

# Consolidated Financial Statements

**Grupo Financiero BBVA Bancomer, S.A. de C.V.  
and subsidiaries**

**December 31, 2018 and 2017**

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Consolidated financial statements

December 31, 2018 and 2017

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# Independent Auditors' Report

(Translation from Spanish Language Original)

## To the Stockholders and Board of Directors of

*Grupo Financiero BBVA Bancomer, S. A. de C. V.:*

### Opinion

We have audited the consolidated financial statements of Grupo Financiero BBVA Bancomer, S. A. de C. V. and Subsidiaries (the Group) (subsidiary of Banco Bilbao Vizcaya Argentaria, S. A.), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group, have been prepared, in all material respects, in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico issued by the National Banking and Securities Commission (the Commission).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on those matters.

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Allowance for loan losses (note 11 to the consolidated financial statements)	
Key audit matter	How the key audit matter was addressed in our audit
<p>In the case of the commercial loan portfolio, allowance for loan losses involves significant judgments for the evaluation of debtors' payment capacity, considering the various factors established in Group's internal methodologies authorized by the Commission for the commercial loan portfolio rating process.</p> <p>Additionally, we consider as a key audit matter, the reliability in the documentation and updating thereof, which serves as an input for the determination of the allowance for loan losses for residential mortgages and credit card portfolio, based on Group's internal methodologies authorized by the Commission.</p>	<p>The audit procedures applied to the determination of the allowance for loan losses and their effect on the results of the year determined by Management, included among others:</p> <ul style="list-style-type: none"> <li>- design and operating effectiveness tests of key internal controls based on selected samples.</li> <li>- evaluation through selective tests, both the inputs used and the calculation mechanics for credit portfolios based on the internal methodology authorized by the Commission, with the support of our credit risk specialists.</li> <li>- through selective tests, detailed substantive procedures were carried out, mainly aimed at recalculating the allowance for loan losses.</li> </ul>
Derivative financial instruments not listed on recognized markets with complex valuation models (note 8 of the consolidated financial statements)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The determination of the fair value at the date of the consolidated balance sheet of certain derivative financial instruments not quoted on organized markets is carried out through the use of valuation techniques that involves significant Management's judgments, mainly when the use of inputs obtained from various sources from unobservable market data and complex valuation models, including those models related to embedded derivative financial instruments from structured notes.</p>	<p>As part of our audit procedures, we obtained evidence of the approval by the Group's Risk Committee of the valuation models for derivative financial instruments used by Management and we carried out tests of operating effectiveness on load-oriented controls over prices and curves in the systems processing transactions agreed with derivative financial instruments. Also, through selective tests and through the involvement of our specialists, we assessed the reasonableness of these models and the inputs used. Additionally, through selective tests, we assessed the determination of the fair value of derivative products that use complex valuation models.</p>

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Risks associated to technology (IT)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The Group operates through a complex IT environment with different processing centers.</p> <p>Procedures for automated accounting records and IT environment controls, which include governance, general controls on development and changes of programs, access to programs and data, and operations, must be designed and operated effectively to ensure integrity and accuracy in the issuance of financial information.</p> <p>We identified IT systems and controls over financial reporting as a key audit matter because the accounting systems and financial reports of the Group depend primarily on these systems and the different environments of general controls for the different application systems.</p>	<p>According to our audit methodology and through our IT specialists, the evaluation of the controls over the key systems that process the Group's financial information has been carried out in two areas: (i) general IT controls where we evaluated existing controls on the various technological platforms related to user access to applications and data, management of changes in applications, management of systems development, as well as management of operations in the production environment; and (ii) automatic controls on key processes of our audit, identifying the main information systems, of which we have analyzed the vulnerabilities related to the integrity, accuracy and availability of the information and we have identified and evaluated the operational efficiency of the implemented IT controls and the related compensatory controls, where appropriate, that mitigate the aforementioned risks.</p>
Technical reserves (note 21 of the consolidated financial statements)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The valuation of technical reserves depends on the quality of the underlying information. This translates into complexity and subjective judgments about future events, both internal and external, for which a change in the assumptions, criteria or coverage may result in material impacts on the estimate.</p>	<p>We were supported by our actuarial specialists to understand and evaluate the actuarial practices applied by the Group in the calculation and accounting of technical reserves, as well as its consistency with current insurance regulations. We also consider, together with our actuarial specialists, the objectivity, competence, work and findings of independent actuaries hired by management, to determine the status and adequacy of the technical reserves, including their evaluation of the significant assumptions and methods used by management.</p> <p>Additionally, we evaluated that the information provided to the independent actuary was consistent with the information provided to us as part of our audit.</p>

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	<p>We also obtained an understanding of the process, and tested the internal control implemented by the Group for the creation of technical reserves, including the evaluation of the design and testing of the effectiveness of actuarial controls, including reconciliations of the key information and the management's review of the estimates. In addition, because the historical information of the claims is a relevant data for the estimations, we tested the controls and performed substantive tests of detail on the claims estimates and payments of the same.</p>
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#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation of these consolidated financial statements in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico established by the Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### **Auditors' responsibilities for the audit of the consolidated financial statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Cárdenas Dosal, S. C.

Hermes Castañón Guzmán

México City, February 28, de 2019.

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets

December 31, 2018 and 2017

(Millions of Mexican pesos)

These consolidated financial statements have been translated from the Spanish language original for the convenience of foreign/English-speaking readers

