TRANSFORMING CAPITAL INTO VALUE

FINANCIAL STATEMENTS 2014

BANORTE
GRUPO FINANCIERO

CONTENTS

AUDIT AND CORPORATE PRACTICES COMMITTEE'S ANNUAL REPORT

Mexico, D.F., March 19th, 2015

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

In accordance with Articles 58 of the Law to Regulate Financial Groups and 43 of the Stock Market Law, the Audit and Corporate Practices Committee (Committee) presents its annual report of activities for 2014.

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

I. In the area of audit:

a) On the state of the Internal Control System (SCI) and Internal Audit of GFNorte and their relevant institutions, deficiencies and deviations, the following elements were taken into consideration:

1. The annual reports on activities in matters of Internal Control of relevant entities are prepared by their General Directors.
2. The reports of Internal Comptrollers and regulations of some relevant entities, and their opinion on the functioning of the SCI.
3. Internal Audit's opinion on the situation of the SCI for relevant entities.
4. Reports on deficiencies and relevant observations of GFNorte and its subsidiaries presented by Internal Audit and follow-ups on corrective actions.
5. Reports of observations on Internal Control of the External Auditor and their opinion of the financial statements for GFNorte and its subsidiaries.
6. Reports of inspections visits by competent Authorities.
7. The opinions of Commissioners for relevant entities in GFNorte.
8. Reports of other Audit Committeeson relevant events and the minutes of their meetings.
9. Reports of Internal Audit's managment and compliance with its work program, and the results of its assurance and quality improvement program.

Taking into consideration indicated elements, we can report that the SCI of GFNorte and its relevant entities works reasonably well in general, and that deficiencies or deviations detected are in the process of being attended to.

With respect to the operation of Internal Audit, this areas has maintained its independence, reasonably met its work program in accordance with best practices, and effectively monitored the implementation of actions to correct observations and identified areas of opportunity.

b) No significant non-compliances to operating guidelines and policies or accounting records of GFNorte and its relevant entities were found. Detected areas of opportunity were reported to policy-makers and steps were taken to address them, a follow-up system ensures their proper implementation.

c) Regarding the performance evaluation of the corporation providing external audit services, it was reported that in the duty of its activities and its relationship with the Administration and the Committee, the quality of the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. (member of Deloitte Touche Tohmatsu) has been confirmed, as well as that of the Auditor in charge.

Additionally, the content of its opinions and reports are quality and useful in supporting the Committee, emphasizing that their results and opinions do not present differences with the Administration.

d) On the description and assessment of the additional or complementary services provided by the External Auditor, during the 2014 fiscal year the hiring of additional services to assess compliance with regulations in the comprehensive risk management process for the Insurance and Annuities companies was approved

Independent experts were hired to perform and impairment testing of GFNorte's goodwill and that of some subsidiaries, conducta technical review of risk models requested by the Bank of Mexico, carry out a review of quality in the Internal Audit area and issue opinions on more than 10 million legal contingencies.

e) The review of financial statements to December 31st, 2014 for GFNorte and its subsidiaires and the External Auditor's opinions were concluded, confirming that they were prepared in all material respects in accordance with applicable accounting principles, and recommended their approval by the Board of Directors. The Committee also reviewed the quarterly interim financial statements for the fiscal year.

f) With repect to the main modifications to policies and accounting criteria used during the year, reports that modifications were made to comply with changes in the applicable regulations, described in Note 4 of the financial statements called "Main Accounting Policies", with a detailed explanation of them and their effects.

An important event in 2014, was when the Board of Directors approved the methodology for the valuation of investment projects.

g) No relevant observations or allegations of irregular events were received during the fiscal year from shareholders, Board members, directors, employees or any third party with respect to accounting, internal controls or internal and external audit. Based on best practices, there is an anonymous complaint system of the Committee follows-up with due attention.

h) The Committee has not been asked to monitor or follow-up on any agreements between the Shareholders' Assembly and the Board of Directors.

i) During the fiscal year, there were various supervisory visits by Banxico, Condusef, IPAB and CNBV, among which stood out the inspection visit carried out by the latter that focused on issues related to the origination process and follow-ups for credit and Internal Audit, which were reported to the Board of Directors in the meeting held on 23 October.

The observations resulting from such visits were largely attended or are being attended to process modifications and/or technological adaptations required.

j) Among other relevant activities carried out by the Committee, the analysis of re-enforcing Audit and Internal Comptrollership structures and the added value activities of the External Auditor.

The Committee followed-up on areas of opportunity identified in the loan process, of which stood out selective loans and SME loans, and revised plans drawn up by the Administration for their remediation, as well as progress of the work plan to be implemented by the General Management of Credit.

With respect to the strategic alliance between GFNorte and IBM, the Committee followed-up on the progress of the "Adding value for the customer" project with the officers responsible for the same.

The Committee revised the plan to replace the system in the Fiduciary area in order to obtain a commercial solution to achieve a greater functional coverage, in addition to efficiencies.

Additionally, the Committee reviewed the plan for "Transformation Markets, Casa de Bolsa and investments" which seeks to change most of the systems and reduce operational risk.

Finally, the Committee assessed propective candidates for top-level positions, including CEO.

II. In the area of Corporate practices:

a) In relation to observations on the performance of relevant managers, the Human Resources Committee reported that there were no cases recorded of executives who acted outside of established policies during the fiscal year.

b) Transactions with related parties were approved by the Board of Directors and to December 31st, 2014 loans provided through Banco Mercantil del Norte to related parties amounted to Ps 3.668 billion, less than the limit set by the corresponding regulation.

   Intercompany transactions were conducted at market prices, which was verified by the External Auditor who reported no relevant findings.

   We can report that during the fiscal year there were no unusual or non-recurring operations that required approval from the Board of Directors.

c) Emolument packages for the CEO and relevant managers included in the Remuneration System were approved by the Board of Directors, which divides their remuneration into ordinary and extraordinary, and includes rules to defer the latter according to established risk indicators and compliance with policies, and was applied consistently during the fiscal year.

d) During the fiscal year the Board of Directors did not award dispensations to directors or relevant managers to take advantage of business opportunities.

Yours truly,

Héctor Reyes Retana y Dahl
President of the Audit and Corporate Practices Committee
Grupo Financiero Banorte

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

Deloitte.

We have audited the accompanying consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements.

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

Auditors' Responsibility.

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries as of December 31, 2014 and 2013, and their financial performance and their cash flows for the years then ended, in accordance with the accounting practices prescribed by the Commission.

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

CPC Fernando Nogueda Conde

Recorded in the General Administration of Federal Tax Audit Number 13204
February 19, 2015

CONSOLIDATED
BALANCE SHEETS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
AS OF DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

ASSETS	2014	2013
CASH AND CASH EQUIVALENTS	**Ps. 73,838**	Ps. 61,978
MARGIN SECURITIES	**45**	59
INVESTMENTS IN SECURITIES		
Trading securities	**248,976**	232,926
Securities available for sale	**104,937**	85,031
Securities held to maturity	**77,736**	96,730
	431,649	414,687
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**871**	202
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	**16,510**	14,799
For hedging purposes	**86**	55
	16,596	14,854
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**143**	158
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	**191,189**	184,624
Financial institutions' loans	**3,316**	4,863
Government loans	**118,962**	95,636
Consumer loans	**68,383**	57,883
Mortgage loans	**89,918**	82,032
TOTAL PERFORMING LOAN PORTFOLIO	**471,768**	425,038
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	**10,649**	10,473
Financial institutions' loans	**1**	–
Government loans	**–**	2
Consumer loans	**2,370**	2,093
Mortgage loans	**1,274**	1,087
TOTAL PAST-DUE LOAN PORTFOLIO	**14,294**	13,655
LOAN PORTFOLIO	**486,062**	438,693
(Minus) Allowance for loan losses	**(15,287)**	(14,289)
LOAN PORTFOLIO, net	**470,775**	424,404
ACQUIRED COLLECTION RIGHTS	**2,984**	3,522
TOTAL LOAN PORTFOLIO, net	**473,759**	427,926
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**1,934**	1,281
PREMIUM RECEIVABLES	**4,502**	3,047
ACCOUNTS RECEIVABLE FROM REINSURANCE	**5,967**	3,563
RECEIVABLES GENERATED BY SECURITIZATIONS	**587**	738
OTHER ACCOUNTS RECEIVABLE, net	**26,646**	21,703
MERCHANDISE INVENTORY	**922**	477
FORECLOSED ASSETS, net	**2,732**	2,781
PROPERTY, FURNITURE AND EQUIPMENT, net	**12,845**	12,033
PERMANENT STOCK INVESTMENTS	**13,916**	14,205
DEFERRED TAXES, net	**2,311**	–
OTHER ASSETS, net		
Other assets, deferred charges and intangible assets	**28,719**	27,096
TOTAL ASSETS	**Ps. 1,097,982**	Ps. 1,006,788

MEMORANDUM ACCOUNTS (Note 36)

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

As of December 31, 2014, the stockholders' equity amounts to Ps. 9,677 (nominal value).

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached Notes are an integral part of these consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
DEPOSITS		
Demand deposits	Ps. 298,852	Ps. 254,219
Time deposits		
General public	185,220	179,146
Money market	8,444	4,971
Senior debt issued	5,406	5,405
	497,922	443,741
INTERBANK AND OTHER LOANS		
Demand loans	–	2,974
Short-term loans	21,082	19,406
Long-term loans	9,002	7,679
	30,084	30,059
TECHNICAL RESERVES	73,693	62,207
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	306,602	304,021
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	154	8
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	17,271	14,827
For hedging purposes	4,020	3,500
	21,291	18,327
ACCOUNTS PAYABLE TO REINSURERS, net	1,619	759
OTHER ACCOUNTS PAYABLES		
Income tax	5,380	794
Employee profit sharing	373	339
Creditors from settlements of transactions	3,224	4,282
Sundry creditors and other payables	15,041	12,936
	24,018	18,351
SUBORDINATED DEBENTURES	16,468	18,001
DEFERRED TAXES, net	–	200
DEFERRED CREDITS AND ADVANCED COLLECTIONS	1,459	2,423
TOTAL LIABILITIES	973,310	898,097
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,632	14,652
Additional paid-in capital	36,201	35,219
	50,833	49,871
OTHER CAPITAL		
Capital reserves	6,657	5,811
Retained earnings from prior years	50,407	39,303
Result from valuation of securities available for sale	634	667
Result from valuation of instruments for cash flow hedging	(762)	(1,420)
Cumulative foreign currency translation adjustment	(75)	(1,083)
Net income	15,228	13,508
	72,089	56,786
MINORITY INTEREST	1,750	2,034
TOTAL STOCKHOLDERS' EQUITY	124,672	108,691
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,097,982	Ps. 1,006,788

Act. José Marcos Ramírez Miguel
CEO

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

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

CONSOLIDATED
INCOME STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

		2014		2013
Interest income	Ps.	72,579	Ps.	70,991
Premium revenue, net		18,692		18,027
Interest expense		(27,861)		(31,456)
Increase in technical reserves		(9,655)		(9,686)
Casualty rate, claims and other contractual obligations, net		(9,659)		(9,138)
NET INTEREST INCOME		44,096		38,738
Provisions for loan losses		(11,196)		(8,942)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES		32,900		29,796
Commission and fee income		12,820		12,006
Commission and fee expense		(4,267)		(3,917)
Brokerage revenues		4,420		3,414
Other operating income (expenses)		3,260		3,223
Non-interest expense		(29,232)		(27,818)
		(12,999)		(13,092)
OPERATING INCOME		19,901		16,704
Equity in earnings of unconsolidated subsidiaries and associated companies		1,220		1,130
INCOME BEFORE INCOME TAX		21,121		17,834
Current income tax		(8,040)		(3,671)
Deferred income taxes, net		2,372		116
		(5,668)		(3,555)
INCOME BEFORE NONCONTROLLING INTEREST		15,453		14,279
Minority interest		(225)		(771)
NET INCOME	Ps.	15,228	Ps.	13,508

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

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

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

Act. José Marcos Ramírez Miguel
CEO

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

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

CONSOLIDATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL								
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging	Cumulative foreign currency translation adjustment	Net income	Total majority interest	Total minority interest	Total stockholders' equity
Balances, January 1, 2013	Ps. 13,072	Ps. 18,320	Ps. 3,399	Ps. 37,644	Ps. 1,598	Ps. (2,493)	Ps. (547)	Ps. 10,888	Ps. 81,881	Ps. 6,628	Ps. 88,509
TRANSACTIONS APPROVED BY STOCKHOLDERS:											
Issuance of shares	1,566	29,634	-	-	-	-	-	-	31,200	-	31,200
Transfer of prior year's result	-	-	-	10,888	-	-	-	(10,888)	-	-	-
Creation of reserves for share repurchase	-	-	2,412	(2,412)	-	-	-	-	-	-	-
Share repurchase	14	153	-	(39)	309	-	-	-	437	-	437
Dividend declared at the General Stockholders' meeting on October 11, 2012 and paid on:											
January 31, 2013	-	-	-	(426)	-	-	-	-	(426)	-	(426)
April 23, 2013	-	-	-	(426)	-	-	-	-	(426)	-	(426)
July 23, 2013	-	-	-	(426)	-	-	-	-	(426)	-	(426)
Dividend declared at the General Stockholders' meeting on October 14 and December 20, 2013 and paid on:											
October 23, 2013	-	-	-	(544)	-	-	-	-	(544)	-	(544)
December 31, 2013	-	-	-	(1,089)	-	-	-	-	(1,089)	-	(1,089)
Acquisition of Banorte shares from IFC	-	(3,747)	-	-	-	-	-	-	(3,747)	-	(3,747)
Acquisition of Minority interest of Seguros Banorte & Pensiones Banorte	-	(8,891)	-	-	-	-	-	-	(8,891)	(2,340)	(11,231)
Total transactions approved by stockholders	1,580	17,149	2,412	5,526	309	-	-	(10,888)	16,088	(2,340)	13,748
COMPREHENSIVE INCOME:											
Net income	-	-	-	-	-	-	-	13,508	13,508	-	13,508
Result from valuation of securities available for sale	-	-	-	-	(1,240)	-	-	-	(1,240)	-	(1,240)
Effect of subsidiaries, affiliates and mutual funds	-	(250)	-	5	-	-	(536)	-	(781)	-	(781)
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,073	-	-	1,073	-	1,073
Modification in loan rating rules	-	-	-	(3,872)	-	-	-	-	(3,872)	-	(3,872)
Total comprehensive income	-	(250)	-	(3,867)	(1,240)	1,073	(536)	13,508	8,688	-	8,688
Minority interest	-	-	-	-	-	-	-	-	-	(2,254)	(2,254)
Balances, December 31, 2013	14,652	35,219	5,811	39,303	667	(1,420)	1,083	13,508	106,657	2,034	108,691
TRANSACTIONS APPROVED BY STOCKHOLDERS:											
Share repurchase for executive shares' plan payable in equity instruments	(20)	438	(357)	1	36	-	-	-	98	-	98
Transfer of prior year's result	-	-	-	13,508	-	-	-	(13,508)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 25, 2014	-	-	314	(314)	-	-	-	-	-	-	-
Creation of reserves for share repurchase	-	-	889	(889)	-	-	-	-	-	-	-
Dividends declared at the General Stockholders' meeting on October 14, 2013 and paid on:											
July 23, 2014	-	-	-	(544)	-	-	-	-	(544)	-	(544)
Dividends declared at the General Stockholders' meeting on October 22, 2014 and paid on:											
October 31, 2014	-	-	-	(674)	-	-	-	-	(674)	-	(674)
Total transactions approved by stockholders	(20)	438	846	11,088	36	-	-	(13,508)	(1,120)	-	(1,120)
COMPREHENSIVE INCOME:											
Net income	-	-	-	-	-	-	-	15,228	15,228	-	15,228
Result from valuation of securities available for sale	-	-	-	-	(69)	-	-	-	(69)	-	(69)
Effect of subsidiaries, affiliates and mutual funds	-	544	-	16	-	-	1,008	-	1,568	-	1,568
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	658	-	-	658	-	658
Total comprehensive income	-	544	-	16	(69)	658	1,008	15,228	17,385	-	17,385
Minority Interest	-	-	-	-	-	-	-	-	-	(284)	(284)
Balances, December 31, 2014	**Ps. 14,632**	**Ps. 36,201**	**Ps. 6,657**	**Ps. 50,407**	**Ps. 634**	**Ps. (762)**	**Ps. (75)**	**Ps. 15,228**	**Ps. 122,922**	**Ps. 1,750**	**Ps. 124,672**

