derivative instruments used for hedging purposes is evaluated monthly. If management determines that a derivative financial instrument is not highly effective as a hedge, the financial group prospectively ceases to apply the hedge accounting scheme to it.

- **Obligations with counterparties**

  Derivative financial transactions performed outside recognized markets are documented through an outline agreement that establishes the following obligations for the financial group and its counterparties:

  - Deliver the accounting and legal information agreed by the parties in the transaction supplement or confirmation.
  - Deliver any document agreed in the transaction supplement or confirmation to the other party.
  - Comply with applicable laws, regulations and provisions.
  - Ensure the validity of any internal, governmental or any other kind of authorization needed to comply with the obligations assumed under the terms of the executed contract; and
  - Immediately notify the other party in writing when obtaining knowledge of any situation implying the early termination of the outline agreement.

- **Regulatory standards**

  According to the regulatory standards issued by Banxico with regard to derivative financial instruments, the financial group must comply with Circular 4/2012. Aside from establishing rules for the operation of derivative financial instruments, these standards require that the Audit Committee of each credit institution issue an annual communique to confirm its compliance with the provisions issued by Banxico for this purpose.

  The financial group is also subject to the provisions issued by the Commission in relation to transactions performed with derivative financial instruments, which include aspects regarding the treatment, documentation and recording of these transactions and their respective risks, as well as other aspects involving the recommendations given to customers when executing this type of contract.

  Transactions involving derivative financial instruments, whether intended for trading or hedge purposes, are recognized according to their use intention and valued at fair value

f. ***Technological risk*** - The corporate strategy employed to manage the technological risk is based on a general contingency and business continuity plan that considers the recovery of critical mission operations in the financial group's systems, together with the use of firewalls, the management of confidential online information and systems access security.

g. ***Legal risk*** - The specific legal risk policy utilized by the financial group defines the following:

1. The UAIR is responsible for quantifying the estimated legal risk.

2. The UAIR monthly informs the Risks Committee of the legal risk for follow-up purposes.

3. In conjunction with the documentation traffic area, the financial advisor is responsible for the complete and correct maintenance of customer files as regards legal documents, agreements or contracts..

4. The legal area must monitor the adequate execution of agreements or contracts, including the formalization of guarantees to avoid transaction performance defects.

5. The statutory auditor must carry out at least once a year a legal audit to the financial group.

The model proposed for quantifying the legal risk considers the frequency of unfavorable events and loss severity so as to estimate the potential risk.

Unfavorable verdict probability calculation = (Unfavorable frequency) x (Severity)
Unfavorable frequency = (Total unfavorable judgments) / (Total judgments to litigate)
Severity = (∑ unfavorable quantity demanded) / (Total unfavorable judgments)

Expected loss = (∑ unfavorable quantity demanded) x (Unfavorable frequency)

As of December 31, 2016, the loss expected from unfavorable verdicts is less than $1.

h. ***Operating risk*** - As regards non-discretionary risks, the risk tolerance level will be 20% of the average of the last 36 months of the net income month.

For the calculation of the capital requirement for operational risk, the method used by the Financial Group is the basic.

As internal operating risk models are not currently available, the occurrence of operating risks is estimated by means of the simple arithmetic average of the fine and bankruptcy accounts of the last 36 months.

As of December 31, 2016, the monthly average of the fine and bankruptcy, considering the last 36 months was $3.8..

42. Leverage ratio

In accordance with the compliance with the Basel supervision agreements as of June 2016, the leverage ratio is calculated according to the methodology established by the Commission, in order to see if the capital of the financial group adequately supports the assets of the financial group itself.

The following is the leverage ratio at the close of 2016:

Reference	Description	Amount
On balance sheets exposure		
1	In-balance sheet items (excluding derivative financial instruments and securities lending and securities lending - including collaterals received as collateral and recorded on the balance sheet)	$ 352,988
2	(Amounts of assets deducted to determine Tier 1 capital of Basel III)	(23,321)
3	Current replacement cost associated with all transactions with financial derivative instruments (net of the allowable cash variation margin)	329,667