<b>Assets</b>	<b>2018</b>	<b>2017</b>	<b>Liabilities and stockholders' equity</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents (note 4)	\$ 236,679	222,710	Deposits funding (note 19):	\$ 864,477	834,993
Margin accounts (note 5)	10,548	14,359	Demand deposits		
Investment securities (note 6):			Time deposits:		
Trading	329,950	336,005	General public	217,215	195,043
Available-for-sale	131,614	133,103	Money market	22,498	39,060
Held-to-maturity (note 9)	116,191	99,807	Debt securities issued	88,135	86,280
	577,755	568,915	Global deposit account without movements	3,565	3,324
Debtors on repurchase/resale agreements (note 7)	8,594	9,283		1,195,890	1,158,700
Derivatives (note 8):			Banks and other borrowings (note 20):		
Trading	125,804	122,524	Short-term	9,425	9,164
Hedging	14,813	16,034	Long-term	8,436	8,216
	140,617	138,558		17,861	17,380
Valuation adjustments related to financial assets hedged	(518)	286	Technical reserves (note 21)	180,511	151,770
Current loan portfolio (note 9):			Creditors on repurchase/resale agreements (note 7)	200,802	223,457
Commercial loans:			Securities lending	1	2
Business and commercial activities	498,432	452,644	Collaterals sold or pledged (note 7):		
Financial institutions	30,898	27,899	Resale/repurchase agreements (creditor balance)	-	1
Government entities	129,178	124,264	Securities lending	39,438	50,719
	658,508	604,807		39,438	50,720
Consumer loans	275,090	259,377	Derivatives (note 8):		
			Trading	129,005	134,984
Residential mortgages:			Hedging	9,072	11,363
Medium class and residential	197,825	181,286		138,077	146,347
Low income housing loans	10,752	12,547	Valuation adjustments related to financial liabilities hedged	1,485	3,629
	208,577	193,833	Accounts payable to reinsurers and bonding reinsurers	41	38
Total current loan portfolio	1,142,175	1,058,017	Other accounts payable:		
Past due loan portfolio (note 9):			Income tax payable (note 25)	115	-
Commercial loans:			Employee statutory profit sharing (ESPS) payable	144	173
Business and commercial	8,015	6,366	Creditors on settlement of transactions	101,467	65,683
			Creditors on cash received as collateral (note 8)	27,302	24,394
Consumer loans	9,034	9,703	Sundry creditors and other accounts payable	40,895	42,347
Residential mortgages:				169,913	132,597
Medium class and residential	5,603	5,913	Subordinated bonds issued (note 23)	99,029	78,966
Low income housing loans	622	763	Deferred credits and advance payments	7,524	7,908
	6,225	6,676	Total liabilities	2,050,572	1,971,514
Total past due loan portfolio	23,274	22,745	Stockholders' equity (note 26):		
Loan portfolio	1,165,449	1,080,762	Paid-in capital:		
Less:			Capital stock	9,799	9,799
Allowance for loan losses (note 11)	(31,882)	(31,656)	Additional paid-in capital	79,333	79,333
Total loan portfolio, net	1,133,567	1,049,106		89,132	89,132
Insurance premium receivables, net (note 12)	6,660	6,499	Earned capital:		
Accounts receivable from reinsurers and bonding reinsurers, net	298	280	Statutory reserves	204	204
Benefits receivable on securitizations transactions (note 13)	87	158	Retained earnings	83,777	70,093
Other accounts receivable, net (note 14)	76,453	79,825	Unrealized valuation of available-for-sale securities	(1,849)	(1,584)
Foreclosed assets, net (note 15)	1,759	2,602	Unrealized valuation of cash flow hedge derivatives	(106)	123
Property, furniture and equipment, net (note 16)	40,265	41,441	Cumulative translation effect	440	440
Permanent investments (note 17)	841	1,492	Remeasurements of employees' benefit	(7,380)	(6,725)
Deferred income tax and ESPS, net (note 25)	18,045	16,165	Net income	52,638	45,603
Other assets (note 18):				127,724	108,154
Deferred charges, prepayments and intangibles	15,817	17,158	Total controlling interest	216,856	197,286
Total assets	\$ 2,267,467	2,168,837	Non-controlling interest	39	37
			Total stockholders' equity	216,895	197,323
			Total liabilities and stockholders' equity	\$ 2,267,467	2,168,837

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**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets, continued

December 31, 2018 and 2017

(Millions of Mexican pesos)

<b>Transactions on behalf of third parties</b>	<b>2018</b>	<b>2017</b>	<b>Own transactions</b>	<b>2018</b>	<b>2017</b>
Customer current accounts:			Own current accounts:		
Customers' bank accounts	\$ 421	-	Contingent assets and liabilities	\$ 658	565
Settlement of customers transactions	912	510	Credit commitments (note 9)	588,114	566,652
	<u>1,333</u>	<u>510</u>			
Customers' securities:			Assets in trust or under mandate:		
Customers' securities in custody	2,389,757	980,790	In trust	414,525	419,391
Collaterals received, securities and documents	35	-	Under mandate	<u>24,257</u>	<u>24,197</u>
	<u>2,389,792</u>	<u>980,790</u>		438,782	443,588
Transactions on behalf of customers:			Assets in custody or under management	183,836	182,857
Repurchase/resell agreements	81	138	Collaterals received by the Entity (note 7)	45,855	58,464
Collaterals received in guarantee	114	138	Collaterals received and sold or pledged by the Entity (note 7)	40,437	53,821
	<u>195</u>	<u>276</u>	Uncollected interest accrued on non-performing loans	6,066	4,832
Investment banking operations on behalf of third parties, net	<u>1,231,184</u>	<u>1,212,812</u>	Other memorandum accounts	<u>3,852,441</u>	<u>3,532,686</u>
Total transactions on behalf of third parties	\$ <u>3,622,504</u>	<u>2,194,388</u>	Total own transactions	\$ <u>5,156,189</u>	<u>4,843,465</u>

	<b>2018</b>	<b>2017</b>
Historical stockholders' equity	\$ <u>1,020</u>	<u>1,020</u>
Shares delivered in custody (units)	15,854,682,820	15,854,682,820
	=====	=====

See accompanying notes to the consolidated financial statements.

"These consolidated balance sheets, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect all the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

\_\_\_\_\_  
Eduardo Osuna Osuna  
General Director

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Luis Ignacio De la Luz Dávalos  
General Director of Finance

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Natalia Ortega Gómez  
General Director of Internal Audit

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Sergio Rafael Pérez Gaytán  
Director of Corporate Accounting

<https://investors.bancomer.com/> [www.cnbv.gob.mx](http://www.cnbv.gob.mx)

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated Statement of Income

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

These consolidated financial statements have been translated from the Spanish language original for the convenience of foreign/English-speaking readers

	<b>2018</b>	<b>2017</b>
Interest income (note 30)	\$ 198,582	178,166
Written insurance premiums (note 30)	21,384	21,444
Interest expense (note 30)	(64,745)	(54,361)
Net increase in technical reserves (note 30)	(3,751)	(4,067)
Claims and other contractual obligations, net (note 30)	<u>(18,820)</u>	<u>(18,555)</u>
Net interest income	132,650	122,627
Allowance for loan losses (note 11)	<u>(32,310)</u>	<u>(34,079)</u>
Net interest income adjusted for loan losses allowance	100,340	88,548
Commissions and fee income (note 31)	42,730	38,770
Commissions and fee expense (note 31)	(15,720)	(13,944)
Financial intermediation income (note 32)	5,958	7,064
Other operating income	1,788	200
Administrative and promotional expenses	<u>(62,330)</u>	<u>(58,524)</u>
Net operating income	72,766	62,114
Equity in the income of non-consolidated subsidiaries and associated companies (note 17)	<u>117</u>	<u>58</u>
Income before income tax	72,883	62,172
Current income tax (note 25)	(22,084)	(16,636)
Deferred income tax, net (note 25)	<u>1,841</u>	<u>68</u>
Income before non-controlling interest	52,640	45,604
Non-controlling interest	<u>(2)</u>	<u>(1)</u>
Net income	\$ <u><u>52,638</u></u>	<u><u>45,603</u></u>

See accompanying notes to consolidated financial statements.

"These consolidated statements of income, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the income and expenses carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated statement of income were approved by the Board of Directors under the responsibility of the following officers."