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

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

Act. José Marcos Ramírez Miguel
CEO

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

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

CONSOLIDATED
CASH FLOW STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos)

		2014		2013
Net income	**Ps.**	**15,228**	Ps.	13,508
Items not requiring (generating) resources:				
Depreciation and amortization		**1,262**		1,216
Technical reserves		**9,655**		9,686
Other provisions		**6,005**		(757)
Current and deferred income tax		**5,668**		3,555
Equity in earnings of unconsolidated subsidiaries and associated companies		**(995)**		(359)
		36,823		26,849
OPERATING ACTIVITIES:				
Changes in margin accounts		**13**		437
Changes in investments in securities		**(15,802)**		(69,906)
Changes in debtor balances under repurchase and resale agreements		**(669)**		5,492
Changes in asset position of derivatives financial instruments		**(1,696)**		3,456
Change in loan portfolio		**(44,888)**		(26,132)
Changes in acquired collection rights		**537**		(412)
Changes in accounts receivable from insurance and annuities, net		**(653)**		(396)
Changes in debtor premiums, (net)		**(1,455)**		90
Changes in reinsurance agencies (net) (asset)		**(2,404)**		(847)
Changes in receivables generated by securitizations		**151**		144
Change in foreclosed assets		**61**		156
Change in other operating assets		**(5,881)**		(4,526)
Change in deposits		**51,799**		19,295
Change in interbank and other loans		**10**		(5,829)
Change in creditor balances under repurchase and sale agreements		**2,580**		59,991
Collateral sold or pledged		**145**		(29)
Change in liability position of derivative financial instruments		**2,444**		(2,950)
Change in technical reserves (net)		**1,831**		799
Changes in reinsurance agencies (net) (liability)		**860**		(46)
Change in subordinated debentures		**(1,567)**		(1,457)
Change in other operating liabilities		**(5,291)**		(6,046)
Change in hedging instruments related to operations		**488**		(989)
Income tax		**(3,584)**		(5,324)
Net cash flows provided by (used in) operating activity		**13,852**		(8,180)
INVESTING ACTIVITIES:				
Proceeds on disposal of property, furniture and equipment		**2,002**		2,681
Payments for acquisition of property, furniture and equipment		**(4,006)**		(3,939)
Charges on acquisitions of subsidiaries and associated companies		**409**		1,037
Payment on acquisitions of subsidiaries and associated companies		**-**		(27,345)
Sale of other permanent investments		**-**		(1)
Charges for cash dividends		**1,134**		505
Net cash flows used in investment activity		**(461)**		(27,062)
FINANCING ACTIVITIES:				
Charges for issuance of shares		-		31,200
Dividends paid		**(1,218)**		(2,911)
Repurchase of shares		**(549)**		437
Net cash flow (used in) provided by financing activity		**(1,767)**		28,726
Net increase (decrease) in cash and cash equivalents		**11,624**		(6,516)
Effects from changes in the value of cash and cash equivalents		**236**		14
Cash and cash equivalents at the beginning of the year		**61,978**		68,480
Cash and cash equivalents at the end of the year	**Ps.**	**73,838**	Ps.	61,978

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

Act. José Marcos Ramírez Miguel
CEO

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

C.P. Isaías Velázquez González
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director - Controller

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

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

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

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

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2014.

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

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

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

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 22, 2015 meeting in accordance with the responsibility assigned to this Organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Follow-up on Loan Exposure in the Housing Development Sector
During 2014, the three main housing developers in the country continued facing financial difficulties. Consequently they are in the process of restructuring their debts and have been delinquent in their payments. As of December 31, 2014, two of them have been declared bankruptcy with a prior restructuring plan that would allow them to continue operating.

As part of the agreements made with the creditor banks, these companies' funding may be reactivated provided they comply with the terms and conditions of the agreed upon restructuring.

As of December 31, 2014, the Financial Group's loan exposure with the three developers was Ps. 5,536;of which Ps. 5,418 were past due. According to the Administration's estimate, the hedge funds recorded as of December 31, 2014 of Ps. 3,191 cover the Financial Group's potential losses.

Additionally, as of December 31, 2014, the Financial Group has a Ps. 6,114 balance in investment projects, as per Note 4.

b) Reclassification of Securities Held To Maturity
In December 2014, the Financial Group reclassified securities held to maturity to securities available for sale, comprised mainly of stock certificates and Eurobonds of private companies, of Ps. 4,447. The book value of the securities was Ps. 4,447, with a market value of Ps. 4,396, whereby the Financial Group recognized an appreciated shortfall of (Ps. 51) in its equity

According to the Commission's Circular B-2 "Investments in Securities", the Financial Group may not classify securities acquired as of that date and up to December 31, 2016 in the category of securities held to maturity. Note 6 indicate that the Financial Group had such instruments held to maturity as of December 31, 2014 and 2013.

c) Prepayment of Subordinated Debentures
As part of the use of proceeds from the Public Offering carried out in July 2013, on April 21, Banorte settled the Preferred and Non-Convertible Subordinated Obligations for an amount of Ps 2.2 billion. These 10 year term obligations were issued on March 30, 2009, maturing on March 18, 2019, and paid TIIE + 2.00%.

3 – BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements
The consolidated financial statements and notes as of December 31, 2014 and 2013 include balances and transactions in Mexican pesos of purchasing power of such dates.

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

As of December 31, 2014 and 2013, Grupo Financiero Banorte, S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2014	2013
Banco Mercantil del Norte, S.A. and Subsidiaries	98.22%	97.50%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V.	99.99%	99.99%
Seguros Banorte, S.A. de C.V.	99.99%	99.99%
Pensiones Banorte, S.A. de C.V.	99.99%	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, ER	98.83%	96.76%

Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)
In order to consolidate the financial statements of Banorte USA, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

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

Comprehensive Income
This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the Consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2014 and 2013, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the cumulative conversion effect; the result from valuation of cash flow hedging instruments; and the change in credit card loan rating methodology.

4 – SIGNIFICANT ACCOUNTING POLICIES

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

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

Changes in accounting policies
As of January 1, 2014, the Financial Group adopted changes regarding the following NIFs:

NIF C-11, Stockholders' equity - Establishes the disclosure standards so that future advance payments in capital are presented in the stockholders' equity, for which: i) there must be ruling in the stockholders' or owners' meeting stating that they will be applied to stockholders' equity increases in the future; ii) determine a set number of shares to issue for such advance payments; iii) there is no fixed yield; and iv) they cannot be reimbursed before being capitalized.

NIF C-12, Financial instruments with liability and capital features - Establishes that: i) the main feature required for an equity instrument to qualify as such is that its holder be exposed to risks and benefits, instead of having the right to charge a fixed amount; ii) an equity instrument may be stated as stockholders' equity when it meets certain conditions, such as that the instrument can only be redeemed upon the company's liquidation, provided there is no other unavoidable payment obligation to the holder; iii) it incorporates the concept of subordination, a crucial element of this standard, because if a financial instrument sets a priority of payment or reimbursement over other instruments, it qualifies as a liability; iv) it allows stating an instrument as capital with an option to issue a set number of shares at a fixed price in a currency other than that of the issuer, provided that all the proprietors of the same class of equity instruments have such option in proportion to their share.

Improvements to NIF 2014 - Enhancements issued that caused accounting changes:

NIF C-5, Advance payments - It establishes that the amounts paid in foreign currency shall be recorded at the exchange rate of the transaction date and shall not be subject to subsequent exchange rate fluctuations.

NIF C-15, Impairment in the value of long-term assets and their disposal - It states that impairment losses, as well as their reversals, shall be presented as part of the net profit or loss of the period, in the item deemed appropriate at the professional discretion of the reporting entity. Under no circumstances may impairment losses be reported as part of expenses that have been capitalized in any asset.

In the case of long-term assets for sale, a one-year extension to complete the sale does not preclude the asset from being stated as held for sale. Furthermore, assets and liabilities identified with the discontinuation of a transaction, shall be reported in the general balance sheet, grouped into a single line item of assets and into another of short-term liabilities. The prior year general balance sheets shall not be modified because of this restating.

NIF C-6, Property, plant and equipment, NIF C-7, Intangible assets, NIF C-9, Liabilities, provisions, contingent assets and liabilities, and acquisitions, D-3, Employee benefits - Do not have to be reported under other income and expenses in the statement of income; consequently reference to these concepts are eliminated in these NIF.

As of December 31, 2014, there were no effects of these new standards in the Financial Group's consolidated financial information.

Main changes in accounting principle B-6 "Loan Portfolio":

On September 24, 2014, the Commission published a ruling that modifies the provisions regarding B-6 "Loan Portfolio." This principle's objective is to establish how banking institutions should handle the accounting of loans granted pursuant to Article 43 (fraction VIII) and Article 75 (fractions II and III of Article 224) of the Bankruptcy Law. The main changes are:

- Specify in the definition of past-due loans, that in order to exclude this term from the loans given to borrowers declared bankrupt, the Banks shall continue to receive payment of the principal and interest.

  Past-due loan portfolio - Comprised of loans:

  a) Whose borrowers are declared bankrupt, except loans that:

     i. Continue to receive payment as per fraction VIII of Article 43 of the Bankruptcy Law, or

     ii. are granted pursuant to article 75 as related to fractions II and III of Article 224 of said Law; or

  b) Whose principal, interest or both have not been liquidated as originally agreed, in which case the provisions in paragraphs 53 to 64 of this standard will apply.

- It incorporates the definition of payment.

  Payment.- Actual delivery of the object or amount due or the rendering of the service that was agreed to. The following shall not be considered as payment: accruable interest income from capitalizable leasing or financial factoring; nor capitalized interest.

- It specifies the Bankruptcy Law's rationale regarding how Banks should transfer to past-due loans those loans granted to companies filing for bankruptcy, provided said companies pay the principal and interest.

- Transfer to past-due loans.-

  The outstanding balance according to the conditions set forth in the loan agreement will be recorded as past-due when:

- The Financial Group is aware that the borrower has declared bankruptcy, pursuant to the Bankruptcy Law.
- Without impairment to the stipulations in this number, loans for which payment is continued to be received as per fraction VIII of article 43 of the Bankruptcy Law, as well as loans granted pursuant to article 75 as related to fractions II and III of article 224 of said law, will be transferred to past-due loans in the cases listed in number 2 of paragraph 53 of principle B-6 "Past-due Loans."

Change in recording the result of the valuation of investments in the Insurance and Pension companies' securities

During the second quarter of 2014, the Financial Group restated the result of the valuation of investments in Insurance and Pension companies' securities to the Net Interest Margin under "Trading Income." This is because this concept corresponds to a valuation generated mainly by updating the value of the UDI in Securities Held to Maturity denominated in UDIs for both companies.

This result used to be recorded in "Trading Income" - "Fair Value Valuation Result," as recorded in the Insurance and Pension companies' financial statements. However, given their origin and the intention to uniform the criteria for grouping the transactions of the Financial Group's subsidiaries, it was decided that the valuation of investments in securities of these companies be included as part of the Net Interest Margin in Interest Income of the Financial Group's Income Statement. This restating was done retroactively to have comparable figures, impacting by Ps. 1,557 the Net Interest Margin vs. Trading Income.

Recognition of the effects of inflation in the financial information

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

The cumulative Mexican inflation over the three years prior to 2014 and 2013 was 11.76% and 12.31%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2014 and 2013 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2014 and 2013 were 4.18% and 3.78%, respectively.

Cash and cash equivalents

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

Trading securities

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

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

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

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

Securities available for sale

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

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

Securities held to maturity

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

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

General valuation standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The events considered by the model are divided into:

a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).

b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).

c) Information that the market has about the securities (rating assigned by Commission-approved agencies).

d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Forward and futures contracts

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

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

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

Option contracts

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

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

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

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

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

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

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

Swaps

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

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

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

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

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

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

a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called "derivatives financial instruments" with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in current earnings.

b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:

   i. The accumulated gain or loss of the hedging instrument from its inception.

   ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

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

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

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

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

Cancellation of hedging accounting
A cash flow hedging relation is cancelled when:

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

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

A fair value hedging relation is canceled when:

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

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

Operation strategies

Trading

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

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

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

Hedging

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

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

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

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

Contingencies

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

At present no such contingency situations have arisen.

Embedded derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for loan losses
Application of new portfolio rating criteria
The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

In the case of consumer mortgage and commercial loans, the Financial Group applies Provisions for rating the loan portfolio as issued by the Commission and published in the Official Gazette of the Federation on June 24, 2013. The Financial Group uses the internal methodology authorized by the Commission for rating commercial loans to financial intermediaries until December 31, 2013.

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

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

Since June 2001, the Financial Group has the Commission's approval to apply its own methodology to commercial loans, called Internal Risk Classification (CIR Banorte). CIR Banorte applies to all the commercial loans with balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, and was applied to all the commercial loans (except those granted to financial intermediaries, State and Municipal Governments and loans intended for investment projects having their own source of payment) up to June 29, 2013. Thereafter, the Financial Group adopted the aforementioned changes in Provisions; and up until December 31, 2013, it was applied to loans to financial intermediaries equal to or greater than 4 million UDIS or its equivalent in Mexican pesos, as the changes in the aforementioned Provisions became effective as of January 1, 2014. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained below.

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

On July 25, 2013, the Commission issued Document 111-1/16294/2013, which renewed for a 6-month period, effective as of July 1, 2013, the authorization for such internal commercial loan rating methodology applicable to loans to financial intermediaries.