Reference	Description	Amount
Exposure to financial derivative instruments		
4	Costo actual de reemplazo asociado a todas las operaciones con instrumentos financieros derivados (neto del margen de variación en efectivo admisible)	3,646
5	Amounts of additional factors for potential future exposure associated with all derivative financial derivative transactions	4,110
6	Increase by collateral provided in transactions with derivative financial instruments when said collateral is derecognised from the balance sheet according to the operating accounting framework	-
7	(Deductions from accounts receivable by margin of variation in cash provided in transactions with derivative financial instruments)	(3,313)
8	(Exposure to derivative financial instruments on behalf of clients, in which the liquidating partner does not grant its guarantee in case of non-compliance with the obligations of the Central Counterparty)	-
9	Effective adjusted notional amount of the underwriting credit derivatives	-
10	(Compensations made to the adjusted effective notional of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	-
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	4,443
Exposure to securities financing operations		
12	Gross SFT assets (without offsetting recognition), after adjustments for sales accounting transactions	13,394
13	(Accounts Payable and Receivable for offset SFTs)	-
14	Exposure Risk of Counterparty by SFT	-
15	Exhibitions by SFT acting on behalf of third parties	-
16	Total exposures for securities financing operations (sum of lines 12 to 15)	13,394
Other off-balance sheet exposures		
17	Off-balance sheet exposure (gross notional amount)	76,394
18	(Conversion adjustments to credit equivalents)	(12,614)
19	Out-of-balance items (sum of lines 17 and 18)	63,780
Capital and total exposures		
20	Level 1 capital	62,783
21	Total exposures (sum of lines 3, 11, 16 and 19)	411,285
Leverage ratio		
22	Basel III leverage ratio	15.26%

Explanatory notes for the leverage ratio

Reference	Explanation
1	Total assets of the financial group without consolidating subsidiaries or special purpose entities (less the assets presented in said balance sheet by: 1) operations with derivative financial instruments, 2) repurchase transactions and 3) securities lending.
2	Amount of deductions of the basic capital established in items b) to r) of fraction I, of Article 2 Bis 6 of the General Provisions applicable to credit institutions (The CUB). The amount must be registered with a negative sign.
3	Sum of lines 1 and 2
4	Current replacement cost (CR) of transactions with derivative financial instruments, as set out in Schedule 1-L of the Provisions, less partial cash settlements (margin of variation in cash) received, provided that Following conditions: A) In the case of counterparties other than the clearing houses mentioned in the second paragraph of Article 2 Bis 12 a, the cash received must be available to the financial group. B) The market valuation of the transaction is performed daily and the cash received is exchanged with the same frequency. C) The cash received as well as the operation with the derivative instrument are denominated in the same currency. D) The exchange variation amount in cash is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract. E) The framework contract with the counterparty must consider both the transaction and the margin of variation, and must stipulate explicitly that the liquidation, in case of default, bankruptcy, restructuring or insolvency, of any of the parties, will be made after clearing the operations And will consider the cash variation margins received. In any case, the maximum amount of cash variation margins that may be considered will be the one corresponding to the positive value of the current replacement cost of each counterparty.
5	Additional factor according to Annex 1-L of the CUB, of operations with derivative financial instruments. In addition, in the case of credit derivative financial instruments in which credit protection is provided, the conversion value to credit risk must be included in accordance with Article 2 Bis 22 of the CUB Provisions. Under no circumstances may the financial collateral received by the financial group be used to reduce the amount of the additional Factor reported in this line.
6	Does not apply. The accounting framework does not allow for the write-off of assets delivered as collateral.
7	Amount of cash variation margins delivered in transactions with financial derivative instruments that comply with the conditions indicated in line 4 to subtract the cash variation margins received. The amount must be registered with a negative sign.
8	Does not apply.
9	Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.
10	Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.