\_\_\_\_\_  
Eduardo Osuna Osuna  
General Director

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Luis Ignacio De la Luz Dávalos  
General Director of Finance

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Natalia Ortega Gómez  
General Director of Internal Audit

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Sergio Rafael Pérez Gaytán  
Director of Corporate Accounting

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

These consolidated financial statements have been translated from the Spanish language original for the convenience of foreign/English-speaking readers

	Paid-in capital				Earned capital						Total stockholders' equity
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Unrealized valuation of available-for-sale securities	Unrealized valuation of cash flow hedges derivatives	Cumulative translation effect	Remeasurements of employees' defined benefit plans	Net income	Non controlling interest	
Balances as of December 31, 2016	\$ 9,799	79,333	204	64,860	(3,168)	141	440	(2,568)	40,787	37	189,865
Changes resulting from stockholders' resolutions (note 26):											
Appropriation of prior year's net income	-	-	-	40,787	-	-	-	-	(40,787)	-	-
Dividends declared	-	-	-	(34,586)	-	-	-	-	-	-	(34,586)
Total	-	-	-	6,201	-	-	-	-	(40,787)	-	(34,586)
Changes related to the recognition of comprehensive income (note 26):											
Net income	-	-	-	-	-	-	-	-	45,603	1	45,604
Valuation effects of available-for-sale securities	-	-	-	-	1,584	-	-	-	-	-	1,584
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(18)	-	-	-	-	(18)
Recognition of allowance for loan losses due to change in credit rating methodology (note 3)	-	-	-	(986)	-	-	-	-	-	-	(986)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(4,157)	-	-	(4,157)
Consolidation effect	-	-	-	18	-	-	-	-	-	(1)	17
Total	-	-	-	(968)	1,584	(18)	-	(4,157)	45,603	-	42,044
Balances as of December 31, 2017	9,799	79,333	204	70,093	(1,584)	123	440	(6,725)	45,603	37	197,323
Changes resulting from stockholders' resolutions (note 26):											
Appropriation of prior year's net income	-	-	-	45,603	-	-	-	-	(45,603)	-	-
Dividends declared	-	-	-	(31,922)	-	-	-	-	-	-	(31,922)
Total	-	-	-	13,681	-	-	-	-	(45,603)	-	(31,922)
Changes related to the recognition of comprehensive income (note 26):											
Net income	-	-	-	-	-	-	-	-	52,638	2	52,640
Valuation effects of available-for-sale securities	-	-	-	-	(265)	-	-	-	-	-	(265)
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(229)	-	-	-	-	(229)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(655)	-	-	(655)
Consolidation effect	-	-	-	3	-	-	-	-	-	-	3
Total	-	-	-	3	(265)	(229)	-	(655)	52,638	2	51,494
Balances as of December 31, 2018	\$ 9,799	79,333	204	83,777	(1,849)	(106)	440	(7,380)	52,638	39	216,895

See accompanying notes to consolidated financial statements.

\*These consolidated statements of changes in stockholders' equity, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect all the stockholders' equity entries relating to the transaction carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

These consolidated statement of changes in stockholders' equity was approved by the Board of Directors under the responsibility of the following officers.\*

\_\_\_\_\_  
Eduardo Osuna Osuna  
General Director

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Luis Ignacio De la Luz Dávalos  
General Director of Finance

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Natalia Ortega Gómez  
General Director of Internal Audit

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Sergio Rafael Pérez Gaytán  
Director of Corporate Accounting

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
and subsidiaries**

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

These consolidated financial statements have been translated from the Spanish language original for the convenience of foreign/English-speaking readers

	<b>2018</b>	<b>2017</b>
Net income	\$ 52,638	45,603
Items not requiring cash flows:		
Net impairment effect from investment activities	731	-
Depreciation of property, furniture and equipment	3,186	3,227
Amortization of intangible assets	2,577	2,260
Technical reserves	3,751	4,067
Provisions	242	1,919
Current and deferred income tax	20,243	16,568
Equity in income of non-consolidated subsidiaries and associated companies	(117)	(58)
Non-controlling interest	2	1
	<u>83,253</u>	<u>73,587</u>
Operating activities:		
Change in margin accounts	3,807	(5,478)
Change in investment securities	(9,117)	(24,571)
Change in debtors on repurchase/resale agreements	690	(3,755)
Change in derivatives (asset)	(3,280)	26,433
Change in loan portfolio, net	(84,559)	(63,263)
Change in insurance premium receivables, net	(161)	(1,360)
Change in reinsurers and bonding reinsurers, net (assets)	(19)	(153)
Change in benefits receivable on securitization transactions	71	39
Change in foreclosed assets, net	842	1,264
Change in other operating assets, net	4,394	(2,465)
Change in deposit funding	37,295	135,673
Change in bank and other borrowings	482	(1,744)
Change in technical reserves	24,991	7,408
Change in creditors on resale/repurchase agreements	(22,655)	(37,914)
Change in collaterals sold or pledged	(11,282)	16,304
Change in derivatives (liabilities)	(5,979)	(13,043)
Change in reinsurers and bonding reinsurers, net (liabilities)	3	(39)
Change in subordinated bonds issued with liabilities characteristics	20,110	(10,377)
Change in other operating liabilities	34,125	33
Change in hedging instruments (from hedged items related to operating activities)	(2,685)	2,039
Payments of income taxes	<u>(19,504)</u>	<u>(19,144)</u>
Net cash provided by operating activities	<u>50,822</u>	<u>79,474</u>
Investment activities:		
Proceeds from property, furniture and equipment disposals	595	649
Payments for property, furniture and equipment acquisitions	(2,605)	(2,642)
Collections from subsidiaries and associates sold	5	2
Collections of cash dividends	2	-
Payments on acquisition of intangible assets	<u>(2,886)</u>	<u>(2,701)</u>
Net cash flows used in investing activities	<u>(4,889)</u>	<u>(4,692)</u>
Cash flows from financing activities-Payments of cash dividends	<u>(31,922)</u>	<u>(34,586)</u>
Net increase in cash and cash equivalents	14,011	40,196
Adjustments to cash flows due to foreign exchange fluctuations	(42)	(4,288)
Cash and cash equivalents at the beginning of the year	<u>222,710</u>	<u>186,802</u>
Cash and cash equivalents at the end of the year	\$ <u>236,679</u>	<u>222,710</u>

See accompanying notes to consolidated financial statements.

\*These consolidated statements of cash flows, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the cash inflows and outflows carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years ended noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

This consolidated statement of cash flows was approved by the Board of Directors under the responsibility of the following officers.\*

\_\_\_\_\_  
Eduardo Osuna Osuna  
General Director

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Luis Ignacio De la Luz Dávalos  
General Director of Finance

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Natalia Ortega Gómez  
General Director of Internal Audit

\_\_\_\_\_  
Sergio Rafael Pérez Gaytán  
Director of Corporate Accounting

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
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Notes to the Consolidated Financial Statements

Year ended December 31, 2018 and 2017

(Millions of Mexican pesos, except otherwise noted)

**(1) Activity and operating regulatory environment**

Grupo Financiero BBVA Bancomer, S. A. de C. V. and Subsidiaries (the "Group"), is a direct subsidiary of Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), which is governed among others by the Law Regulating Financial Groups (*Ley para Regular las Agrupaciones Financieras*) (the "Law") and the Accounting Criteria Applicable to Financial Group Holding Companies (*Disposiciones de Carácter General Aplicables a las Sociedades Controladoras de Grupos Financieros*) (the "Provisions") which regulate any matters corresponding to the National Banking and Securities Commission (the "Commission") and the National Insurance and Bonding Commission (the "CNSF") (collectively, the "Surveillance National Commissions"), and, therefore, is under inspection and surveillance of the Commission. The Groups' purpose is acquiring and managing shares issued by multiple banking entities, brokerage firms, insurance companies, investment fund manager, financial entities and any other type of corporations that determines the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) (SHCP), based on the provisions of the Law.

The operations of the Group's subsidiaries have the main purpose of providing services as multiple banking activities, acting as intermediary in the stock exchange, providing insurance and pension services, managing investment fund assets and securities portfolios, as well as providing administrative services. These subsidiaries are governed mainly by the Financial Institutions Law (*Ley de Instituciones de Crédito*), the Securities Market Law (*Ley del Mercado de Valores*), the Insurance and Bonding Institutions Law (*Ley de Instituciones de Seguros y de Fianzas*), the General Corporations Law (*Ley General de Sociedades Mercantiles*), and the general provisions issued by the Mexican central bank (Banco de México) (the "Central Bank"), among other applicable laws.