Commercial loans granted to financial intermediaries equal to or greater than 4 million UDIS or its equivalent in Mexican pesos were rated, up until December 31, 2013 based on the following criteria:

- Debtor's credit quality
- The loans, in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

The Financial Group applied, up until December 31, 2013, the internal risk classification methodology, CIR Banorte, authorized by the Commission, to rate debtors in commercial loans to financial intermediaries; equal to or greater than 4 million UDIS or the equivalent in Mexican pesos, whereas for the rest of the commercial loans and as of January 1, 2014 of the loans to Financial Intermediaries equal to or greater than 4 million UDIS or the equivalent in Mexican pesos, the Financial Group applied the procedure established by the Commission. No material amounts were generated as a result of this change.

When evaluating a debtor's credit quality with the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capacity
	2. Financing sources
	3. Management and decision-making
	4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market in which debtor participates
	– Target markets
	– Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

Each of the risk factors is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

General description of rules established by the Commission

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

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

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

Probability of Default

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

Severity of the loss

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

Exposure to non-compliance

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

Commission's rules for rating commercial loan debtors in loans to financial intermediaries (effective until December 31, 2013), with commitments under 4 million UDIS or the equivalent in Mexican pesos, indicated that the rating should be based on the number of months elapsed as of the first default and, if applicable, the actual and personal guarantees received.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2014, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

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

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

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

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

Income taxes
The provisions for ISR, IETU and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized if, based on financial projections, the Financial Group expects to incur ISR or IETU, and records the deferred tax it will pay. The Financial Group will record deferred ISR or IETU, corresponding to the tax it will pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry-forwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery.

As a result of the 2014 Tax Reform, as of December 31, 2013, deferred IETU is no longer recognized.

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

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

Goodwill
The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 “Business acquisitions.” As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 “Impairment in the value of long-lasting assets and their disposal.” No indicators of impairment of goodwill have been identified as of December 31, 2014 and 2013.

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

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

Technical reserves
The CNSF stipulates that all technical reserves shall be certified on an annual basis by independent actuaries who confirm that the amount of the reserves recorded by the Financial Group on December 31, 2014 are reasonably acceptable based on their obligations, within the parameters established by the actuary, and abiding by the relevant criteria established by the competent authorities.

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

1) Current risk reserve:

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

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

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

The current risk reserve is valued as per the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

2) Contractual obligations:

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

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

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

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

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

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

3) Catastrophic reserve:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Contingent assets and liabilities (unaudited):

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

- Loan commitments (unaudited):

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

- Assets in trust or mandate (unaudited):

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

- Assets in custody or under management (unaudited):

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

- Collateral received:

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

- Collateral received and sold or given as a pledge:

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

Main subsidiaries' income recognition

Banco Mercantil del Norte

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

Casa de Bolsa Banorte Ixe

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

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the Consolidated Balance Sheets, deducting the total of rents from the potential profit.
- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.
- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:
    - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
    - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.
- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.
- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.
- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Seguros Banorte

Income from premiums – Recognized as follows:

a. The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.

b. Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.

c. The rights on premiums are recognized in income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractionated in each of the receipts, in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.

Sólida Administradora de Portafolios

a. The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected – the difference between the result and the collected amount affects the account receivable.

b. Loan interest is recognized as accrued.

c. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2014 and 2013, this line item was composed as follows:

		2014		2013
Cash	Ps.	20,188	Ps.	15,848
Banks		53,422		45,955
Other deposits and available funds		228		175
	Ps.	**73,838**	**Ps.**	**61,978**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 14.7414 and Ps. 13.0843 as of December 31, 2014 and 2013, respectively and is made up as follows:

	Mexican pesos				Denominated in US dollars				Total			
		2014		2013		2014		2013		2014		2013
Call money	Ps.	5,404	Ps.	5,998	Ps.	-	Ps.	3,794	Ps.	5,404	Ps.	9,792
Deposits with foreign credit institutions		–		–		14,237		7,236		14,237		7,236
Domestic banks		176		227		–		–		176		227
Banco de México		33,452		28,581		153		119		33,605		28,700
	Ps.	**39,032**	**Ps.**	**34,806**	**Ps.**	**14,390**	**Ps.**	**11,149**	**Ps.**	**53,422**	**Ps.**	**45,955**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2014 and 2013, the Financial Group had made monetary regulation deposits of Ps. 33,452 and Ps. 28,581, respectively.

As of December 31, 2014 and 2013, the total sum of restricted cash and cash equivalents is Ps. 41,080 and Ps. 39,510, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.425% and 0.432% in USD and 0.18% and 0.25% in Mexican pesos, as of December 31, 2014 and 2013, respectively.

As of December 2014 and 2013, "Other Deposits and Available Funds" includes:

		2014		2013
Minted metals in gold and silver	Ps.	26	Ps.	28
Cashable checks received, pending payment at a 3-day term		58		120
Remittances		144		27
	Ps.	**228**	**Ps.**	**175**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 437.258 and Ps. 257.53, per unit, respectively, in 2014; and Ps. 387.622 and Ps. 274.77, per unit, respectively, in 2013.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2014 and 2013, trading securities are as follows:

	2014								2013	
		Acquisition cost		Accrued interest		Valuation increase (decrease)		Book value		Book value
CETES	Ps.	2,651	Ps.	5	Ps.	–	Ps.	2,656	Ps.	2,725
Bonds		2,339		6		15		2,360		8,714
Development Bonds		60,863		66		(38)		60,891		72,414
Saving Protection Bonds (BPAS)		133,853		394		(34)		134,213		112,250
UDIBONOS		1,146		2		2		1,150		4,994
Bank securities		15,691		6		2		15,699		5,557
Eurobonds		158		1		6		165		224
Securitization certificates		28,069		46		32		28,147		23,335
Treasury notes		–		–		–		–		64
Other securities		2,780		3		(4)		2,779		1,873
Shares		234		–		145		379		–
Investment funds		457		–		80		537		776
	Ps.	**248,241**	**Ps.**	**529**	**Ps.**	**206**	**Ps.**	**248,976**	**Ps.**	**232,926**

During 2014 and 2013, the Financial Group recognized under “Brokerage revenues” a profit and a loss of Ps. 187 and (Ps. 108), respectively, for the fair value valuation of these instruments.

As of December 31, 2014 and 2013, there are Ps. 235,555 and Ps. 228,270, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2014 and 2013, securities available for sale were as follows:

	2014								2013	
		Acquisition cost		Accrued interest		Valuation increase (decrease)		Book value		Book value
US Government Bonds	Ps.	8,440	Ps.	24	Ps.	(122)	Ps.	8,342	Ps.	9,592
CETES		181		–		–		181		412
Bonds		1,005		2		(17)		990		546
Development Bonds		99		–		–		99		3,480
Saving Protection Bonds (BPAS)		61,052		824		318		62,194		43,534
Bank securities		684		–		(102)		582		208
Shares		–		–		–		–		424
Corporate bonds		–		–		–		–		107
EUROBONDS		18,015		526		625		19,166		12,367
Investment funds		7,288		–		122		7,410		7,276
CBIC		31		1		6		38		–
Securitization certificates		6,006		27		(115)		5,918		7,017
Other securities		17		–		–		17		68
	Ps.	**102,818**	**Ps.**	**1,404**	**Ps.**	**715**	**Ps.**	**104,937**	**Ps.**	**85,031**

As of December 31, 2014 and 2013 there are Ps. 66,663 and Ps. 64,590, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

c. Securities held to maturity
As of December 31, 2014 and 2013, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2014			2013
	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- support program for Special Federal Treasury Certificates	Ps. 886	Ps. –	Ps. 886	Ps. 860
Bonds	2,123	6	2,129	2,423
Development Bonds	399	–	399	399
CETES	–	–	–	100
Saving Protection Bonds (BPAS)	3,286	12	3,298	20,953
Udibonos	49,743	67	49,810	42,362
Bank securities	3,054	1,114	4,168	4,924
Eurobonds	187	4	191	786
Securitization certificates	15,644	557	16,201	23,117
Other securities	653	1	654	806
	Ps. 75,975	**Ps. 1,761**	**Ps. 77,736**	**Ps. 96,730**

As of December 31, 2014 and 2013, there are Ps. 7,738 and Ps. 30,988, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2014, the maturities of the securities (expressed at their acquisition cost), are as follows:

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. –	Ps. –	Ps. –	Ps. 886	Ps. 886
Bonds	444	1,356	60	263	2,123
Development Bonds	200	199	–	–	399
Saving Protection Bonds (BPAS)	3,286	–	–	–	3,286
Udibonos	–	–	–	49,743	49,743
Bank securities	1,105	620	749	580	3,054
Eurobonds	–	–	157	30	187
Securitization certificates	220	3,088	315	12,021	15,644
Other securities	151	466	–	36	653
	Ps. 5,406	**Ps. 5,729**	**Ps. 1,281**	**Ps. 63,559**	**Ps. 75,975**

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

d. Collateral
The fair value of the collateral given in derivative transactions as of December 31, 2014 and 2013, were as follows:

		2014 Fair value in millions		
Type of collateral:	Instrument category	Pesos	Denominated in US dollars	Euros
Cash	–	Ps. –	461	–
PEMEX bonds	Available for sale	–	112	–
		Ps. –	573	–

Type of collateral:	Instrument category		2013 Fair value in millions Pesos	Denominated in US dollars	Euros
Cash	–	Ps.	–	306	–
UMS	Available for sale		–	30	6
PEMEX bonds	Available for sale		–	145	128
		Ps.	–	481	134

As of December 31, 2014, the Financial Group's instruments received as collateral totaled Ps. 284; no received collateral was reported as of December 31, 2013.

As of December 31, 2014 and 2013, interest income amounted to Ps. 16,021 and Ps. 16,436, respectively.

Concept		2014		2013
Trading securities	Ps.	11,585	Ps.	10,364
Securities available for sale		3,285		3,919
Securities held to maturity		1,151		2,153
	Ps.	**16,021**	**Ps.**	**16,436**

e. Impaired securities

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

a) considerable financial difficulties of the instrument's issuer;

b) the issuer may be declared bankrupt or in some other financial reorganization;

c) breach of contractual clauses, such as failure to pay interest or the principal;

d) unavailability of an active market for the instrument in question due to financial difficulties; or

e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:

   i. adverse changes in the payment status of the issuers in the group, or

   ii. local or national economic conditions that are correlated with the groups defaults.

As of December 31, 2014 the amount recorded for the impairment of securities available for sale and held to maturity was Ps. 12 and Ps. 221, respectively; while as of December 31, 2013, the reported amounts were Ps. 16 and Ps. 185.

During 2014 and 2013, accrued interest income from impaired instruments as Ps. 1 and Ps. 2, respectively.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2014 and 2013, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

Instrument		2014		2013
CETES	Ps.	1,611	Ps.	1,543
Development Bonds		58,326		73,697
Bonds IPAB		27,188		24,538
Quarterly IPAB bonds		115,313		88,168
Semi-annual IPAB bonds		56,251		56,584
20-year bonds		887		8,745
Udibonos		140		4,821
Government securities		259,716		258,096
Promissory Notes		6,517		307
CEDES		3,940		2,670
CEBUR Bank		18,180		22,043
Bank securities		28,637		25,020
Short-term CEBUR		18,185		20,820
Mortgage certificates		64		85
Private securities		18,249		20,905
	Ps.	**306,602**	**Ps.**	**304,021**

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2014 and 2013 for Ps. 15,513 and Ps. 16,583, respectively, which are presented in the "Interest Expenses" heading.

During 2014, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 364 days.

Acting as securities purchaser

	2014				2013			
Instrument	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
CETES	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 2,000	Ps. 2,000	Ps. –	Ps. –
Development Bonds	14,735	13,865	870	–	10,642	10,642	–	–
Bonds IPAB	4,461	4,461	–	–	8,167	8,167	–	–
Quarterly IPAB bonds	15,829	15,829	–	–	34,628	34,428	200	–
Semi-annual IPAB bonds	117	117	–	–	11,582	11,582	–	–
Udibonos	500	500	–	–	–	–	–	–
20-year bonds	–	–	–	–	500	500	–	–
Government securities	35,642	34,772	870	–	67,519	67,319	200	–
CEDES	–	–	–	–	100	100	–	–
Bank bonds	1,094	1,094	–	–	–	–	–	–
Securitized bank certificates	635	635	–	–	10	10	–	–
Bank securities	1,729	1,729	–	–	110	110	–	–
Short-term CEBUR	7,797	7,950	1	154	5,145	5,151	2	8
Private securities	7,797	7,950	1	154	5,145	5,151	2	8
	Ps. 45,168	**Ps. 44,451**	**Ps. 871**	**Ps. 154**	**Ps. 72,774**	**Ps. 72,580**	**Ps. 202**	**Ps. 8**

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2014 and 2013 for Ps. 5,462 and Ps. 5,417, respectively, which are presented in the "Interest Income" heading.

During 2014, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days.

By December 31, 2014, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 97,855 and Ps. 142,005, respectively, and by December 31, 2013, the totals were Ps. 305,749 in guarantees granted and Ps. 143,033 in guarantees received.

8 - DERIVATIVES FINANCIAL INSTRUMENTS

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

As of December 31, 2014, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective

As of December 31, 2014 and 2013, the Financial Group's derivatives positions held for trading purposes are as follows

Asset position		2014		2013
Forwards				
Foreign currency forwards	Ps.	557	Ps.	144
Options				
Foreign currency options		–		1
Interest rate options		638		542
Swaps				
Interest rate swaps		14,035		12,784
Exchange rate swaps		1,280		1,328
Total trading		16,510		14,799
Options				
Interest rate options		–		1
Swaps				
Interest rate swaps		37		53
Exchange rate swaps		49		1
Total hedging		86		55
Total position	**Ps.**	**16,596**	**Ps.**	**14,854**

Liability position		2014		2013
Forwards				
Foreign currency forwards	Ps.	420	Ps.	96
Options				
Foreign currency options		–		5
Interest rate options		467		365
Swaps				
Interest rate swaps		13,932		12,794
Exchange rate swaps		2,452		1,567
Total trading		17,271		14,827
Swaps				
Interest rate swaps		1,551		1,665
Exchange rate swaps		2,469		1,835
Total hedging		4,020		3,500
Total position	**Ps.**	**21,291**	**Ps.**	**18,327**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2014:

Trading instruments

Instrument		MXN	USD	EUR
Foreign currency forwards	Ps.	16,458	1,179	–
Interest rate options		23,527	111	–
Foreign currency swaps (receiving leg)		13,473	553	20
Foreign currency swaps (paying leg)		7,215	1,047	20
Interest rate swaps (receiving leg)		926,673	16,754	–
Interest rate swaps (paying leg)		926,673	16,754	–

Hedging instruments

Instrument		MXN	USD	EUR	GBP
Interest rate options	Ps.	9,750	–	–	–
Foreign currency swaps (receiving leg)		13,450	70	–	–
Foreign currency swaps (paying leg)		868	257	450	106
Interest rate swaps (receiving leg)		25,978	–	–	–
Interest rate swaps (paying leg)		25,978	–	–	–

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

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

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

Transactions carried out for hedging purposes have maturities from 2015 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2014 is USD 573,000 thousand, and as of December 31, 2013 it was USD 481,000 thousand and EUR 134,000 thousand. Futures transactions are made through recognized markets, and as of December 31, 2014 they represent 7% of the nominal amount of all the derivatives' operations contracts; the remaining 93% correspond to option and swap transactions in OTC markets.