Reference	Explanation
11	Sum of lines 4 to 10
12	Amount of assets recorded on the balance sheet (accounts receivable recorded in books) of repurchase agreements and securities loan transactions. The amount must not consider any offsetting in accordance with accounting criteria.
13	Positive amount resulting from deducting the accounts payable from the accounts receivable generated in repurchase agreements and security loan transactions, on its own account, with the same counterparty, subject to the following conditions: a) The respective transactions must have the same settlement date. b) There must be the right to settle the transactions at any time. c) The transactions must be settled in the same system and there must be a settlement mechanism or arrangements (lines or guarantees) which enable the settlement to be made at the end of the day on which the decision is taken to settle. d) Any problem related with the settlement of the flows of the collateral in the form of securities, must not hinder the settlement of the accounts payable and receivable in cash. The amount should be recorded with a negative sign.
14	Credit risk conversion value of the repurchase agreements and securities loan transactions on its own account, in accordance with article 2 Bis 22 of the Provisions applicable to credit institutions, when there is no framework offsetting contract; and in accordance with article 2 Bis 37 when such contract exists. The above does not consider adjustments for admissible security interests which are applied to the collateral within the context of capitalization.
15	For repurchase agreements and securities loan transactions on account of third parties, in which the financial group provides collateral to its customers in the event of counterparty default, the amount which should be recorded is the positive difference between the value of the security or cash that the customer has paid and the value of the collateral which the recipient has provided. Furthermore, if the financial group can use the collateral delivered by its customers, on its own account, the amount equivalent to the value of the securities and/or cash delivered by the customer to the financial group.
16	Sum of lines 12 through 15
17	Amounts of credit commitments recognized in memorandum accounts in accordance with accounting criteria.
18	Amounts of reductions in the value of credit commitments recognized in memorandum accounts for application of the credit risk conversion factors established in Title First Bis of the Provisions of the CUB, on the basis that the minimum credit risk conversion factor is 10% (in those cases where the conversion factor is 0%) and in the case of transactions referred to in subsection IV of article 2 Bis 22 of such Provisions, a credit risk conversion factor of 100%. The amount should be recorded with a negative sign.
19	Sum of lines 17 and 18
20	Basic capital calculated in accordance with article 2 Bis 6 of the Provisions of the CUB.
21	Sum of lines 3, 11, 16 and 19.
22	Leverage Ratio. Coefficient of line 20 divided by line 21.

Adjusted Assets

Explanatory Notes for the Adjusted Assets

Reference	Description	Amount
1	Total assets	$ 363,861
2	Adjustment for investments in the equity of banks, financial institutions, insurance companies or commercial entities which consolidate for accounting purposes, but remain outside the scope of regulatory consolidation.	(21,806)
3	Adjustment related to fiduciary assets recognized on the balance sheet in accordance with the accounting framework, but excluded from the measurement of the exposure of the leverage coefficient.	-
4	Adjustment for financial derivatives.	(6,430)
5	Adjustment for repurchase agreements and securities loans transactions.	13,394
6	Adjustment for items recognized in memorandum accounts.	63,780
7	Other adjustments.	(1,514)
8	Exposure to the leverage coefficient	411,285

Reference	Description
1	Total assets of the financial group without consolidating subsidiaries or special purpose entities.
2	Amount of deductions of basic capital contained in subsections b), d), e), f), g), h), i), j) and l) of section I, article 2 Bis 6 of the General provisions applicable to credit institutions. The amount should be recorded with a negative sign.
3	Not applicable. The scope of application is for the financial group, without consolidating subsidiaries or special purpose entities.
4	Amount equivalent to the difference between the figures contained in row 11 of Table I.1 and the figures presented in transactions with financial derivatives contained on the balance sheet of the financial group. The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative.
5	Amount equivalent to the difference between the figures contained in row 16 of Table I.1 and the figure presented for repurchase agreements and loan securities transactions contained on the balance sheet of the financial group. The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative.
6	Amount recorded in row 19 of Table I.1. The amount should be recorded with a positive sign.
7	Amount of the deductions of basic capital contained in subsections c), k), m), n), p), q) and r) of section I of article 2 Bis 6 of the General provisions applicable to credit institutions. The amount should be recorded with a negative sign.
8	Sum of lines 1 to 7, which should match line 21 of Table I.1.

43. New accounting pronouncements

Modifications to accounting criteria issued by the Commission

On January 6, 2017, the Banking Commission published, through the Official Gazette of the Federation, the adjustment in the methodology for the estimation of preventive reserves and credit portfolio rating in order to have adequate risk coverage in credit portfolios of non-revolving consumer and mortgage housing of credit institutions, which will calculate with more precision the reserves that must constitute. For the above, new risk dimensions are introduced at the client level and the parameters of risk of probability of default, severity of loss and exposure to default are updated, which are taken into account for the rating of the loan portfolio and the calculation of reserves Preventive measures.

In addition, a specific methodology for rating and estimating microcredit preventive reserves (non-revolving consumer portfolio) was issued by credit institutions, taking into account the probability of default, the severity of the loss and the exposure To non-compliance and whether the credits are individual or are granted in a group way.