The powers vested in the Commission -as the entity regulating financial groups-, include reviewing the Groups' financial information and ordering any modifications thereto.

By operation of law, the Group is unlimited liable for the obligations and losses of each one of its subsidiaries.

**Significant restrictions in the group.**

The Holding Company may only contract direct or contingent liabilities and give as security its properties in the case of the sole agreement of responsibilities referred to in article 119 of the Law to regulate Financial Groups, of operations with the Institute for the Protection of Savings. Banking and with authorization from the Bank of Mexico, in the case of the issuance of subordinated obligations of forced conversion to securities representing its capital and of obtaining short-term credits, while the placement of shares is carried out due to the incorporation or merger of that the aforementioned Law refers to.

The payment of dividends may be suspended in whole or in part through the application of corrective measures that aim to prevent and, where appropriate, correct any problems that may arise that may affect the financial stability or solvency of the Holding Company or financial entities members of the Group.

During 2018 and 2017 the Group was not in any of these cases.

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
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**(2) Authorization and basis of presentation-**

**Authorization**

On February 28, 2019, Eduardo Osuna Osuna, General Director, Luis Ignacio De la Luz Dávalos, General Director of Finance, Natalia Ortega Gómez, General Director of Internal Audit, and Sergio Rafael Pérez Gaytán, Director of Corporate Accounting, authorized the issuance of the accompanying consolidated financial statements and the notes thereto (hereinafter, the “financial statements”).

The Group’s shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2018 financial statements will be submitted to the next Shareholders’ Meeting for approval.

**Basis of presentation**

**a) Declaration of compliance**

The Group’s financial statements have been prepared in accordance with the accounting criteria for Financial Group Holding Companies (the “accounting criteria”) established by the Commission. The Commission is responsible for inspecting and supervising financial groups and reviewing their financial information.

The Accounting criteria establishes that the Commission shall issue specific rules for specialized transactions and indicates that without specific criteria of the Commission and, in a broader context, if there are no criteria established in the Mexican Financial Reporting Standards (Normas de Información Financiera) (NIF) issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C.) (“CINIF” for its Spanish acronym), any absence shall be supplied as established in NIF A-8. Any supplementary standard that belongs to any other regulatory scheme may only be used if the International Financial Reporting Standards (IFRS) referred to in NIF A-8 do not establish an accounting criterion, provided that all requirements established in the NIF are met. The supletoriety should follow the next order: generally accepted accounting principles in the United States of America (USGAAP) and any accounting standard that is part of a formal and recognized set of standards, provided that the requirements of the Commission’s criterion A-4 are met.

**b) Functional and reporting currency**

The aforementioned financial statements are presented in the Group’s reporting currency, Mexican pesos, which is the same as its recording and functional currency.

For disclosure purposes in the notes to the financial statements, any reference to “pesos” or “\$” means millions of Mexican pesos, and references to “dollars” or “USD” means millions of U.S. dollars.

**c) Use of judgment and estimates**

The preparation of the financial statements, requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period.

**Judgments**

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the next page.

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- Note 6 - Investments in securities: Securities market values without an observable market.
- Note 8 - Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market.
- Notes 11 and 14- Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 16 - Valuation of properties, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.
- Note 21 - Technical reserves: key actuarial assumptions for estimating the expected value of future obligations, derived from payments of claims, benefits, guaranteed values, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a risk margin;
- Note 22 – Labor obligations: key actuarial assumptions;
- Note 25 - Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred tax assets.

**Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties at December 31, 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 6 - Investments in securities: Securities market values without an observable market.
- Note 8 - Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market.
- Notes 11 and 14- Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.
- Note 16 - Valuation of properties, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.
- Note 21 - Technical reserve, key actuarial assumptions for the estimation of the expected value of future obligations, derived from payments of claims, benefits, guaranteed values, dividends, acquisition and administration expenses, as well as any other future obligation derived from insurance contracts, plus a margin of risk;
- Note 22 - Measurement of obligations for defined benefits: key actuarial assumptions;
- Note 25 - Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred taxes assets.

**d) Financial assets and financial liabilities recognition on trade date-**

Assets and liabilities related to the purchase and sale of foreign currencies, investment securities, repurchase/resale agreements and derivative financial instruments are recognized in the financial statements on the trade date, regardless of the settlement date.

**e) Comprehensive income**

This caption it is composed by the net result of the year plus other items that represent a gain or loss in the same year, which, according to the accounting practices followed by the Group, are presented directly in the stockholders' equity without the requirement to present an statement of comprehensive income, such as the gain or loss from valuation of securities available for sale, the gain or loss from valuation of cash flow hedge instruments and the cumulative translation effect, as well as the remeasurement of employee's defined benefits plans.

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**(3) Summary of significant accounting policies -**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group, except as explained in note 3 (I) (iii).

***Amendments to accounting criteria issued by the Commission***

On December 27, 2017, the Commission published in the Official Gazette of the Federation a resolution that amends the General Provisions Applicable to Credit Institutions that should be applied from January 1 2019, being able to be applied in advance once the Group makes the Commission aware of. Among these modifications there are some of the follow:

- Any recovery derived from loan portfolio contracts that were previously written off or eliminated according to the “Provisions”, shall be recognized in the year results under the allowance for loan losses item. Until December 31, 2017, recoveries would be recognized under the “Other operating income (expenses)” item.
- When the allowance for loan losses account balance had exceeded the amount required by the “Provisions”, the differential shall be canceled in the period in which those changes occur recognizing it in the year results, in the same item that originated it initially, therefore, the allowance for loan losses account. Until December 31, 2017, cancelations would be recognized under the “Other operating income (expenses)” item.

The Group let the Commission know in respect of the advanced application of these amendments on May 3, 2018, so the recoveries of loan portfolio contracts that were previously written off or eliminated as of December 31, 2018, were recognized under the allowance for loan losses item, prospectively (see note 9).

***(a) Recognition of the effects of inflation-***

The Group’s financial statements were prepared in accordance with the accounting criteria, which include the recognition of the effects of inflation on financial information through December 31, 2007, as the Group operates in a non-inflationary environment as from 2008 (cumulative inflation over the last three years less than 26%), using for such purpose the investment unit (Spanish acronym UDI), a unit used to measure inflation and whose value is established by the Central Bank.

Percentages of inflation measured through the value of the UDI for years ended on December 31, 2018, 2017 and 2016 were 4.92%, 6.68% and 3.38%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2018 and 2017 was 15.71% and 12.60%, respectively, the reason why the economic environment for both years qualifies as non-inflationary. As mentioned above, the cumulative effects of the inflation until December 31, 2007 are recorded in the consolidated balance sheet as of December 31, 2018 and 2017.



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**(b) Principles of consolidation-**

The accompanying financial statements include the Group's financial statements, and those of its subsidiaries which it controls and the consolidated trusts arising from securitization transactions. All significant inter-company balances and transactions have been eliminated.

The subsidiaries' financial statements have been prepared according to the accounting criteria established by the Commission, except for the insurance Institutions financial statements, which are prepared under the accounting criteria for insurance and bonding companies in Mexico, issued by the CNSF.