As of December 31, 2014 and 2013, the collateral was comprised mainly of cash, PEMEX bonds, and bank bonds restricted under the categories of trading, held to maturity and securities available for sale. The restriction maturity date for this collateral is from 2014 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2014 and 2013, the Financial Group had no instruments received as collateral in derivative transactions.

During 2014 and 2013, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,222 and (Ps. 792), respectively.

The net amount of estimated gains or losses to date originated by transactions or events that are recorded in cumulative other comprehensive income in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals (Ps. 15).

As of December 31, 2014 and 2013, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging:

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

As of December 31, 2014, there are 109 hedge files related to hedging transactions. Their effectiveness ranges between 85% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives, so as of December 31, 2014, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2014, expected to occur and affect earnings:

Concept		Up to 3 months		More than 3 months and up to 1 year		More than 1 and up to 5 years		More than 5 years
Forecast Funding	Ps.	258	Ps.	792	Ps.	3,221	Ps.	1,371
Liabilities denominated in USD		9		29		171		–
Assets denominated in USD		81		125		734		663
Assets denominated in Euros		168		143		1,400		2,496
Assets denominated in USD		129		20		678		790
	Ps.	**645**	**Ps.**	**1,109**	**Ps.**	**6,204**	**Ps.**	**5,320**

The fair value of the instruments designated as cash flow hedging, recognized in overall earnings in stockholders equity on December 31, 2014 and 2013 totaled (Ps. 762) and (Ps. 1,420), respectively. Furthermore, Ps. 18 and Ps. 75, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 897 and Ps. 67, on December 31, 2014 and 2013, respectively.

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

The following table shows the cash flows hedging valuation balance:

Balance		Valuation of cash flow hedging instruments		Net change in period		Reclassified to income
Balance, January 1, 2007	Ps.	(58)	Ps.	–	Ps.	–
Balance, December 31, 2007	Ps.	(308)	Ps.	(250)	Ps.	–
Balance, December 31, 2008	Ps.	(1,567)	Ps.	(1,259)	Ps.	18
Balance, December 31, 2009	Ps.	(1,394)	Ps.	173	Ps.	47
Balance, December 31, 2010	Ps.	(2,114)	Ps.	(720)	Ps.	42
Balance, December 31, 2011	Ps.	(2,935)	Ps.	(821)	Ps.	15
Balance, December 31, 2012	Ps.	(2,785)	Ps.	150	Ps.	75
Balance, December 31, 2013	Ps.	(1,541)	Ps.	660	Ps.	77
Balance, December 31, 2014	Ps.	(856)	Ps.	658	Ps.	18

9 - LOAN PORTFOLIO

As of December 31, 2014 and 2013, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 142,418	Ps. 150,945	Ps. 10,549	Ps. 10,415	Ps. 152,967	Ps. 161,360
Rediscounted portfolio	6,192	6,971	–	–	6,192	6,971
Denominated in USD						
Commercial	39,120	25,766	100	58	39,220	25,824
Rediscounted portfolio	3,459	942	–	–	3,459	942
Total commercial loans	**191,189**	**184,624**	**10,649**	**10,473**	**201,838**	**195,097**
Loans to financial institutions	3,316	4,863	1	–	3,317	4,863
Consumer loans						
Credit card	23,209	20,323	1,358	1,278	24,567	21,601
Other consumer loans	45,174	37,560	1,012	815	46,186	38,375
Mortgage loans						
Denominated in domestic currency	88,228	80,305	1,207	989	89,435	81,294
Denominated in USD	1,404	1,388	33	43	1,437	1,431
Denominated in UDIS	286	339	34	55	320	394
Government loans	118,962	95,636	–	2	118,962	95,638
	280,579	240,414	3,645	3,182	284,224	243,596
Total loan portfolio	**Ps. 471,768**	**Ps. 425,038**	**Ps. 14,294**	**Ps. 13,655**	**Ps. 486,062**	**Ps. 438,693**

Restructured loans

The restructured loans on December 31, 2014 and 2013 that modified their terms and rates are shown below:

	2014		**2013**	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 8,497	Ps. 1,044	Ps. 2,618	Ps. 873
Financial institutions' loans	38	9	31	–
Government loans	6,668	–	8,852	–
Consumer loans	10	2	6	3
Mortgage loans	47	38	38	29
	Ps. 15,260	**Ps. 1,093**	**Ps. 11,545**	**Ps. 905**

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

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

As of December 31, 2013, past-due loans showed the following periods of delinquency:

		From 1 to 180 days		From 181 to 365 days		From 366 days to 2 years		More than 2 years		Total
Commercial loans										
Business loans	Ps.	3,191	Ps.	6,253	Ps.	592	Ps.	439	Ps.	10,475
Consumer loans		2,007		79		4		3		2,093
Mortgage loans		575		500		12		–		1,087
	Ps.	**5,773**	**Ps.**	**6,832**	**Ps.**	**608**	**Ps.**	**442**	**Ps.**	**13,655**

Past-due loan movements for the years ended on December 31, 2014 and 2013 are shown below:

		2014		2013
Balance at the beginning of the year	Ps.	13,655	Ps.	8,481
Liquidations		(4,894)		(4,514)
Write-offs*		(7,953)		(7,333)
Renewals		(932)		(945)
Loan portfolio purchases		600		–
Discounts		(715)		(435)
Foreclosures		(322)		(169)
Loan portfolio sales		–		(933)
Transfers to performing loans		(5,887)		(3,086)
Transfers from performing loans		20,709		22,559
Merger of Ixe entities		–		17
Fluctuation from foreign exchange rate		33		13
Year-end balance	**Ps.**	**14,294**	**Ps.**	**13,655**

* Corresponds to 100% hedged loans.

As of December 31, 2014, the balance of deferred loan origination fees was Ps. 2,133, and the amount recorded in results was Ps. 2,206. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,085, and the amount recorded in results was Ps. 367. As of December 31, 2013, the balance of deferred loan origination fees was Ps. 2,130, and the amount recorded in results was Ps. 1,544. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 832, and the amount recorded in results was Ps. 389. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

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

The average terms of the portfolio's main balances are: a) commercial, 1.8 years; b) financial institutions, 3.1 years; c) mortgage, 18.7 years; d) government loans, 8.2 years; and e) consumer, 5.6 years.

During the periods ended on December 31, 2014 and 2013, the balance of written off loans that had been fully reserved as past-due loans was Ps. 7,953 and Ps. 7,333, respectively.

On December 31, 2014 and 2013, revenues from recoveries of previously written-off loan portfolios were Ps 716 and Ps 1,194, respectively.

The loans granted per economic sectors as of December 31, 2014 and 2013, are shown below:

	2014			2013		
		AmountConcentration percentage			Amount	Concentration
percentage						
Private (companies and individuals)	Ps.	201,838	41.53%	Ps.	195,096	44.47%
Financial institutions		3,317	0.68%		4,862	1.11%
Credit card and consumer		70,753	14.56%		59,977	13.67%
Mortgage		91,192	18.76%		83,119	18.95%
Government loans		118,962	24.47%		95,639	21.8%
	Ps.	**486,062**	**100.00%**	**Ps.**	**438,693**	**100%**

Special accounting handling of Banco Mercantil del Norte, S.A.'s hurricane "Odile" flooding aid program.
Given the negative impact of the floods caused by hurricane "Odile", the Financial Group has decided to assist in the economic recovery of the affected regions declared disaster areas in the Official Gazette of the Federation by the Ministry of Government, by implementing various support programs to the debtors, as per the following:

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

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

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

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

PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	Ps.	191,187
Financial institutions' loans		3,316
Government loans		118,962
Consumer loans		68,328
Mortgage loans		89,918
TOTAL PERFORMING LOAN PORTFOLIO		471,711
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans		10,651
Financial institutions' loans		1
Consumer loans		2,425
Mortgage loans		1,274
TOTAL PAST-DUE LOAN PORTFOLIO		14,351
LOAN PORTFOLIO		486,062
(Minus) ALLOWANCE FOR LOAN LOSSES		(15,287)
LOAN PORTFOLIO, net		470,775
ACQUIRED COLLECTION RIGHTS		2,984
TOTAL LOAN PORTFOLIO, net	Ps.	473,759

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

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

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

Policies and Procedures for Granting Loans

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

I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer banking), primarily through the branch network.

II. Operations Areas

III. General Comprehensive Risk Management

IV. Recovery Management

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

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

a) Product design

b) Promotion

c) Evaluation

d) Formalization

e) Operation

f) Administration

g) Recovery

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

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

		2014		2013
Distressed commercial loans	Ps.	11,306	Ps.	12,359
Performing		938		2,305
Past-due		10,368		10,054
Commercial loans		350,599		317,044
Performing		350,329		316,495
Past-due		270		549
Total commercial loans		361,905		329,402
Total portfolio	Ps.	523,922	Ps.	471,380
Distressed commercial loans/total portfolio		2.16%		2.62%

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

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2014 and 2013, the Financial Group has no mortgage loans restructured in UDIS.

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

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2014 is Ps. 28, which includes Ps. 27 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 1 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430. In December 31, 2013, the amount was Ps. 58, which included Ps. 56 for the conditioned discounted portion and Ps. 2 for the applied discount.

The obligations of the Federal Government as of December 31, 2014 and 2013 subject to the Agreement are described below:

	Payment date		Amount
Fourth amortization	June 1, 2014	Ps.	28
Fifth amortization	June 1, 2015		28
		Ps.	56

A monthly financial cost is incorporated to each amortization as of the day following the Cut-off Date and up to the close of the month prior to each payment date. The rate for January 2012 is the arithmetic average of the annual rate of return based on the 91-day CETES discount issued in December 2011, and for the subsequent months the 91-day future CETES rate of the previous month as published by Proveedor Integral de Precios, S.A. on the business day after the Cut-off Date, or that of the nearest month contained in said publication, taken on a 28-day return term, then dividing the resulting rate by 360 and multiplying the result by the number of days effectively elapsed during the period it is accrued, capitalized on a monthly basis.

An analysis of the allowance for loan losses during 2010 for the loans included in the Agreement is detailed below:

		2014
Balances, January 1, 2010	Ps.	19
Financial Group support		67
Discounts and write-offs		14
Reserves reclassification		(9)
Contribution to settle fiduciary liability		1
Balances, December 31, 2014	**Ps.**	**92**

During 2014 and 2013, Ps. 8 and Ps. 11, respectively, in support reserves were recorded.

The maximum amount the Financial Group would absorb for loans not susceptible to the Early Termination program and that would be entitled to discount benefits program is Ps. 14.

Ps. 97 were used to repurchase Special Federal Treasury Certificates (CETES); the remaining balance of Special CETES not repurchased by the Federal Government by December 31, 2014 and 2013 was Ps. 885 and Ps. 860, respectively, with maturities between 2017 and 2027.

The Financial Group recognized in 2010 Ps. 330 as an allowance for loan losses and Ps. 56 in deferred taxes as a result of terminating Trusts.

Grupo Financiero Banorte, S.A.B. de C.V.

11 - ALLOWANCE FOR LOAN LOSSES

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

2014

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

2013

			Required allowances for losses											
Risk category		Loan portfolio		Companies		Government		Financial institutions' loans		Consumer portfolio		Mortgage portfolio		Total
Exempted portfolio	Ps.	58	Ps.	–	Ps.	–	Ps.	–	Ps.	–	Ps.	–	Ps.	–
Risk A1	Ps.	294,901	651	262	95	299	81	1,388						
Risk A2		76,002		289		270		142		254		43		998
Risk B1		23,551		162		70		–		631		10		873
Risk B2		19,316		161		–		–		539		16		716
Risk B3		26,706		376		341		–		297		8		1,022
Risk C1		6,890		232		3		–		226		41		502
Risk C2		5,600		203		17		–		489		76		785
Risk D		16,021		4,424		–		–		1,479		292		6,195
Risk E		2,401		487		–		–		949		104		1,540
Unclassified		(66)		–		–		–		–		–		–
	Ps.	471,380	Ps.	6,985	Ps.	963	Ps.	237	Ps.	5,163	Ps.	671	Ps.	14,019
Less: recorded allowance		–											Ps.	14,289
Reserve supplement*	**Ps.**	**471,380**											**Ps.**	**270**

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

As of December 2014 and 2013, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 5,671 and Ps. 4,411, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 32,189 and Ps. 28,275 were also added for loans to related parties.

As of December 31, 2014 and 2013, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2014 and 2013, the allowance for loan losses represents 107% and 105%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2014 and 2013.

Modification in commercial loan rating standards

On June 24, 2013, the Commission published a resolution that modified the provisions regarding the commercial loan rating methodology. The resolution modifies the current model of reserves based on public ratings in order to establish a methodology by which the portfolio in question is rated and covered based on the expected losses for the next 12 months considering the probability of default, severity of the loss and exposure to non-compliance by each client.

The ruling became effective on June 25, 2013 and may be applied as of said date but no later than December 31, 2013 for loans granted to individuals with a business activity, business entities and decentralized government agencies, without considering loans to financial intermediaries to which the new methodology cannot be applied until January 2014.

Abiding by said ruling, the Financial Group decided to apply such methodology with figures up to June 30, 2013. Consequently, the Financial Group recognized Ps. 3,953 (Ps. 3,872 net of minority interest) in “Prior Years’ Earnings” in Stockholders’ Equity, which correspond to the initial cumulative effect of applying the new rating methodologies to commercial loans, not including loans to financial intermediaries, which were adopted until January 2014, as per the Commission’s rules.

The amount of allowances for loan losses for the Financial Group’s commercial loans amounted to Ps. 8.382, and the reserve for said loans considering the methodology in effect prior to this ruling totaled Ps. 4,986, both with figures as of June 30, 2013.

According to the regulatory modifications of June 24, 2013, as of January 1, 2014 the Financial Group used the regulatory methodology based on expected losses from loans to financial intermediaries.

The amount of preventive reserves for loan risks of loans to financial intermediaries totaled Ps. 217, while reserves amount for this portfolio using the methodology effective up to December 31, 2013 was Ps. 229, both figures to January 31, 2014. The effect of this change was recorded in the year’s income.

According to the existing regulation, as of December 31,2014, the Financial Group used the regulatory methodology based on expected losses from commercial (except for loans to investment projects having their own payment source) mortgage and revolving and non-revolving consumer loans.

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

Type of Loan		Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps.	309,319	7.8%	33.9%
Mortgage		89,767	3.0%	26.9%
Non-revolving consumer		46,024	9.3%	63.9%
Revolving Consumer loan		32,994	10.5%	86.5%

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

Additionally, the Financial Group used personal guarantees to cover the loan risk in the commercial loan rating. Such guarantees amount to Ps. 53,748.