NIF issued by the CINIF applicable to the Financial Group

As of December 31, 2016, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the financial statements of the Financial Group:

a. Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of Juanuary 1, 2017:

   NIF B-13, *Events after the date of the financial statements* - If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

   NIF D-3, *Employee benefits* - Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B- *Application guidance*, B1- *Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market*. Early application is allowed.

b. Improvements to NIF 2017 - The following improvements do not generate accounting changes:

   NIF C-2, *Investment in financial instruments*
   NIF C-3, *Accounts receivable*
   Bulletin C-15, *Impairment in the value of long-lived assets and their disposal*
   NIF C-16, *Impairment of financial instruments receivable*
   NIF C-20, *Financial instruments to collect principal and interest*

   The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements. Furthermore, improvements were made to different NIF to change the acronyms used to identify certain receivable financial instruments.

c. The following NIF were issued and are effective January 1, 2018::

NIF B-17, Determination of fair value
NIF C-2, Investments in financial instruments (1)
NIF C-3, Accounts receivable (1)
NIF C-9, Provisions, contingencies and commitments (1)
NIF C-16, Impairment of financial instruments receivable (1)
NIF C-19, Financial instruments payable (1)
NIF C-20, Financial instruments receivable (1)
NIF D-1, Revenues from contracts with customers
NIF D-2, Costs from contracts with customers

NIF B-17, *Determination of fair value* - Defines fair value as the exit price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date (in other words, a current value based on an exit price). To determine the fair value the following must be considered: a) The specific asset or liability being valued; b) for a nonmonetary asset, the highest and best use of the asset, and, if the asset is used in combination with other assets or on an independent basis; c) the market in which an orderly transaction would take place for the asset or the liability; and d) the appropriate valuation technique or techniques to determine the fair value, which should maximize the use of relevant observable entry data and minimize non-observable entry data.

NIF C-2, *Investment in financial instruments (FI)* - The main change in this standard is the classification of the FI in which the investment is made. The intention of acquisition and utilization of an investment in an FI is discarded for purposes of determining its classification, and is replaced by the business model concept for the management of investments in FI to procure cash flows, which may be obtaining a contractual return from an FI, from the collection of contractual returns and/or sale or obtaining profits from their purchase and sale, with the aim of classifying the different FI. Furthermore, the investments in FI cannot be reclassified between the different categories (loans and receivables, financial liabilities at fair value and trading), unless the business model changes, which is considered unlikely to occur.

NIF C-3, *Accounts receivable* - The main changes consist of specifying that: a) the accounts receivable based on a contract represent a financial instrument; b) the allowance for bad debts for commercial accounts is recognized from the time the revenue is accrued, based on the expected credit losses; c) the time value of money should be considered as of the initial recognition; consequently, if the effect of the present value of the account receivable is material based on its term, it should be adjusted based on such present value, and d) required disclosures include an analysis of the change between the opening and closing balances of the allowance for bad debts.

NIF C-9, *Provisions, contingencies and commitments* - The term probable replaced the term virtually avoidable in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

NIF C-10, *Financial derivatives and hedging relationships* - a) the hedging relationships must be aligned with the risk management strategy so that they qualify as hedging relationships. Otherwise, they would not qualify as such and shall not be recognized as hedging relationships; b) specific measures are eliminated (between 80% and 125% in relation to the effectiveness of the hedged item) to determine whether a hedge is effective and any effectiveness is recognized immediately in results; c) the restriction on being able to establish a hedging relationship for the assets and liabilities valued at fair value was eliminated; d) the hedging relationship is only discontinued if the hedge instrument or the hedged item cease to exist or if the risk management strategy changes, which would be unusual and infrequent; e) the hedging percentage must be rebalanced if there is ineffectiveness, either by increasing or decreasing the hedged item or the hedging instrument; f) any embedded financial derivatives that exist cannot be separated when the host instrument is a financial asset; and g) a net position for revenues and expenses may be designated as a hedged item, as long as such designation reflects the risk management strategy of the financial group.

NIF C-16, *Impairment of financial instruments receivable (FIR)* - Determine when and how the expected losses from impairment of FIR should be recognized; this is when, as result of an increase in the credit risk, it is concluded that a part of the future cash flows from the FIR will not be recovered, and proposes that the expected loss should be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the various quantifiable future events that might affect the amount of the future recoverable cash flows of the FIR, which means that estimates must be made and should be periodically adjusted based on past experience. Furthermore, in relation to interest-bearing FIR, enitites shall estimate the amount and timing for the cash flows expected to be recovered, as the recoverable amount must be recognized at present value.