The subsidiaries consolidated with the Group as of December 31, 2018 and 2017, are detailed as follows:

<b><u>Company</u></b>	<b><u>Participation in consolidation</u></b>	<b><u>Activity</u></b>
BBVA Bancomer, S. A., Institución de Banca Múltiple and Subsidiaries (the Bank)	99.99%	Multiple banking activities
Casa de Bolsa BBVA Bancomer, S. A de C. V (la Casa de Bolsa)	99.99%	Brokerage services
BBVA Bancomer Operadora, S. A. de C. V. and Subsidiaries	99.99%	Administrative services
BBVA Bancomer Servicios Administrativos, S. A. de C. V. and Subsidiaries	99.99%	Administrative services
BBVA Bancomer Gestión, S. A. de C. V., Sociedad Operadora de Fondos de Inversión (la Operadora)	99.99%	Investment fund manager
Seguros BBVA Bancomer, S. A. de C. V. and Subsidiaries (Seguros BBVA Bancomer)	99.99%	Insurance Institution
Pensiones BBVA Bancomer, S. A. de C. V. and Subsidiaries (Pensiones BBVA Bancomer)	99.99%	Insurance institution specializing in pensions
BBVA Bancomer Seguros Salud, S. A. de C. V. (Seguros Salud)	99.99%	Insurance institution specializing in health care

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**(c) Offsetting financial assets and financial liabilities-**

Financial assets and liabilities are subject to offsetting so that the consolidated balance sheet shows the debit or credit balance, as applicable, if and only if, there is a contractual right to offset the recognized amounts and the intention to settle the net amount, or to realize the asset and write-off the liability simultaneously.

**(d) Cash and cash equivalents -**

Cash and cash equivalents consist of cash in hand, deposits with Mexican and foreign banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. Also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits in the Central Bank (these latter deposits considered of restricted availability are formed pursuant to Official Circular 3/2012 "Provisions applicable to transactions of financial institutions and the rural financial entity", issued by the Central Bank, with the purpose of regulating the liquidity of the money market, which accrue interest at the banking funding rate), remittances in transit and auctions carried out by the Central Bank.

The cash and cash equivalents are recognized at nominal value. For the currencies in dollars, the exchange rate for the translation is the one published by the Central Bank on the same day in accordance with the rules established by the Commission. As of the date of the financial statements, gain or losses due to the translation effect and accrued interest income are recognized in the results of the year.

The foreign exchange currencies acquired and agreed to be settled in 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency to receive), while the currencies sold are recorded as cash outflow (foreign currency to deliver). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions", respectively.

**(e) Margin accounts-**

Margin accounts are made up of the collateral pledged in cash (and in other assets equivalent to cash) that is requested to entities for entering into transactions with derivative financial instruments carried out in organized markets or exchanges, recorded at nominal value.

For those margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or shares, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in accordance with the respective accounting treatment according to its nature.

Margin accounts are intended to comply with the obligations derived from transactions with financial derivatives performed in organized markets and stock exchanges and refer to the initial margin, contributions and subsequent disbursements made during the effective term of the respective contracts.

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**(f) Investment securities-**

Investment securities consist of government securities, bank promissory notes, and other debt securities listed or not in organized markets, which are classified using the categories shown below, based on the intention of management of the Group on their ownership.

- *Trading securities:*

Trading securities are those debt securities and equity shares in which the Group invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. They are initially accounted at acquisition cost, which is equivalent to their fair value, and then at fair value using prices provided by an independent price vendor, whose valuation effect is included in the consolidated statement of income under the heading "Financial intermediation income".

- *Securities available-for-sale:*

Consist of securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. These securities are measured in the same manner as "Trading securities", with unrealized gains or losses valuation recognized in stockholders' equity net of deferred taxes, which is recycled in earnings at the time of sale.

- *Securities held to maturity:*

Securities held to maturity are debt instruments with fixed or determinable payments or an established maturity, acquired with both the intent and the capacity of holding them to maturity. These instruments are accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Group determines the increase or decrease on fair value using prices provided by the price vendor, who uses different market factors in its determination.

Cash dividends of equity shares are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

*Transfers between categories-*

Transfers from the category of "Held-to-maturity" to "Available-for-sale" securities, are permissible only when there is no intention or ability to hold them until maturity; the valuation result corresponding to the transfer date is recognized in stockholders' equity. Reclassifications from any category to "Held-to-maturity securities" and from "Trading securities" to "Available-for-sale", can be done with the Commission authorization.

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During the years ended December 31, 2018 and 2017, there were no transfers between categories.

*Impairment:*

The Group must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date. A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined.

As of December 31, 2018 and 2017, the Group's management has not identified that there is objective evidence of impairment of any securities.

*Value date transactions-*

Securities purchased with a settlement date of a maximum of four working days after trade date, are recorded as restricted securities, while securities sold are recorded as securities to deliver reducing the investment securities position. The corresponding debit or credit is made to an asset or liability clearing account, as it corresponds.

When the amount of the securities to deliver exceeds the proprietary position of the same type of security (government, bank, equities and other debt securities), the amount is shown as a liability under "Assigned values to be settled" caption.

**(g) Repurchase/resale agreements-**

Repurchase agreements are recorded as follows:

The repurchase/resale agreements that do not comply with the terms of criterion C-1 "Recognition and derecognition of financial assets", are treated as collateralized financing transactions, which reflects the economic substance of those transactions. This treatment is adopted regardless of whether it is "cash oriented" or "securities-oriented" repurchase/ resale agreement.

*Acting as a seller on resale agreements-*

On the contract date of the repurchase/resale agreements, either cash is received or a debit clearing account is created as well as a payable account valued at the price agreed at origination, and represents the obligation to repay the cash to the seller at a future date. Throughout the term of the repurchase/resale agreements, the payable accounts are valued at amortized cost and the corresponding accrued interest is recorded in the results for the year, in accordance with the effective interest rate method.

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In relation to the collateral granted financial assets transferred to the seller are reclassified by the Group in the balance sheet, and presented as restricted securities, which continue to be valued in accordance with the accounting policy of the corresponding asset classification, until the maturity date of the repurchase/resale agreement.

*Acting as a buyer on repurchase agreements-*

Acting the Group as a buyer, on the date of contracting the repurchase agreement transaction, recognizes the outflow of cash or a creditor settlement account, recording an account receivable initially measured at the agreed price, which represents the right to recover the cash delivered. The account receivable will be valued later during life of the repurchase agreement at amortized cost through the recognition of the effective interest method in the results of the year.

In relation to the collateral received in repurchase transactions other than cash, it's recognized in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9, "Custody and Administration of Assets" (B-9) until the maturity date of the repurchase/resale agreement.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value for its sale, or, if it is given as collateral in another repurchase transaction, at its amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

**(h) Securities lending**

Securities lending are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for an interest as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the contracting date of the securities lending, when the Group acts as lender, it records the security subject matter of the lending transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received that guarantees the securities loaned is recorded in memorandum accounts.

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The amount of the interest earned is recognized in results of the year through the effective interest method during the term of the transaction.

When it acts as the borrower, at the contracting date of the securities lending, the Group records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account B-9 "Assets in custody or under administration".

The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of "Collateral received" by the Group. The collateral received from other transactions are presented under the caption of "Collaterals sold or pledged".

**(i) Settlement clearing accounts-**

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities lending and/or derivative financial instruments which have expired but have not been settled are recorded in clearing accounts under "Other accounts receivable" and "Sundry creditors on settlement of transactions", respectively, as well as the amounts receivable or payable for the purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date.

Financial assets and liabilities are offset and the net amount presented in the balance sheet as debit or credit balance, as appropriate, only when the Group has a contractual right to offset amounts and intends either to settle them on a net basis or to realize the asset and cancel the liability simultaneously.