Movements in allowance for loan losses

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

		2014		2013
Balance at the beginning of the year	Ps.	14,289	Ps.	11,734
Increase charged to results		10,933		8,717
Discounts and write-offs		(9,811)		(8,988)
Rebates granted to housing debtors		(8)		(11)
Loan portfolio sales		(165)		(1,118)
Effect of the new loan rating methodology		–		3,952
Others		49		3
Year-end balance	**Ps.**	**15,287**	**Ps.**	**14,289**

As of December 31, 2014, the total amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 11,196, and is presented net of (Ps. 311) paid to Other income (expenses), and due to the variation of the USD $48 exchange rate; such amounts are affected against results is comprised of Ps. 10,933 credited directly to the estimate. As of December 31, 2013, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 8,942, and is presented net of (Ps. 228) paid to Other income (expenses), and due to the variation of the USD $3 exchange rate; such amounts are affected against results is comprised of Ps. 8,717 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

As of December 31, 2014 and 2013, the acquired collection rights are comprised as follows:

Valuation Method		2014		2013
Cash basis method	Ps.	1,889	Ps.	1,012
Cost recovery method		1,024		2,415
Interest method		71		95
	Ps.	**2,984**	**Ps.**	**3,522**

As of December 31, 2014 and 2013, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 584, coupled with the corresponding amortization of Ps. 406, the effects of which were recognized under the "Other income (expense)" heading in the Consolidated Income Statement. For the year ended December 31, 2013, the Financial Group recognized income of Ps. 1,370, together with the respective amortization of Ps. 835.

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

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

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

13 – PREMIUM RECEIVABLES

This item is made up as follows:

		2014		2013
Liability	Ps.	155	Ps.	113
Maritime and transportation		51		76
Fire		1		109
Automobile		1,321		1,070
Various		1,427		480
Accidents and health		445		357
Life		323		287
Pensions		505		68
		4,228		2,560
Federal public administration agencies' indebtedness		274		487
	Ps.	**4,502**	**Ps.**	**3,047**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

		2014		2013
Insurance and annuities	Ps.	1,528	Ps.	1,057
Reinsurers' participation for pending claims		2,524		1,739
Reinsurers' participation for current risk		1,898		760
Other participations		17		7
	Ps.	**5,967**	**Ps.**	**3,563**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

		2014		2013
Loans to officers and employees	Ps.	2,683	Ps.	2,210
Debtors from liquidation settlements		2,623		2,138
Debtors from cash collateral		6,522		4,010
Real estate property portfolios		1,038		1,303
Fiduciary rights*		9,265		11,162
Sundry debtors in Mexican pesos		3,368		422
Sundry debtors in foreign currency		928		716
Others		631		135
		27,058		22,096
Allowance for doubtful accounts		(412)		(393)
	Ps.	**26,646**	**Ps.**	**21,703**

* The Financial Group has participation in trusts constituted for housing developments construction. Moreover the Financial Group recognizes an income from the trust's return on its participation based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract, as described in Note 4. As of December 31, 2014 and 2013, the Financial Group recorded impairment of Ps. 33 and Ps. 51, respectively, in investment projects.

Loans to officers and employees mature in 2 to 30 years, and accrue an interest rate from 6% to 10%.

16 - FORECLOSED ASSETS, NET

As of December 31, 2014 and 2013, the foreclosed assets balance is as follows:

		2014		2013
Moveable property	Ps.	182	Ps.	654
Real estate property		3,791		3,177
Goods pledged for sale		24		69
		3,997		3,900
Allowance for losses on foreclosed moveable assets		(49)		(328)
Allowance for losses on foreclosed real estate assets		(1,205)		(761)
Allowance for losses on assets pledged for sale		(11)		(30)
		(1,265)		(1,119)
	Ps.	**2,732**	**Ps.**	**2,781**

As of December 31, 2014, the aging of the reserves for foreclosed assets is made up as follows:

Concept / Months		12 to 18		18 to 24		More than 24		Total
Moveable property	Ps.	2	Ps.	–	Ps.	47	Ps.	49

Concept / Months		12 to 24		24 to 30		30 to 36		36 to 42		42 to 48		More than 48		Total
Real estate property	Ps.	78	Ps.	27	Ps.	259	Ps.	208	Ps.	42	Ps.	591	Ps.	1,205
Goods pledged for sale		–		–		–		2		–		9		11
	Ps.	**78**	**Ps.**	**27**	**Ps.**	**259**	**Ps.**	**210**	**Ps.**	**42**	**Ps.**	**600**	**Ps.**	**1,216**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

		2014		2013
Furniture and equipment	Ps.	10,894	Ps.	9,633
Property intended for offices		6,931		6,747
Installation costs		5,254		4,347
		23,079		20,727
Less - Accumulated depreciation and amortization		(10,234)		(8,694)
	Ps.	**12,845**	**Ps.**	**12,033**

Depreciation recorded in 2014 and 2013 results were Ps. 1,262 and Ps. 1,216, respectively.

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

	Useful Life
Transportation equipment	4 years
Computer equipment (except ATMs)	4.7 years
Computer equipment (ATMs)	7 years
Furniture and equipment	10 years
Real estate	From 4 to 99 years

18 - PERMANENT STOCK INVESTMENTS

Investment in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	Share %		2014		2013
Afore XXI-Banorte, S.A. de C.V.	50%	Ps.	13,318	Ps.	13,514
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%		32		57
Internacional de Inversiones, S.A.P.I. de C.V.	5.62%		–		105
Capital I CI-3, S.A.P.I. de C.V.	50%		28		28
Maxcom Telecomunicaciones, S.A.B. de C.V.	8.31%		259		250
Controladora PROSA, S.A. de C.V.	19.73%		50		50
Sociedades de Inversión Ixe Fondos	Various		90		86
Fondo Chiapas, S.A. de C.V.	9.15%		15		13
Others	Various		124		102
		Ps.	**13,916**	**Ps.**	**14,205**

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

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

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 2,311 and (Ps. 200) as of December 31, 2014 and 2013, respectively, as detailed below:

	2014		2013	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences -_Assets				
Allowance for loan losses	Ps. 3,811	Ps. 1,156	Ps. 3,519	Ps. 1,075
Tax loss carryforwards	5,979	1,794	3,726	1,119
Tax losses in foreclosure sales	265	93		
Tax losses in stock sales	71	21		
Surplus preventive allowances for credit risks over the net tax limit	7,803	2,341	220	66
Excess of tax over book value of foreclosed and fixed assets	2,893	861	2,011	594
PTU	372	112	319	96
Fees collected in advance	2,813	844	2,780	834
Accounting provisions	2,768	831	1,660	500
Financial instruments valuation	441	132	655	197
Other assets	619	189	1,299	376
Total Assets	**Ps. 27,835**	**Ps. 8,374**	**Ps. 16,189**	**Ps. 4,857**

	2014		2013	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences_- Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 8	Ps. 2	Ps. 9	Ps. 3
Portfolios acquired	1,431	429	2,442	718
Capitalizable projects' expenses	4,782	1,435	1,985	596
Provisions	397	119	464	130
Contributions to pension funds	3,640	1,092	3,742	1,123
Intangible assets	1,631	493	1,762	499
Deferred from the IXE purchase method	1,012	304	1,317	395
Other	7,289	2,189	5,305	1,593
Total Liabilities	**20,190**	**6,063**	**17,026**	**5,057**
Net Accumulated Asset	Ps. 7,645	Ps. 2,311	Ps. (837)	Ps. (200)
Deferred tax, net		**Ps. 2,311**		**Ps. (200)**

As explained in Note 29, for 2013 and 2014 the applicable ISR rate is 30%. The Financial Group abided by the determination of the IETU only for 2013 as per the effective legislation .

On December 11, 2013, a decree was published reforming, adding and repealing various provisions of the Income Tax Law that went into effect on January 1, 2014. Other provisions were established through which the income tax rate for 2014 will be 30%, and the Business Flat Tax Law was repealed.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, as of December 31, 2014 and 2013 a net amount of Ps. 120 and 128, respectively, was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

20 - OTHER ASSETS

This item is made up as follows:

		2014		2013
Net asset forecast from labor obligations and savings fund	Ps.	3,674	Ps.	3,860
Payments to amortize		10,455		8,856
Accumulated payment amortization		(1,181)		(1,001)
Goodwill		15,771		15,381
	Ps.	**28,719**	**Ps.**	**27,096**

As of December 31, 2014 and 2013, goodwill is as follows:

		2014		2013
Ixe Grupo Financiero, S.A.B. de C.V.	Ps.	11,537	Ps.	11,537
INB Financial Corp.		3,202		2,842
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER		727		727
Uniteller Financial Services		286		254
Generali México Compañía de Seguros, S.A.		19		21
	Ps.	**15,771**	**Ps.**	**15,381**

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2014 and 2013.

21 - DEPOSITS

Liquidity Coefficient

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

In accordance with such regime, during 2014 and 2013 the Financial Group generated a liquidity requirement of USD 337,487 thousand and USD 104,607 thousand, respectively, and held investments in liquid assets of USD 820,718 thousand and USD 493,062 thousand, representing a surplus of USD 483,231 thousand and USD 387,375 thousand, respectively.

Deposits

The liabilities derived from deposits are made up as follows:

		2014		2013
Demand deposits				
Non-interest bearing checking accounts:				
Cash deposits	Ps.	128,079	Ps.	111,486
Checking accounts in US dollars for individual residents on the Mexican border		1,241		990
Demand deposits accounts		17,713		8,945
Interest bearing checking accounts:				
Other bank checking deposit		70,436		58,018
Savings accounts		3		3
Checking accounts in US dollars for individual residents on the Mexican border		1,457		1,487
Demand deposits accounts		79,923		73,290
		298,852		254,219
Time deposits				
General public:				
Fixed-term deposits		16,625		15,739
Retail time deposits		163,967		153,220
Promissory note with interest payable at maturity PRLV primary market for individuals		4,332		9,849
Foreign residents deposits		20		21
Provision for interest		276		317
		185,220		179,146
Money market:				
Over the counter promissory notes		8,430		4,675
Provision for interest		14		296
		8,444		4,971
		193,664		184,117
Senior debt issued		5,406		5,405
	Ps.	**497,922**	**Ps.**	**443,741**

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

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

Immediately due and payable deposits:

	2014				2013			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.56%	0.60%	0.54%	0.51%	0.53%	0.51%	0.58%	0.53%
Foreign currency	0.03%	0.02%	0.03%	0.02%	0.03%	0.03%	0.03%	0.03%
Banorte USA (INB)								
Demand deposits accounts	0.01%	0.01%	0.01%	0.01%	0.05%	0.04%	0.01%	0.01%
Money market	0.03%	0.03%	0.04%	0.04%	0.06%	0.04%	0.04%	0.04%

Time deposits:

	2014				2013			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
General public								
Mexican pesos and UDIS	2.80%	2.77%	2.46%	2.44%	3.52%	3.29%	3.28%	2.97%
Foreign currency	0.58%	0.60%	0.62%	0.65%	0.59%	0.63%	0.61%	0.57%
Money market	3.68%	3.58%	3.29%	3.05%	4.51%	4.28%	4.16%	3.83%
Banorte USA (INB)	0.33%	0.34%	0.34%	0.34%	0.34%	0.35%	0.35%	0.35%

As of December 31, 2014 and 2013, the terms set for these deposits are as follows:

	2014			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 15,103	Ps. 1,013	Ps. 509	Ps. 16,625
Retail time deposits	162,213	1,578	176	163,967
Promissory note with interest payable at maturity PRLV primary market for individuals	3,392	320	620	4,332
Foreign residents deposits	20	–	–	20
Provision for interest	239	33	4	276
	180,967	2,944	1,309	185,220
Money market:				
Promissory notes	–	–	8,430	8,430
Provision for interest	–	–	14	14
	–	–	8,444	8,444
Senior debt issued	–	–	5,406	5,406
	Ps. 180,967	**Ps. 2,944**	**Ps. 15,159**	**Ps. 199,070**

	2013			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 14,011	Ps. 988	Ps. 740	Ps. 15,739
Retail time deposits	151,666	1,485	69	153,220
Promissory note with interest payable at maturity PRLV primary market for individuals	8,396	478	975	9,849
Foreign residents deposits	21	–	–	21
Provision for interest	275	37	5	317
	174,369	2,988	1,789	179,146
Money market:				
Promissory notes	–	–	4,675	4,675
Provision for interest	–	–	296	296
	–	–	4,971	4,971
Senior debt issued	–	–	5,405	5,405
	Ps. 174,369	**Ps. 2,988**	**Ps. 12,165**	**Ps. 189,522**

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2014 and 2013 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2014	2013	2014	2013	2014	2013
Immediately due						
Domestic banks (Call money)	Ps. –	Ps. 2,974	Ps. –	Ps. –	Ps. –	Ps. 2,974
Short-term:						
Commercial banking	10,383	9,628	65	66	10,448	9,694
Development banking	1,373	2,539	572	427	1,945	2,966
Public trusts	7,753	6,069	930	672	8,683	6,741
Provision for interest	2	1	4	4	6	5
	19,511	18,237	1,571	1,169	21,082	19,406
Long-term						
Commercial banking	4,929	4,469	–	–	4,929	4,469
Development banking	–	–	2,017	97	2,017	97
Public trusts	1,728	2,953	328	160	2,056	3,113
	6,657	7,422	2,345	257	9,002	7,679
	Ps. 26,168	**Ps. 28,633**	**Ps. 3,916**	**Ps. 1,426**	**Ps. 30,084**	**Ps. 30,059**

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

The average interest rates are shown below:

	2014				2013			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIS	3.39%	3.26%	2.99%	2.91%	4.35%	3.75%	3.80%	3.44%
Other bank loans								
Mexican pesos and UDIS	4.77%	4.68%	4.40%	4.19%	4.71%	4.46%	4.64%	4.31%
Foreign currency	1.40%	1.26%	1.71%	1.95%	2.34%	1.49%	2.08%	1.54%

Banorte USA liabilities accrue interest at an average rate of 0.64% and 0.71% as of December 2014 and 2013, respectively. Moreover, the Arrendadora y Factor Banorte, S.A. de C.V. loans accrue an average interest rate of 4.45% and 4.92% in Mexican pesos and 1.82% and 1.93% in U.S. dollars as of December 31, 2013 and 2012, respectively.