NIF C-19, *Financial instruments payable* - Establishes: a) the possibility of valuing, after their initial recognition, certain financial liabilities at fair value, when certain exceptional conditions are fulfilled; b) the valuation of long-term liabilities at their present value at initial recognition, considering their present value when their term exceeds one year or outside normal credit conditions, and c) when a liability is restructured, but the future cash flows to settle the liability are not substantially modified, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized based on a modified effective interest rate, instead of directly affecting the net income or loss.

NIF C-20, Financial instruments receivable- Specifies the classification of financial instruments in the assets, based on the business model: a) if the intention is to generate a profit through a contractual return, predetermined in a contract, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase and sale, they are recognized at fair value. Any embedded financial derivative that modifies the cash flows of principal and interest from the host instrument will not be separated; instead, all will be valued at fair value, as if it were a negotiable financial instrument.

NIF D-1, Revenues from contracts with customers - Previously there was no Mexican accounting standard for revenue recognition, for which reason the main changes focus on providing greater consistency in revenue recognition and eliminating weaknesses in the previous supplemental standards. The most important changes consist of establishing a model for revenue recognition based on the following steps: a) transfer of control, the basis for the timeliness of revenue recognition; b) the identification of the different performance obligations in a contract; c) the allocation of the transaction amount between the different unfulfilled obligations based on independent selling prices; d) the introduction of the concept conditional account receivable, when an unfulfilled obligation is satisfied and an unconditional right to the consideration is generated because only the passage of time is required for the payment of such consideration to become enforceable; e) the recognition of collection rights, where in certain cases there may be an unconditional right to the consideration before an unfulfilled obligation is satisfied, and f) the valuation of the revenue, considering aspects such as the recognition of significant financing components, the noncash consideration cash and the consideration payable to a customer.

NIF D-2, Costs from contracts with customers - Separates the standard for recognition of the costs from contracts with customers from that related to recognition of the revenues from contracts with customers, and expands the scope to include costs related to all types of contracts with customers.

(1) It's allowed the anticipated aplication of these NIF starting January 1, 2016, as long as it is done together.

At the date of issuance of these consolidated financial statements, the financial group has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

44. Subsequent event

On August 17, 2015, authorization was requested from the SHCP to carry out the merger by absorption between Fianzas Guardiana Inbursa, S.A. Grupo Financiero Inbursa as a merger company and Seguros de Crédito Inbursa, S.A. As fused that extinguishes. On December 20, 2016, by letter No. UBVA / 090/2016, the SHCP authorized the merger of both companies. Likewise by means of letter No. 06-C00-41100 / 00947 issued on January 17, 2017, the CNSF granted authorization to carry out the merger process.

45. New accounting pronouncements issued by the CINIF

NIF D3, Employee benefits - When there is a preexisting condition of payment for termination of the employment relationship, such payments have to valuate as post-employment benefits. Additionally, are recognized in income immediately past service cost, modifications to the plan, staff reductions, and gains and losses on early settlement as compensation that qualify as termination benefits. In contrast actuarial gains and losses resulting from the remeasurement should be recognized in OCI and recycled to the income statement (comprehensive) in the average working life. Such remeasurements resulting from the comparison of the defined benefit obligation and assets determined at the end of the year versus the amounts that were projected at the beginning of the period for the current year plan. Another important change is to identify the discount rate of the benefit obligation with a rate based on high quality corporate bonds and into a deep market and failing to use government bond rates. The same rate will be used to calculate the projection of plan assets (net rate). The changes are recognized retrospectively.

Opening balances that is recycling the financial group in profit or loss in average remaining working life at the time of the adoption as of January, 2016 amounted to $388.

At the date of issuance of these consolidated financial statements, the Financial Group has not completed its evaluation of the potential effects of adopting these new standards on its financial information.
Los saldos iniciales que estará reciclando el Grupo Financiero en el resultado del ejercicio en la vida laboral remanente promedio, al momento de la adopción en el mes de enero de 2016 ascienden a $388.

46. Authorization of the financial statements

The accompanying consolidated financial statements were authorized for issue on February 27, 2017 and are subject to examination by the Commission and could therefore be modified following this review.

The issuance of the consolidated financial statements and the corresponding notes was authorized by Company's Management on February 27, 2017, for issue and subsequent approval by the General Stockholders' Meeting, which has the power to modify them.

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