**(j) Derivatives-**

The Group carries out two different types of transactions in accordance with its intention:

- Trading - Consists of the position assumed by the Group as market participant for purposes other than hedging open risk positions.
- Hedging - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Group's policies require that for purposes of entering into derivative transactions, the qualification and, where appropriate, authorization of risk exposure lines by each one of the counterparts of the financial system that have been authorized by the Central Bank for the execution of this type of operations is required. Prior to carrying out these transactions with corporate customers, a credit line authorized must be granted by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized in the consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

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The Group initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Financial intermediation income".

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Net gain on financial assets and liabilities".

Derivatives must be presented under a specific asset or liability caption depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules established by the applicable accounting criterion.

In the consolidated balance sheet, the heading derivatives must be split between those held for trading and hedging purposes.

The determination of fair value considers the information and inputs provided by the price vendor authorized by the Commission, or an internal valuation process, provided there are no derivative financial instruments listed in domestic exchanges or traded in markets recognized by the Central Bank.

Trading transactions-

– *Optional securities ("Warrants"):*

Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issue in Equity Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts:*

For options purchased the balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options:*

For options purchased, the balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

For options sold, the balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

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– *Swaps:*

The balance represents the difference between the fair value of the asset and the liability.

*Hedging transactions-*

Hedge derivatives are valued at market value, and the effect is recognized depending on the type of accounting hedge, as follows:

- a. If they are fair value hedges, the primary hedged position and the net effect of the derivative hedge instrument which is measured at fair value, is recorded in results of the period under the heading "Financial intermediation income".
- b. If they are cash flow hedges, the hedge derivative is measured at fair value and the valuation of the effective part of the hedge is recorded in the account "Result from valuation of cash flow hedges" in stockholders' equity. The ineffective part is recorded in results of the period under the heading "Financial intermediation income".
- c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders' equity and the ineffective portion is recognized in results.

***Embedded derivatives-***

- The Group bifurcates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, stock indexes, interest rate options with extendable periods and UMS bond price options.

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar, the reference underlying's are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

*Collateral granted and received in derivatives transactions performed over the-counter markets-*

- The account receivable from cash collateral provided in derivative transactions performed over-the-counter markets is presented under the heading "Other accounts receivable, net", whereas the account payable generated for the reception of collateral provided in cash is presented under the heading "Sundry creditors and other accounts payable".

Collateral delivered in securities is recorded as restricted securities for guarantees, and collateral received in securities for derivative transactions is recorded in memorandum accounts.

**(k) *Loan portfolio-***

The balances in the loan portfolio represent the amounts disbursed to borrowers, plus accrued but unpaid interest less interests prepaid in advance. The "Allowance for loan losses" is presented as a deduction from the total loan portfolio balance.



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The Group classifies its portfolio under the following captions:

- a. Commercial: Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial line of activity; includes loans granted to financial institutions (excluding interbank loans with maturities of less than three business days), loans for factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly known as "structured" in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, municipalities and decentralized agencies.
- b. Residential mortgages: Direct loans denominated in Mexican pesos, foreign currency, UDIs or multiples of the minimum wage ("VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-business purposes; includes equity loans guaranteed by the home of the borrower and mortgage loans granted to former employees who rendered services to the Group.
- c. Consumer: Direct loans, denominated in Mexican pesos, or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions which are entered into with individuals.

The undrawn lines of credit are recorded in memorandum accounts under the caption "Credit commitments".

At the time of contracting, transactions with letter of credits are recorded in memorandum accounts under the caption "Credit commitments" which, when drew down by the customer or its counterparty, are transferred to the loan portfolio.

Outstanding balance of the loan and the associated interest are classified as performing and past due, considering the following criteria:

*Current loan portfolio-*

- Loans that are current in the payments of both principal and interest.
- Loans that do not exhibit the characteristics of non-performing portfolio.
- Restructured or renewed loans which have evidence of sustained payment.

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*Non-performing loan portfolio-*

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.
- If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due.
- Mortgage loans with periodic installments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.
- Customer checking accounts of clients that don't have authorized credit line showing overdrafts, will be reported in the non-performing portfolio at the date of the overdraft.
- If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the loans on which the Group continues to collect payments under the terms of fraction VIII, article 43 of the Commercial Bankruptcy Law and loans that are granted under the terms of the article 75 in relation with fractions II and III of article 224 of the Commercial Bankruptcy Law.
- Immediate collection documents referred to in Accounting Criterion B-1, "Cash and cash equivalents", of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate).

In relation to maturity terms referred to in the preceding paragraphs, monthly periods can be used, regardless of the number of days in each calendar month, according to the following equivalences: (i) 30 days are equivalent to a month; (ii) 60 days are equivalent to two months; and (iii) 90 days are equivalent to three months.

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment.

*Sustained payments-*

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive amortizations of the loan payment scheme, or in the case of loans with amortizations that cover periods greater than 60 calendar days, the payment of one installment.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or upon maturity, it is considered that there is a sustained payment of the credit when any of the assumptions mentioned in the next page.

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- a) the borrower has covered at least 20% of the original amount of the credit at the time of restructuring or renewal, or else,
- b) the amount of interest accrued were covered according to the payment plan for restructuring or renewal corresponding to a 90-day term.

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

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

With regards to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Group creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

*Financial factoring, discount and assignment agreement of credit rights-*

At the beginning of the operation, the value of the portfolio received is recognized against the cash outflow, recording the agreed value as other accounts payable and, if applicable, as deferred credit the financial income to be accrued deriving from operations of factoring, discount or assignment of credit rights.

The deferred credit income referred-to in the above paragraph will be determined, if applicable, by the difference between the value of the portfolio received reduced by the advance rate and cash outflow. This accruable financial income must be recognized in deferred credits and prepaid expenses and amortized under the straight-line method for the life of the credit within "Interest income" caption.

In the event that the transaction generates interest, it will be recognized as accrued.

The amount of advances granted, if any, will be recognized as part of the financial factoring, discount or assignment of credit rights, within commercial credits loans.

*Financial asset derecognition-*

The Group only derecognizes a financial asset when the related contractual rights expire or when the Group transfers the financial asset because of: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

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When a portion of the financial asset is derecognized, the Group must:

- a) Derecognizes the portion of the transferred financial asset based on the most recent carrying amount, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.
- b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value. For recognition purposes, the Group utilizes an accounting criterion reflecting the nature of the payment in question.
- c) Recognizes in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred collections (recognized at fair value) and (ii) the effect (profit or loss) if any, the accrued valuation recognized in stockholders' equity.

Beginning in 2018, recoveries of loan portfolio contracts that were previously written off or eliminated, are recognized under the allowance for loan losses item.

**(I) Allowance for loan losses-**

The Group recognizes the allowance for loan losses based on the following:

**i) Commercial loan portfolio-**

*Business and commercial-*

For the commercial portfolio classified in the groups denominated "Large Companies" (evidenced by annual sales over 50 million dollars) and "Companies" (annual sales over 60 million pesos and below 50 million dollars), respectively, the Commission approved to the Group the application of internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121-1/116843/2014 y 121-1/116844/2014 dated April 21, 2014, which are reviewed annually according to the Regulation.