23 - TECHNICAL RESERVES

	2014	2013
Current risk:		
Life	Ps. 60,132	Ps. 51,510
Accidents and health	1,431	1,009
Damages	4,330	2,716
	65,893	55,235
Contractual obligations:		
Claims and expirations	3,528	2,415
Unreported claims	1,601	1,780
Dividends on policies	119	417
Insurance funds under management	4	2
Security premiums	155	264
	5,407	4,878
Contingency:		
Catastrophic risk	735	616
Contingencies	1,157	984
Special	501	494
	2,393	2,094
	Ps. 73,693	**Ps. 62,207**

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

		2014		2013
Cashier and certified checks and other negotiable instruments	Ps.	1,857	Ps.	1,715
Provision for employee retirement obligations and saving fund		519		239
Provisions for other obligations		5,778		3,868
Deposits under guardianship		481		415
Visa Travel Money Card		–		410
Withholding taxes		1,623		761
End of month deposits and collects yet to apply		1,329		1,880
Others		3,454		3,648
	Ps.	**15,041**	**Ps.**	**12,936**

25 - EMPLOYEE RETIREMENT OBLIGATIONS

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

The amount of current and projected benefits as of December 31, 2014 and 2013, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

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

	2013							
		Pension plan		Seniority premiums		Medical services		Total
Projected benefit obligation (PBO)	Ps.	(1,020)	Ps.	(221)	Ps.	(2,918)	Ps.	(4,159)
Fund market value		1,517		390		3,999		5,906
Funded status		497		169		1,081		1,747
Unrecognized prior service cost		4		1		221		226
Unrecognized actuarial losses		528		12		1,234		1,774
Net projected asset	**Ps.**	**1,029**	**Ps.**	**182**	**Ps.**	**2,536**	**Ps.**	**3,747**

Moreover, as of December 31, 2014, a separate fund amounting to Ps. 5,886, (Ps. 5,906 in 2013) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

For the years ended December 31, 2014 and 2013, the net periodic pension cost is as follows:

		2014		2013
Service cost	Ps.	230	Ps.	234
Interest cost		354		282
Expected return on plan assets		(512)		(381)
Amortizations of unrecognized items:				
Profits (actuarial losses)		65		63
Plan modifications		11		11
Cost for immediate recognition of P/(G)		(26)		(10)
Net periodic pension cost	**Ps.**	**122**	**Ps.**	**199**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2014 and 2013, are shown below:

Concept	2014 Nominal	2013 Nominal
Discount rate	8.00%	8.75%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	8.75%	8.75%

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

Concept		2014		2013
Defined and projected benefit obligations	Ps.	(247)	Ps.	(244)
Net projected liability	**Ps.**	**(247)**	**Ps.**	**(244)**

For the years ended December 31, 2014 and 2013, the net periodic pension cost is as follows:

Concept		2014		2013
Service cost	Ps.	33	Ps.	35
Interest cost		18		17
Cost / (income) for immediate recognition of P/(G)		82		123
Net periodic pension cost	**Ps.**	**133**	**Ps.**	**175**

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

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2014 and 2013, equivalent to Ps. 2,217 and Ps. 1,758, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2014 and 2013, PTU provision was Ps. 365 and Ps. 318, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2014 and 2013, the subordinated debentures in circulation are as follows:

		2014		2013
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	Ps.	3,200	Ps.	3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.		3,000		3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.		2,750		2,750
Preferred subordinated nonconvertible debentures, BANORTE 09 maturing in March 2019, paying interest at the 28-day TIIE rate plus 2%, payable in 130 periods of 28 days each.		–		2,200
Non preferred subordinated nonconvertible debentures BANOA28 131021, maturing in October 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity.		2,948		2,617
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.		2,356		2,262
Non preferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.		1,769		1,570
Perpetual non preferred subordinated nonconvertible debentures IXEGA66 260299, denominated in US dollars, at an interest rate of 9.75%, payable quarterly.		–		–
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.		152		135
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.		152		135
Accrued interest		141		132
	Ps.	**16,468**	**Ps.**	**18,001**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 14 and Ps. 11 in 2014 and 2013, respectively.

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

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

For the years ended December 31, 2014 and 2013, the amount of the loans granted to related parties were as follows:

Institution granting the loan		2014	% of the limit		2013	% of the limit
Banco Mercantil del Norte, S.A.	Ps.	3,688	15.5%	Ps.	6,778	24.1%

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

Loan portfolio sales

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

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

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

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2014 and 2013:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	Aug 02	Dec 13	Dec 14	Aug 02	Dec 13	Dec 14	Aug 02	Dec 13	Dec 14
Performing loan portfolio									
Commercial	Ps. 5	Ps. –	Ps. –	Ps. 5	Ps. –	Ps. –	Ps. 10	Ps. –	Ps. –
Mortgage	54	8	22	–	–	–	54	8	22
Total	59	8	22	5	–	–	64	8	22
Past-due loan portfolio									
Commercial	405	302	251	293	112	111	698	414	362
Consumer	81	72	72	–	–	–	81	72	72
Mortgage	1,112	258	227	–	–	–	1,112	258	227
Total	1,598	632	550	293	112	111	1,891	744	661
Total portfolio	**1,657**	**640**	**572**	**298**	**112**	**111**	**1,955**	**752**	**683**
Allowance for loan losses (1)									
Commercial	326	302	251	246	112	111	572	414	362
Consumer	77	72	72	–	–	–	77	72	72
Mortgage	669	258	238	–	–	–	669	258	238
Total allowance for loan loss	**1,072**	**632**	**561**	**246**	**112**	**111**	**1,318**	**744**	**672**
Net portfolio	**Ps. 585**	**Ps. 8**	**Ps. 11**	**Ps. 52**	**Ps. –**	**Ps. –**	**Ps. 637**	**Ps. 8**	**Ps. 11**

(1) Allowances required based on the classification methodology applied in the Financial Group that maintained a 99.99% equity interest in Sólida during 2014 and 2013.

As of December 31, 2014 and 2013, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**Dec 14**	**Dec 13**	**Dec 14**	**Dec 13**	**Dec 14**	**Dec 13**
Commercial loans	Ps. 286,398	Ps. 267,511	Ps. 28,387	Ps. 19,291	Ps. 314,785	Ps. 286,802
Consumer loans	42,321	38,380	–	–	42,321	38,380
Mortgage loans	88,537	80,628	–	1	88,537	80,629
Performing loan portfolio	**417,256**	**386,519**	**28,387**	**19,292**	**445,643**	**405,811**
Commercial loans	10,428	10,327	196	168	10,624	10,495
Consumer loans	1,131	962	–	–	1,131	962
Mortgage loans	1,480	1,352	–	–	1,480	1,352
Past-due loan portfolio	**13,039**	**12,641**	**196**	**168**	**13,235**	**12,809**
Total portfolio	**430,295**	**399,160**	**28,583**	**19,460**	**458,878**	**418,620**
Allowance for loan losses	12,112	11,432	360	345	12,472	11,777
Net portfolio	**Ps. 418,183**	**Ps. 387,728**	**Ps. 28,223**	**Ps. 19,115**	**Ps. 446,406**	**Ps. 406,843**
Allowance for loan losses					94.24%	91.94%
% of past-due portfolio					2.88%	3.06%

28 - INFORMATION BY SEGMENT

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

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

2014

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

2013

	Interest				Fees				Total			
		MXP		F.E.		MXP		F.E.		MXP		F.E.
Cash and cash equivalents	Ps.	1,325	Ps.	4	Ps.	–	Ps.	–	Ps.	1,325	Ps.	4
Margin securities		13		–		–		–		13		–
Investment in securities		17,796		197		–		–		17,796		197
Securities repurchasing and loans		5,417		–		–		–		5,417		–
Hedging transactions		2,302		–		–		–		2,302		–
Commercial loans		20,984		383		1,050		20		22,034		403
Mortgage loans		8,261		119		299		–		8,560		119
Consumer loans		12,097		5		193		2		12,290		7
Others		524		–		–		–		524		–
	Ps.	**68,719**	**Ps.**	**708**	**Ps.**	**1,542**	**Ps.**	**22**	**Ps.**	**70,261**	**Ps.**	**730**

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

		2014		2013
Banking sector:				
Net income	Ps.	11,936	Ps.	12,122
Stockholders' equity		94,791		77,926
Total portfolio		477,697		433,147
Past-due loan portfolio		13,912		13,317
Allowance for loan losses		(14,718)		(13,765)
Total net assets		874,908		787,916
Brokerage sector:				
Net income		931		649
Stockholders' equity		2,799		2,569
Portfolio balance		732,713		647,996
Total net assets		102,373		116,576
Long term saving sector				
Net income		4,443		3,576
Stockholders' equity		30,451		29,478
Total net assets		111,164		96,396
Other finance companies sector:				
Net income		569		391
Stockholders' equity		8,044		6,116
Total portfolio		25,163		20,296
Past-due loan portfolio		394		424
Allowance for loan losses		(569)		(531)
Total net assets		39,740		35,598
Grupo Financiero Banorte (Financial Group)				
Net income		15,354		13,754
Stockholders' equity		121,191		104,739
Total assets		121,191		104,739

c. The trading results for the years ended December 31, 2014 and 2013, are as follows:

		2014		2013
Valuation results				
Trading securities	Ps.	202	Ps.	(89)
Decrease in securities		(71)		(41)
Derivatives financial instruments		881		(65)
Total valuation results		**1,012**		**(195)**
Trading results				
Trading securities		1,432		1,155
Securities available for sale		531		871
Securities held to maturity		19		1
Derivatives financial instruments		340		697
Total securities' trading results		**2,322**		**2,724**
Spot foreign currency		1,072		1,105
Foreign currency valuation		3		(219)
Minted metals trading		6		5
Minted metals valuation		5		(6)
Total foreign currency trading results		**1,086**		**885**
Total trading results		**3,408**		**3,609**
Total trading results	**Ps.**	**4,420**	**Ps.**	**3,414**

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

Economic sector		2014	%		2013	%
Agriculture	Ps.	6,505	1.4%	Ps.	6,666	1.6%
Commerce		44,046	9.3%		41,397	9.7%
Construction		29,569	6.3%		31,813	7.5%
Manufacturing		27,704	5.9%		23,985	5.6%
Mining		251	0.1%		254	0.1%
Services		14,685	3.1%		13,167	3.1%
Financial and real estate services		31,911	6.8%		36,680	8.6%
Transportation		10,269	2.2%		11,231	2.6%
Government		118,934	25.2%		95,580	22.5%
INB commercial		11,943	2.5%		8,754	2.1%
Mortgage		89,918	19.0%		82,033	19.4%
Credit card		23,209	4.9%		20,362	4.8%
Other consumer loans		45,168	9.6%		37,517	8.8%
Leasing		8,191	1.7%		7,163	1.7%
Factoring		9,436	2.0%		8,187	1.9%
Government aids		29	0.0%		58	0.0%
Fair value adjustment		–	0.0%		191	0.0%
	Ps.	**471,768**	**100.0%**	**Ps.**	**425,038**	**100.0%**

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

Economic sector		2014	%		2013	%
Agriculture	Ps.	258	1.8%	Ps.	250	1.8%
Commerce		1,930	13.5%		1,121	8.2%
Construction		6,605	46.2%		7,885	57.8%
Manufacturing		596	4.2%		507	3.7%
Mining		2	0.0%		2	0.0%
Services		680	4.8%		332	2.4%
Financial and real estate services		157	1.1%		78	0.6%
Transportation		229	1.6%		100	0.7%
Government		–	0.0%		2	0.0%
INB commercial		11	0.1%		1	0.0%
Mortgage		1,274	8.9%		1,087	8.0%
Credit card		1,358	9.5%		1,278	9.4%
Other consumer loans		1,012	7.0%		815	6.0%
Leasing		116	0.8%		61	0.4%
Factoring		66	0.5%		148	1.1%
Fair value adjustment		–	0.0%		(12)	(0.1%)
	Ps.	**14,294**	**100.0%**	**Ps.**	**13,655**	**100.0%**

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

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

	2013 Geographical location							
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 27,203	Ps. 41,453	Ps. 9,475	Ps. 13,015	Ps. 13,842	Ps. 279	Ps. –	Ps. 105,267
Interest-bearing checking accounts	14,501	59,314	6,433	9,425	15,376	403	–	105,452
Savings accounts	2	1	–	–	–	–	–	3
Current account Ps. and pre-established	7,299	8,988	2,456	4,387	4,348	226	–	27,704
Non-interest bearing demand deposits, USD	1,437	2,752	283	2,180	568	(9)	5,420	12,631
Interest bearing demand deposits, USD	3,032	2,572	372	2,280	369	(1)	5,019	13,643
Savings accounts in USD	–	–	–	–	–	–	383	383
Retail time deposits	22,151	44,664	9,059	10,343	13,891	690	–	100,798
Time deposits, USD	4,352	3,322	1,399	1,391	645	18	7,938	19,065
Customers money market	22,523	15,536	5,089	4,575	2,608	271	–	50,602
Financial intermediaries	–	–	–	–	–	4,268	3,925	8,193
Total deposits	**Ps.102,500**	**Ps.178,602**	**Ps. 34,566**	**Ps. 47,596**	**Ps. 51,647**	**Ps. 6,145**	**Ps. 22,685**	**Ps. 443,741**

29 - PROFIT TAXES

The Financial Group must pay ISR and up to 2013, IETU as well. Therefore the profit tax is ISR and the greater of ISR and IETU up to 2013.

ISR
Pursuant to the new 2014 ISR Law the rate for 2014 and 2013 was 30% and will continue at the same rate for subsequent years.

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

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

	2014	2013
Legal rate	30%	30%
Provisions	–%	–%
Allowance for loan losses	0%	(5%)
Tax inflation	(2%)	(1%)
Non-tax accounting write-offs	2%	5%
Contribution to pension fund	0%	(1%)
Book profit on real and foreclosed property sales	0%	(1%)
Loan recoveries	0%	(2%)
Investment projects recoveries	0%	(1%)
Other entries	(1%)	(3%)
Effective rate	**29%**	**21%**

30 - STOCKHOLDERS' EQUITY

At the Annual General Shareholders' Meeting held on April 25, 2014, was agreed to transfer the Ps. 13,508 profit of 2013 as follows: Ps. 314 to Legal Reserve and Ps. 13,194 to Earnings from Prior Years.

At the Ordinary General Shareholders' Meeting held on October 22, 2014, was agreed to distribute a cash dividend to be paid in October 2014 for the amount of Ps. 674.

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

The Financial Group's shareholders' common stock as of December 31, 2014 and 2013 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
Paid-in Capital	2014	2013
"O" Series	2,769,343,914	2,773,729,563

	Historical Amounts			
Paid-in Capital		2014		2013
"O" Series	Ps.	9,677	Ps.	9,696
Restatement in Mexican pesos through December 2007		4,955		4,956
	Ps.	14,632	Ps.	14,652

As of December 31, 2014 the outstanding shares performed as follows:

Outstanding shares as of January 1, 2014	2,773,729,563
Share repurchase for executive shares' plan payable in equity instruments	(4,385,649)
Outstanding shares as of December 31, 2014	**2,769,343,914**

Restrictions on profits

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

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2014 and 2013, the legal reserve is Ps. 2,933 and Ps. 2,620 and represents 20% and 18% of paid-in capital, respectively.

Share-based payments

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

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

Capitalization Ratio (Banorte)

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

The information for December 31, 2014 sent to Banco de México to review is shown below.