Likewise, by means of official communications 121-1/118708/2016 and 121-1/118709/2016 dated February 5, 2016, the Commission approved the re-estimation (calibration) of the internal models mentioned in the preceding paragraph for the commercial portfolio groups of Large Companies and Companies, respectively.

As the Group classifies the commercial credit loan portfolio into Large Companies and Companies groups, it considers an expected loss model for the following 12 months, according to the following:

- Probability of Default (PD) - It is estimated based on scores of a rating model pursuant to a master scale computed using the companies' financial information; for a past due portfolio, a 100% percentage is considered for this variable.

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- Loss Given Default (LGD) - It is estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period of time on which the borrower has been in non-compliance.
- Exposure at default (EAD) - This variable is determined considering the amount of the loan drawn-down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

*Commercial loans other than for Large Companies and Companies*

For rating the commercial portfolio other than the one corresponding to Large Companies and Companies groups, the Group considers the PD, LGD and EAD factors, according to the Provisions, as follows:

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

$$R_i = PD_i \times LGD_i \times EAD_i$$

Where:

$R_i$  = Amount of the allowance for loan losses to be created for the i-th loan.

$PD_i$  = Probability of Default of the i-th loan.

$LGD_i$  = Severity of the Loss on the i-th loan.

$EAD_i$  = Exposure to Default on the i-th loan.

The  $PD_i$ , will be calculated according to the following formula:

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

For purposes of the above:

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

$$Total\ Credit\ Score_i = \alpha \times (Quantity\ Credit\ Score_i) + (1 - \alpha) \times (Quality\ Credit\ Score_i)$$

Where:

*Quantity Credit score<sub>i</sub> (QCSt<sub>i</sub>)* = Is the score obtained for the i-th borrower when evaluating the risk factors according to the Regulation.

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*Qualitative credit score<sub>i</sub> (QCS<sub>i</sub>)* = Is the score obtained for the i-th borrower when evaluating the risk factors according to the Regulation.

$\alpha$  = Is the relative weight of the quantitative credit score.

*Unsecured loans-*

The LGD<sub>i</sub> of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

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

The EAD<sub>i</sub> will be determined based on the following:

- I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EAD_i = S_i$$

- II. For other credit lines:

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

Where:

$S_i =$

The outstanding balance of the i-th loan at the rate date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

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*Authorized Credit Line:* The maximum authorized amount of the credit line at the classification date

The Group may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the LGD, with the aim of decreasing the reserves derived from the portfolio classification, according to the Regulation.

Acceptable collateral may be financial and nonfinancial. Likewise, collateral is recognized only if it complies with the requirements established by the Commission in the Regulation.

**ii) Portfolio of states and their municipalities (governments)-**

For rating states and municipalities, the Group considers the PD, LGD and EAD factors, according to the Provisions, as follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following expression:

$$R_i = PD_i \times LDG_i \times EAD_i$$

Where:

$R_i$  = The amount of the allowance for loan losses to be created for the i-th loan.  
 $PD_i$  = Probability of Default of the i-th loan.  
 $LDG_i$  = Severity of the Loss of the i-th loan.  
 $EAD_i$  = Exposure to Default of the i-th loan.

The  $Pli$  will be determined according to the following formula:

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

For such purposes:

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

$$Total\ Credit\ Score_i = \alpha \times (Quantitative\ Credit\ Score_i) + (1 - \alpha) \times (Qualitative\ Credit\ Score_i)$$

Where:

$PCCt_i$  = Quantitative Credit Score = IA + IB + IC  
 $PCCt_i$  = Qualitative Credit Score = IIA + IIB  
 $\alpha$  = 80%  
 IA = Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.

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<i>IB</i>	=	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
<i>IC</i>	=	Total debt to eligible participations plus debt service to adjusted total revenues plus short-term debt to total debt plus total revenues to current expense plus investment to total revenues plus proprietary revenues to total revenues.
<i>I/A</i>	=	Local unemployment rate plus presence of financial services of regulated entities.
<i>I/B</i>	=	Contingent obligations derived from retirement benefits to adjusted total revenues plus operating balance sheet to local Gross Domestic Product plus level and efficiency of collections plus robustness and flexibility of the regulatory and institutional framework for budget approval and execution plus robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes plus transparency in public finances and public debt plus issuance of outstanding debt in the stock market.

*Unsecured loans-*

The LGDi of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

- a. 45%, for Preferred Positions.
- b. 100%, for Subordinated Positions or when the credit reports 18 months or more of arrears for the amount due and payable under the original terms.

The EAD<sub>i</sub> will be determined based on the following:

$$EAD_i = S_i * \text{Max} \left\{ \left( \frac{S_i}{\text{Authorized credit line}} \right)^{-0.5794} , 100\% \right\}$$

Where:

$S_i$ = The outstanding balance of the i-th loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.



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

The Group may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the LGD of the credits, for the purpose of reducing the allowance for loan losses derived from the portfolio classification, according to the accounting criteria

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the Commission are recognized.

The allowances for loan losses from the commercial loan portfolio created by the Group as a result of the rating of each loan are classified in accordance with the following percentages:

<b><u>Risk Level</u></b>	<b><u>Percentages Ranges loss Reserves</u></b>	
A-1	0% to	0.90%
A-2	0.901% to	1.50%
B-1	1.501% to	2.00%
B-2	2.001% to	2.50%
B-3	2.501% to	5.00%
C-1	5.001% to	10.00%
C-2	10.001% to	15.50%
D	15.001% to	45.00%
E	More than 45.00%	

**iii) Mortgage loan portfolio-**

By means of official communications 121-1/1813/2018 dated on November 16, 2018, the Commission approved the Group to apply prospectively the internal measurement models for the determination of the mortgage loan portfolio allowance for loan losses under an advanced approach.

As of December 31, 2018, for rating mortgage loan portfolio, the Group considers an expected loss model for the next 12 months according to the following:

- PD = it is estimated based on scores allocated, considering the admission tool, credit behavior or number of defaults (scoring model), whether the loan is refinanced or not, based on the loan aging and the type of portfolio.
- LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee, the product, and period of time of non-compliance by the borrower.
- EAD - this variable is determined considering the amount of the drawn down loan balance at the end of each month.

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The allowance for mortgage loan losses constituted by the Group following this credit rating process is classified according to the following risk level and percentages:

<b><u>Level of risk</u></b>	<b><u>Allowance Percentage Range for Loan Losses</u></b>		
A-1	0%	to	0.50%
A-2	0.501%	to	0.75%
B-1	0.751%	to	1.00%
B-2	1.001%	to	1.50%
B-3	1.501%	to	2.00%
C-1	2.001%	to	5.00%
C-2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

Until November 30, 2018, the Group would determine the allowance based on the methodology considering PD, LGD and EAD factors according to the Provisions and the description below:

The allowance for loan losses amount of each loan was determined by applying the following formula:

$$R_i = PD_i \times LGD_i \times EAD_i$$

Where:

- PD<sub>i</sub> = The amount of the allowance for loan losses to be created for the i-th loan.
- LGD<sub>i</sub> = Probability of Default of the i-th loan.
- EAD<sub>i</sub> = Severity of the Loss of the i-th loan.
- El<sub>i</sub> = Exposure to Default of the i-th loan.