- Banorte's capitalization ratio as of December 31, 2014 was 15.26% of total risk (market, credit and operational), and 21.71% of credit risk, which in both cases exceed the current regulatory requirements.
- The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

Net capital as of December 31, 2014

Tier 1 common equity prior to regulatory adjustments.	**Ps.**	**94,681**
Goodwill (net of applicable deferred profit taxes)		1,599
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)		4,776
Result from valuation of instruments for cash flow hedging		(896)
Benefits on the remainder in securitization transactions		587
Investments in its own shares		402
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Financial Group owns over 10% of the capital stock issued (amount over the 10% threshold)		23,246
National regulatory adjustments		79
Total regulatory adjustments to Tier 1 common equity		29,793
Tier 1 common equity (CET1)		**64,888**
Additional Tier 1 equity (AT1)		5,107
Tier 1 Equity (T1 = CET1 + AT1)		**69,995**
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves		7,756
Reserves		245
Tier 2 equity (T1 = CET1 + AT1)		8,001
Total capital (TC = T1 + T2)	**Ps.**	**77,996**

Assets subject to risk are detailed below:

Assets subject to market risk

Concept		Positions weighted by risk		Capital requirement
Nominal interest rate securities' transactions in Mexican pesos	Ps.	67,448	Ps.	5,396
Floating rate securities' transactions in Mexican pesos		15,496		1,240
Real interest rate or UDI denominated securities' transactions in Mexican pesos		1,321		106
Transactions in domestic currency with a yield rate referenced to the increase in the general minimum wage.		6,976		558
Transactions in domestic currency with a yield rate referenced to the increase in the general minimum Wage.		4		–
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos		1,195		96
Positions in shares or whose yield is indexed to the price of a share or group of shares		1,387		111
Total	**Ps.**	**93,827**	**Ps.**	**7,507**

Assets subject to credit risk

Concept		Risk Weighted Assets		Capital requirement
Group II (weighted at 20%)	Ps.	54	Ps.	4
Group III (weighted at 10%)		561		45
Group III (weighted at 20%)		6,895		552
Group III (weighted at 23%)		155		12
Group III (weighted at 50%)		14,672		1,174
Group IV (weighted at 20%)		11,059		885
Group V (weighted at 20%)		11,682		935
Group V (weighted at 50%)		10,302		824
Group V (weighted at 150%)		8,579		686
Group VI (weighted at 50%)		20,342		1,627
Group VI (weighted at 75%)		5,043		404
Group VI (weighted at 100%)		80,875		6,470
Group VII_A (weighted at 20%)		4,585		367
Group VII_A (weighted at 50%)		1,651		132
Group VII_A (weighted at 100%)		106,979		8,558
Group VII_A (weighted at 150%)		230		18
Group VIII (weighted at 125%)		5,727		458
Group IX (weighted at 100%)		39,759		3,181
Securitizations with a Risk Degree of 1 (weighted at 20%)		1,257		101
Securitizations with a Risk Degree of 2 (weighted at 50%)		575		46
Securitizations with a Risk Degree of 3 (weighted at 100%)		3,666		293
Securitizations with a Risk Degree of 4 (weighted at 350%)		42		3
Securitizations with a Risk Degree of 4, 5, 6 or Non-rated (weighted at 1250%)		602		48
Sum	**Ps.**	**335,292**	**Ps.**	**26,823**
For permanent shares, furniture and real property, and advance payments and deferred charges		24,026		1,922
Total	**Ps.**	**359,318**	**Ps.**	**28,745**

Assets subject to operational risk:

		Risk Weighted Assets		Capital requirement
Total	**Ps.**	**57,911**	**Ps.**	**4,633**

Management

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

Currently we have various sources of liquidity in domestic and foreign currency, including checking accounts and time deposits from our customers, in addition to access to debt and equity markets.

For more detail, see (annex 1-O), supplementary information to the fourth quarter of 2014, according to the Capitalization ratio's information disclosure obligations. Located in the site www.banorte.com/investor relations.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2014 and 2013, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 14.7414 and Ps. 13.0843 per USD 1.00, respectively, as shown below:

	Thousands of US dollars			
		2014		**2013**
Assets		7,274,031		6,501,152
Liabilities		6,859,798		6,104,201
Net asset position in US dollars		**414,233**		**396,951**
Net asset position in Mexican pesos	**Ps.**	**6,106**	**Ps.**	**5,194**

32 - POSITION IN UDIS

As of December 31, 2014 and 2013, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.270368 and Ps. 5.058731, per UDI, respectively, as shown below:

	Thousands of UDIS			
		2014		**2013**
Assets		322,562		1,285,865
Liabilities		455,376		454,783
Net asset position in UDIS		**(132,814)**		**831,082**
Net asset position in Mexican pesos	**Ps.**	**(700)**	**Ps.**	**4,204**

33 - EARNINGS PER SHARE

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

Earnings per share for the years ended December 31, 2014 and 2013 are shown below:

	2014					**2013**	
		Net Income	Weighted share average		Earnings per share		Earnings per share
Net income per share	Ps.	15,228	2,772,539,693	Ps.	5.4924	Ps.	5.3472

Net earnings per diluted shares for the years ended December 31, 2014 and 2013 are shown below:

	2014					**2013**	
		Net Income	Weighted share average		Earnings per share		Earnings per share
Net income per share	Ps.	15,228	2,772,992,558	Ps.	5.4915	Ps.	5.3472

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

To ensure adequate risk management of the Financial Group, as of 1997, the Financial Group's Board of Directors created the Risk Policies Committee (CPR), whose purpose is to manage the risks to which the Financial Group is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of Proprietary Members of the Board of Directors, the CEO of the Financial Group, the Managing Directors of the Financial Group's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:
    - The objectives, guidelines and policies for comprehensive risk management
    - The global limits for risk exposure
    - The mechanisms for implementing corrective measures
    - The special cases or circumstances in which the global and specific limits may be exceeded
2. Approve and review at least once a year:
    - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
    - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed
    - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit
3. Approve:
    - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market
    - The corrective measures proposed by the Comprehensive Risk Management Unit
    - The manuals for comprehensive risk management
    - The technical evaluation of Comprehensive Risk Management aspects.
4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

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

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures, which are the responsibility of the Office of Risk Management (DGAR).

The DGAR reports to the CPR in compliance with the requirements set forth in the Commission's circular, the "General Risk Management Rules Applicable to Credit Financial Groups", in relation to the independence of the different business areas.

The DGAR focuses Comprehensive Risk Management efforts with methodologies for:

- Credit Risk Management
- Operating Risk Management;
- Market Risk Management and Liquidity;
- Market Risk and Liquidity, and Capital Management;

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms to follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following areas:

Credit Risk: Volatility of revenues due to the creation of provisions for impairment of loans and potential credit losses derived from non-payment by a borrower or counterparty.

Market Risk: Volatility of revenues due to changes in the market, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

Liquidity Risk: Potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operational Risk: Loss resulting from inadequate or failed processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk includes all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel, whereas Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Financial Group.

Credit risk

Risk that customers, issuers or counterparties fail to meet their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group credit risk management objectives are as follows:

- Comply with the Desired Risk Profile defined by the Financial Group's Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in financing matters.
- Provide the business departments with clear and sufficient tools to support financing placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.
- Measure the Financial Group's vulnerability to extreme conditions, and consider such results for decision-making.

Individual credit risk
The Financial Group segments the loan portfolio into two large groups: consumer and corporate portfolios.

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of Target Markets, Risk Acceptance Criteria and Banorte Internal Risk Rating (CIR Banorte).

Target Markets and Risk Acceptance Criteria are tools which, coupled with the Internal Risk Rating CIR, are part of the credit strategy of the Financial Group and support to estimate the credit risk level.

Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which the Financial Group is interested in placing loans.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Financial Group in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

CIR Banorte is a rating methodology for the borrower which assesses quantitative and qualitative criteria to determine the credit quality. It is applied to commercial loans equal to or greater than an amount equivalent in Mexican pesos to four million investment units (UDIs) on the rating date.

Portfolio credit risk
The Financial Group has designed a portfolio credit risk methodology which, while also including the best and current international practices regarding to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Financial Group, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates according to the migration of borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, it has been determined, that the borrower's "credit health" depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Financial Group is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of the Financial Group. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 2014, the total operating portfolio of Banco Mercantil del Norte, S.A. (Banco Mercantil del Norte) is Ps. 458,195. The expected loss represents 1.9% and the unexpected loss represents 3.2% of the total operating portfolio. The average expected loss was 2.0% for the period between October and December 2014.

The credit exposure of the investments made by Casa de Bolsa Banorte-Ixe was Ps. 99,409 and the expected loss represents 0.01% of such exposure. The average expected loss was 0.01% for the period between October and December 2014.

The total leasing and factoring portfolio of Arrendadora y Factor, including pure leasing, was Ps. 21,237 million. The expected loss represents 0.9% and the unexpected loss represents 3.2% of the total operating portfolio. The average expected loss was 0.9% for the period between October and December 2014.

The total portfolio of Sólida Administradora de Portafolios is Ps. 3,926 million. The expected loss represents 6.3% and the unexpected loss represents 9.3% of the total operating portfolio. The average expected loss was 6.2% for the period between October and December 2014.

The total operating portfolio of Banorte-IXE Tarjetas was Ps. 23,475. The expected loss represents 10.8% and the unexpected loss represents 10.7% of the total operating portfolio. The average expected loss was 11.3% for the period between October and December 2014.

Credit risk of financial instruments
There are specific policies for the origination, analysis, authorization and management of financial instruments to identify, measure, keep track and control credit risk.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparties. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The analysis policies include the type of information and variables considered to analyze operations with financial instruments when they are presented for their authorization by the corresponding committee, including information about the issuer or counterparty, financial instrument, destination of the transaction within the Financial Group and market information.

The Credit Committee is the body that authorizes operation lines with financial instruments according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counterparty or issuer depending on the rating and type of operation. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counterparty or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%, the higher the rating, the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the total operations in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Financial Group has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

As of December 31, 2014, the investment in securities exposure to credit risk for Banorte is Ps 243,077, of which 98.7% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 8% of the basic capital as of September 2014. Additionally, the exposure of investments to the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2014 has a rating of at least AAA-(mex) and are comprised of (term in weighted average, amount in pesos and rate): exchange listed debt certificates and Pemex bonds with a 7-year 9-month maturity for Ps. 14,659 at 3.5%; exchange listed debt certificates of Banco Inbursa with a maturity of 2 years and 2 months for Ps. 7,192 at 3.5%; certificates of deposit, exchange listed certificates and promissory notes of Banco Santander Mexicano with a 3-month maturity for Ps. 7,773 at 3.2%; and exchange listed certificates and promissory notes of Banobras with an 8-month maturity for Ps. 6,503 at 3.2%

For derivatives, the exposure is (Ps. 5,396), of which 96% is rated A-(mex) or higher on the local scale, which places them at investment grade; the three main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 2% of the basic capital as of September 2014.

For Casa de Bolsa Banorte-Ixe, the credit risk exposure of the investments in securities was Ps. 99,409, of which 99.9% has a rating greater than or equal to A+(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 23% of the basic capital as of September 2014. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2014 has a rating of at least A+(mex) and is comprised of (term in weighted average, amount in million pesos and interest rate): exchange listed debt certificates of Pemex with a 4-year 9-month maturity for Ps. 2,675 at 3.4%; exchange listed debt certificates of Scotiabank with a 1-year 10-month maturity for Ps. 1,931 at 3.4%; exchange listed debt certificates of Banamex with a 1-year 9-month maturity for Ps. 1,821 at 3.4%; exchange listed debt certificates of Banco Inbursa with an 11-month maturity for Ps. 1,782 at 3.4%; exchange listed debt certificates of HSBC with a 3-year 11-month maturity for Ps. 1,151 at 3.6%; certificates of deposit of Banco del Bajio at a 1-month maturity for Ps. 442 at 3.6%; and Deutsche Bank bonds with an 8-year 5-month maturity for Ps. 411 at 9.9%. There are no operations for derivatives financial instruments.

Arrendadora and Factor Banorte has no investments in securities nor derivatives financial instruments.

The exposure in investments in securities for Sólida Administradora de Portafolios is Ps. 95. All of which are in bank instruments. There are no derivatives financial instruments.

Banorte-IXE Tarjetas has neither investments in securities nor Securities is Ps. 410. all of which are in bank instruments. There are no derivatives financial instruments.

Risk Diversification

In December 2005, the Commission issued the “General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions”.

These regulations require that the Banco Mercantil del Norte perform an analysis of the borrowers and/or loans they hold to determine the amount of their “Common Risk”. Also, Banco Mercantil del Norte must have the necessary documentation to support that a person or group of persons represent a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information is provided below (millions of pesos):

Basic capital as of September 30, 2014	**67,840**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	2
Overall amount	16,608
% in relation to basic capital	24%
II. Maximum amount of financing with the three largest debtors and common risk groups	**34,527**

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

Stockholders’ equity as of September 30, 2014	**3,696**
I. Financing whose individual amount represents more than 10% of stockholders’ equity:	
Credit transactions	
Number	5
Overall amount	3,851
% in relation to stockholders equity	104%

II. Maximum amount of financing with the three largest debtors and common risk groups	**5,124**

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

Stockholders' equity as of September 30, 2014	**4,007**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
II. Maximum amount of financing with the three largest debtors and common risk groups	**632**

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

Stockholders' equity as of September 30, 2014	**4,578**
I. Financing whose individual amount represents more than 10% of stockholders' equity (group level):	
Money market transactions	
Number	1
Overall amount	410
% in relation to stockholders equity	9%
Overnight transactions	
Number	1
Overall amount	56
% in relation to stockholders equity	1%
II. Maximum amount of financing with the three largest debtors and common risk groups	**4**

Market risk

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk ("VaR"). The meaning of the VaR under this method is the potential day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures ensure that unforeseen volatiles are considered in the main risk factors that affect those portfolios.

The methodology is applied to all the portfolios of financial instruments on and off balance sheet, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for financial instruments portfolio was Ps. 5,811 for the last quarter 2014.

	4Q13	1Q14	2Q14	3Q14	4Q14
VaR Banorte*	4,616	5,149	5,389	6,261	5,811
Banorte net capital***	69,619	72,938	73,493	75,791	77,996
VaR / net capital Banorte	6.63%	7.06%	7.33%	8.26%	7.45%

* Quarterly Average
*** Sum of net capital at the close of the quarter

Also, the average of the VaR per risk factor for Banco Mercantil del Norte's portfolio of securities behaved as follows during the fourth quarter of 2014:

Risk factor		VaR
Domestic interest rate	Ps.	4,957
Foreign interest rate	Ps.	1,316
Exchange rate	Ps.	352
Capital	Ps.	83
Total VaR	Ps.	5,811

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, keeping constant the variables that affect the other risk factors shown. Also, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, reason why the arithmetical sum of the VaR risk factors does not match the individual amounts.

Operations with derivative products

The Financial Group's individual VaR on a one-day time horizon for each type of trading and hedging derivatives for the fourth quarter of 2014 was:

Trading derivatives		4Q14		4Q13
Futures				
MEXDER rate futures	Ps.	3	Ps.	3
Exchange rate derivatives				
Forwards		56		122
Options		–		2
Interest rate options				
TIIE		18		6
Swap options				
TIIE		12		–
Interest rate swaps (IRS) and exchange rate				
TIIE swaps		23		55
LIBOR swaps		23		39
Cross currency exchange rate swaps		159		164
Total trading derivatives	**Ps.**	**294**	**Ps.**	**391**

Hedging derivatives		4Q14		4Q13
Swaps				
Cross currency exchange rate swaps for hedging bonds in USD	Ps.	354	Ps.	171
TIIE swaps for hedging obligations in Mexican pesos		3		4
TIIE swaps for hedging promissory note in Mexican pesos		–		–
Interest rate options for hedging fixed rate portfolios		142		161
Total hedging derivatives	**Ps.**	**499**	**Ps.**	**336**

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIIE Swaps is Ps. 23 million. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 23 million in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Investment in securities

The Financial Group's individual VaR on a one-day time horizon for each type of trading securities for the fourth quarter of 2014 was:

Trading Securities		4Q14		4Q13
Floating rate government bonds	Ps.	34	Ps.	62
Fixed rate government bonds		18		28
Zero coupon bank bonds		1		1
Exchange listed debt certificates		66		79
CEDES		1		–
Actual rate bonds		–		19
US treasury bonds		10		23
PEMEX Eurobonds		155		164
UMS		106		8
Bank Eurobonds		13		19
Private company Eurobonds		11		6
Private company Eurobonds dollars		18		23
Total	**Ps.**	**433**	**Ps.**	**432**

Securities at maturity		4Q14		4Q13
Floating rate government bonds	Ps.	1	Ps.	7
Exchange listed debt certificates		34		33
Bank bonds		–		2
PEMEX bonds		–		7
Private company Eurobonds		–		6
Private company Eurobonds dollars		–		3
Total	**Ps.**	**35**	**Ps.**	**58**

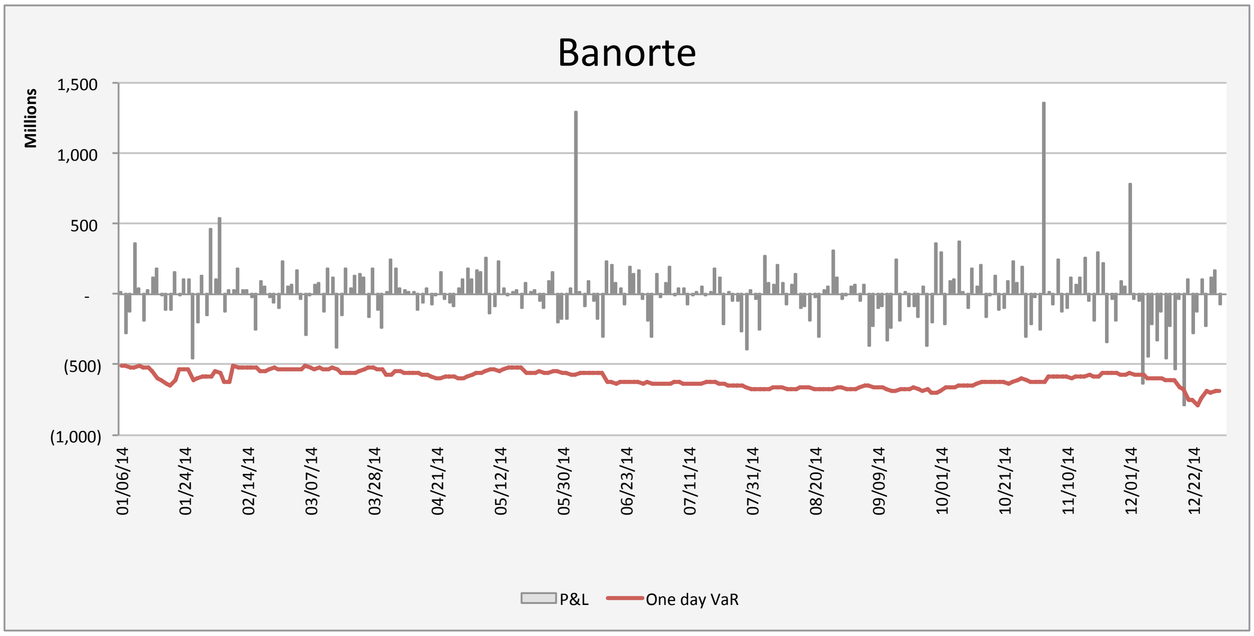
To calculate the VaR for each type of securities listed, the non-parametric historic simulation method is applied to a 99%% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps 106. This means that under normal condition, 99 days out of every 100, the maximum potential loss is Ps. 106 million in one day.

The trading and hedging derivatives' totals are the arithmetic sum of each VaR without considering any correlation among them.

Backtesting analysis

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The Backtesting results for the Financial Group as of December 2014 are as follows:



During 2014, there were two surplus events of the forecast VaR vs. the Actual VaR for the Banorte portfolio.

Sensitivity analysis and tests under extreme conditions
To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

Sensitivity for derivatives' products

Sensitivity analysis on derivative transactions is carried out as follows:

o Estimate gain or loss of the securities valuation in the event of:

- A parallel change of +100 basis points of domestic interest rates
- A parallel change of +100 basis points of foreign interest rates
- A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.

The results may be gains or losses depending on the nature of the derivative.

Trading derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% e xchange rate
Futures			
MEXDER futures	Ps. (26)	Ps. –	Ps. –
Exchange rate derivatives			
Forwards	3	(3)	225
Interest rate options			
TIIE	(98)	–	–
LIBOR	–	(1)	–
Swap options			
TIIE	(8)	–	–
Interest rate swaps (IRS) and exchange rate			
TIIE Swaps	(225)	–	–
LIBOR Swaps	–	164	(14)
Cross exchange rate Swaps	(85)	(161)	(424)
Total trading derivatives	**Ps. (439)**	**Ps. (1)**	**Ps. (213)**

Hedging derivatives	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate
Rate swaps and exchange rate			
Cross currency exchange rate swaps for hedging bonds in USD	Ps. (577)	Ps. 191	Ps. (205)
Cross currency exchange rate swaps for hedging bonds in Mexican pesos	4	(6)	11
TIIE swaps for hedging promissory note in Mexican pesos	699	–	–
Total hedging derivatives	**Ps. 126**	**Ps. 185**	**Ps. (194)**

In the event of any of the above scenarios, the trading securities losses will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

Based on the above analysis, it can be concluded that the trading derivatives portfolio is exposed mainly to increases in domestic interest rates and exchange rate devaluations. However, the hedging derivatives portfolio is exposed to foreign interest rate increases without considering the gain of the hedged liability.

Sensitivity for securities' trading

Sensitivity analysis on derivative transactions is carried out as follows:

o Estimate gain or loss of the securities valuation in the event of:

- A parallel change of +100 basis points of domestic interest rates
- A parallel change of +100 basis points of foreign interest rates
- A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
- A change of +5 basis points in the spreads of government bonds
- A change of +50 basis points in sovereign risk
- A change of +10% in the IPC (Consumer Price Index)

The results may be gains or losses depending on the nature of the instrument.

Trading Securities		+100 bp domestic rates		+100 bp foreign rates		+5% exchange rate		+5 bp rate spreads		+50 bp sovereign risk
Floating rate government bonds	Ps.	(255)	Ps.	–	Ps.	–	Ps.	(230)	Ps.	–
Fixed rate government bonds		(82)		–		–		–		–
Zero coupon bank bonds		(12)		–		–		–		–
Exchange listed debt certificates		(50)		–		–		–		–
Promissory note payable upon maturity		(19)		–		–		–		–
CEDES		(1)		–		–		–		–
US treasury bonds		–		(46)		32		–		–
PEMEX bonds		–		(757)		221		–		(272)
UMS		–		(519)		4		–		(265)
Bank bonds in USD		–		(26)		49		–		–
Private company in MXP		(27)		–		–		–		–
Private company Eurobonds		–		(70)		63		–		–
Total	**Ps.**	**(446)**	**Ps.**	**(1,418)**	**Ps.**	**369**	**Ps.**	**(230)**	**Ps.**	**(537)**

Securities at maturity		+100 bp domestic rates		+100 bp foreign rates		+5% exchange rate		+5 bp rate spreads		+50 bp sovereign risk
Floating rate government bonds	Ps.	(9)	Ps.	–	Ps.	–	Ps.	–	Ps.	–
Exchange listed debt certificates		3		–		–		–		–
Total	**Ps.**	**(6)**	**Ps.**	**–**	**Ps.**	**–**	**Ps.**	**–**	**Ps.**	**–**

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's Consolidated Income Statements and capital hedging derivatives.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and deterioration of the sovereign risk.

Liquidity and balance sheet risk

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, Banco Mercantil del Norte relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and securities available for sale. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. Banorte's liquidity ratio at the end of the fourth quarter of 2014 is 105.1%, while the average during the quarter is 106.1%, as shown below:

	End of quarter				
	4Q13	1Q14	2Q14	3Q14	4Q14
Liquid assets	255,285	315,043	324,274	324,059	313,702
Liquid liabilities	257,596	251,164	269,633	274,488	298,472
Liquidity ratio	99.1%	125.4%	120.3%	118.1%	105.1%

	Average				
	4Q13	1Q14	2Q14	3Q14	4Q14
Liquid assets	249,265	302,080	317,154	311,896	307,622
Liquid liabilities	237,931	245,161	252,417	268,969	289,999
Liquidity ratio	104.8%	123.2%	125.6%	116.0%	106.1%

Average calculation considering the Liquidity Ratio's weekly estimates

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de México for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

The operation with derivatives allows to level the differentials between assets and liabilities in different maturity gaps, minimizing the Liquidity Risk. Considering only the contractual obligations of the different types of hedging and trading swaps that the Financial Group operates, a maturity analysis is found below:

Net position Gap	Asset position	Liability position	Net
1 month	Ps. 1,359,557	Ps. (1,545,041)	Ps. (185,484)
3 months	4,177,087	(4,896,677)	(719,590)
6 months	3,040,054	(3,223,907)	(183,853)
1 year	5,097,830	(5,093,834)	3,996
2 years	8,820,555	(8,969,777)	(149,222)
3 years	14,806,468	(15,654,909)	(848,441)
4 years	5,854,051	(5,643,942)	210,109
5 years	4,647,244	(4,205,323)	441,921
7 years	12,434,521	(11,806,936)	627,585
10 years	13,594,851	(13,079,928)	514,923
15 years	9,008,218	(8,744,482)	263,736
20 years	165,049	(164,337)	712
> 20 years	71,937	(76,417)	(4,480)
Total	**Ps. 83,077,422**	**Ps.(83,105,510)**	**Ps. (28,088)**

The liquidity ratio at the end of 4Q14 for Casa de Bolsa Banorte Ixe is 101.88%.

Casa de Bolsa Banorte Ixe		4Q13		4Q14
Gap accumulated over 1 month (MXP + UDIS)	Ps.	1,095	Ps.	1,099
Liquid assets		1,770		2,398
Overall capital		2,051		2,353
Liquidity vs. net capital		**86.23%**		**101.88%**

The liquidity ratio at the end of 4Q14 for Arrendadora and Factor Banorte is 0.58%.

Casa de Bolsa Banorte Ixe		USE - December 2014
Gap accumulated over 1 month (MXP)	Ps.	(3,213)
Gap accumulated over 3 month (MXP)		1,077
Liquid assets		22
Net capital		3,722
Basic capital		3,722
Liquidity vs. net capital		**0.58%**
Liquidity vs. net capital		**0.58%**

The liquidity ratio vs. net capital for Sólida Administradora de Portafolios (previously Ixe Soluciones) as of December 31, 2014 is 4.13%.

Sólida Administradora de Portafolios (previously Ixe Soluciones)		USE - December 2014
Gap accumulated over 1 month (MXP)	Ps.	(4,031)
Gap accumulated over 3 months (MXP)		(8,702)
Liquid assets		163
Net capital		3,946
Basic capital		3,946
Liquidity vs. net capital		**4.13%**
Liquidity vs. net capital		**4.13%**

The liquidity ratio vs. net capital for Banorte Ixe Tarjetas as of December 31, 2014 is 12.35%.

Banorte Ixe Tarjetas		USE - December **2014**
Gap accumulated over 1 month (MXP + UDIS)	Ps.	2,727
Gap accumulated over 3 month (MXP + UDIS)		2,787
Liquid assets		466
Net capital		3,771
Basic capital		3,771
Liquidity vs. net capital		**12.35%**
Liquidity vs. net capital		**12.35%**

Operational risk

The Financial Group established a formal operational risk department denominated “Operational Risk Management Department” as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of errors in operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes Technology and Legal risk).

Operations Risk Management has three objectives: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization’s risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

Operational risk management's cornerstones

I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controller to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Controller, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

II. Quantitative and qualitative measuring tools

Operating Losses Database

To record operational loss events, a system is in place that enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories:

Types of events	Description
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Financial Group (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product).
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

Legal and tax contingencies database

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

As part of the Financial Group's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes possible to create the necessary book reserves to face such estimated contingencies.

Risk management model

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

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

III. Calculating capital requirement

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities.

IV. Information and reporting

The information generated by databases and the Management Model is processed regularly in order to report the main Operational events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for Operational risk mitigation implemented by the different areas of the organization is also reported.

Technology risk

At the Financial Group, technology risk is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization

To address operational risk associated with data integrity, the "Integrity Committee" was created. Its objectives include aligning data security and control efforts under a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group's assets.

The Financial Group performs the functions for technology risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee. To address the operating risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operational contingency.

Legal risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operational risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

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

36 - MEMORANDUM ACCOUNTS

		2014		2013
Operations on behalf of third parties				
Banks customers (current accounts)	Ps.	52	Ps.	24
Settlement of customer transactions		(21)		(30)
Customer securities received in custody		588,561		536,300
Customer repurchase agreements		98,802		112,839
Collateral pledged on account of clients		97,555		111,486
Managed trusts		76,857		254
Investment banking transactions on account of third parties (net)		90,769		83,170
	Ps.	**952,575**	**Ps.**	**844,043**
Proprietary transactions				
Contingent assets and liabilities (unaudited)	Ps.	1	Ps.	–
Assets in trust or under mandate (not audited)		221,427		205,061
Managed assets in custody (unaudited)		433,473		451,582
Credit commitments (unaudited)		43,023		28,110
Collateral received		97,855		143,033
Collateral received and sold or given as a pledge		142,005		203,074
Deposits of assets		3,346		2,816
Interest accrued but not charged of past due loans		548		392
	Ps.	**941,678**	**Ps.**	**1,034,068**

37 - COMMITMENTS

As of December 31, 2014 and 2013, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 43,024 (Ps. 28,110 in 2013), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2014 and 2013, were Ps. 111 and Ps. 115, respectively.

38 - CONTINGENCIES

As of December 31, 2014, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2014, the Financial Group has recorded a reserve for contentious matters of Ps. 486 (Ps. 347 in 2013).

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2014 and 2013, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 1,873 and Ps 1,804, respectively.

40 – NEW ACCOUNTING GUIDELINES

In December 2014, the CINIF decreed a series of Regulations that became effective as of January 1, 2015. The regulations and their main changes are listed below:

2015 NIF Improvements - Enhancements to the 2015 NIF were issued. They do not involve accounting changes, and provide clearer definitions of the terms to align with the international financial reporting standards.

In 2013, the following NIFs were published and will become effective as of January 1, 2018; with the implementation option starting on January 1, 2016, provided they are implemented at the same time:

NIF C-3, Accounts Payable

NIF C-20 - Financing Instruments Payable

The Financial Group is in the process of determining the effects these criteria and regulations may have on its financial information.

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

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

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