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For rating housing mortgage portfolio, the Group would consider a loss model according to the following:

- PD = a percentage of 100% was considered for the portfolio with 4 or more defaults. However, when the portfolio had less than 4 defaults, a different percentage was considered depending on risk coefficients with specific values established in the Provisions, incorporating for their determination the borrower's payment behavior variables -within the Group and other entities of the Mexican Financial System-, except for loans of mortgage portfolio allocated to housing remodeling or improvement with associated guarantees, where Provisions included specific aspects for such loans.
- LGD = it was obtained depending on the loan recovery rate, considering a percentage of 100% for delays equal to or greater than 60 days. However, for loans with delays less than 60 days, a different percentage was considered depending on cure coefficients with specific values established in the Provisions, incorporating for their determination, variables such as an unemployment insurance, the borrower's payment behavior, guarantees for the property, except for loans of mortgage portfolio allocated to housing remodeling or improvement with associated guarantees, where Provisions included specific aspects for such loans.
- EAD = corresponded to the principal and interest balance of each loan part of the mortgage loan portfolio.

If the allowance for mortgage loan losses had been determined under the previously mentioned methodology by the 2018 year end, a lower allowance amount would have been recorded by \$962.

**iv) Non-revolving consumer portfolio-**

Pursuant to Resolution issued by the Commission on January 6, 2017 on changes to the methodology applicable to non-revolving consumer loan portfolio, as from July 1, 2017, the Group determines reserves under this new methodology, which considers PD, LGD and EAD factors, according to the Provisions and the description as follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following formula:

$$R_i = PD_i^x \times LGD_i^x \times EAD_i$$

Where:

- $R_i$  = The amount of the allowance for loan losses to be set up for the i-th loan.
- $PD_i^x$  = Probability of default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
- $LGD_i^x$  = Loss Given Default of the i-th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
- $EAD_i^x$  = Exposure to Default of the i-th loan.
- $X$  = Super index that indicates the loan type corresponding to ABCD (B), automobile (A), payroll (N), personal (P), other (O).

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For rating non-revolving consumer portfolio, the Group considers a loss model according to the following:

- PD = it is determined based on the loan type classification (B, A, N, P y O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Provisions for each loan type, borrower's payment behavior variables within the Group and other entities of the Mexican Financial System, mainly.
- LGD = it is determined based on the loan type classification (B, A, N, P y O), depending on the delays, incorporating in their determination SP percentages in the observed delays at the rating date.
- EAD = it corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowance for consumer loan losses which, does not include credit card transactions, set up by the Group as a result of the loan rating, are classified according to the risk degrees and percentages shown as follows:

<b><u>Level of risk</u></b>	<b><u>Allowance Percentage Range for Loan Losses</u></b>		
A-1	0%	to	2.00%
A-2	2.01%	to	3.00%
B-1	3.01%	to	4.00%
B-2	4.01%	to	5.00%
B-3	5.01%	to	6.00%
C-1	6.01%	to	8.00%
C-2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

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**v) Consumer credit card loan portfolio-**

The Commission approved the Group's request to apply an internal allowance for loan losses credit card rating model with advanced approach per Document 111-1/69930/2009 on June 22, 2009.

Likewise, by means of official communication 121-1/775/2017 dated February 13, 2017, the Commission approved the use of the rating internal system for revolving consumer loans, considering for the estimation of parameters information up to 2015, which have Group as from February 2017.

For rating revolving consumer portfolio, the Group considers an expected loss model for the next 12 months according to the following:

- PD = it is estimated based on scores allocated, considering the admission tool or credit behavior (scoring model), based on the loan age and the type of portfolio.
- LGD = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee and period of time of noncompliance by the borrower.
- EAD - this variable is determined considering the amount of the loan drawn down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

The allowance for credit card losses created by the Group following this credit rating process is classified according to the following risk level and percentages

<b><u>Level of Risk</u></b>	<b><u>Allowance Percentage Ranges for Loan Losses</u></b>	
A-1	0%	to 3.00%
A-2	3.01%	to 5.00%
B-1	5.01%	to 6.50%
B-2	6.51%	to 8.00%
B-3	8.01%	to 10.00%
C-1	10.01%	to 15.00%
C-2	15.01%	to 35.00%
D	35.01%	to 75.00%
E	More than 75.01%	

As of December 31, 2018 and 2017, the rating and creation of the allowance for loan losses of the consumer loan portfolio is performed with figures as of the last day of each month and is presented to the Commission at the latest as of the 30 days following the month rated, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

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Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to loans that are classified within non-performing portfolio.

**vi) Additional reserves-**

Until November 30, 2018, additional mortgage loan allowances set up by the Group addressed the differences between the models established by the Commission in the accounting criteria, and the internal models that consider the application of specific percentages for PD and LGD variables, according to an expected loss model.

**vii) Restructuring and renewal processes-**

A restructuring process is a transaction derived from any of the following situations:

- a) The extension of credit enhancements given for the loan in question, or
- b) The modification of original credit or payment scheme conditions, which include:
  - The modification of the interest rate established for the remainder of the loan period;
  - The change of currency or account unit, or
  - The concession of a grace period regarding the payment obligations detailed in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

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

*Interest rate:* when the agreed interest rate improves.

*Currency:* provided the respective rate is applied to the new currency.

*Payment date:* only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration at the maturity date or when the credit is paid at any time by using the proceeds generated by another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

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If a restructuring or renewal process is used to consolidate different loans granted to the same borrower in a single loan, the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the worst rated among the component loans.

Current loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as current when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment and the payment of interest periodically or at maturity, which are restructured or renewed during the final 20% of the original credit period are only considered as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment and the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower's capacity to pay are available, ergo, it is highly likely that the borrower will settle the outstanding payment.

**(m) Securitization with transfer of ownership-**

By securitizing the mortgage loan portfolio with transfer of ownership, the Group (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Brokerage House"), for placement among small investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

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On December 17, 2007, the Commission authorized the Group, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of \$20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Group recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in the same year, regarding C-1 "Financial Asset recognition and derecognition", C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities". After applying these criteria, the Group derecognized the securitized assets held by the trusts, which were subsequently consolidated on the balance sheet of the Group. Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission, applicable as of that date.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Group has tools to measure and quantify the impact of securitized transactions on the balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.
- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Financial Group and, if applicable, it also values the bond position to consider its possible sale on a secondary market. The valuation model is used to calculate the Group's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Group, has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752 and 847, resulting from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 13.

**(n) Premium receivable-**

Premiums receivables represent balances of premiums which age is lower than the agreed term or than 45 days, according to the provisions of the CNSF. If the aforementioned age is exceeded, they are written-off against net income.



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**(o) Other receivable, net-**

Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (depends on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the probability of recovery, except for the recoverable taxes and settlement accounts.

**(p) Net foreclosed assets or received through payment in kind -**

Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure are recognized on the date on which the foreclosure ruling is issued.

Property received as payment are recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized in a document.

On the recording date of the foreclosed assets or assets received through payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in accordance to the Provisions.

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in results of the year under the caption "Other operating income (expenses)".

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Upon sale of the foreclosed property, spread between the sales price and the carrying value of the awarded property, net of allowances, must be recorded directly in earnings for the year under "Other operating income (expenses)".

Foreclosed property is valued according to the type of property in question, recording an allowance for awarded property against earnings for the year under heading "Other operating income (expenses)".

Considering the foregoing, and in observance of the Provisions, the determination of the allowance for personal property or real property foreclosed or received in payment over a period of time, is computed based on the tables shown in the following page, depending on the type of property in question.

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**Allowance for personal property**

<b><u>Time elapsed as of the repossession or Payment-in-kind (months)</u></b>	<b><u>Allowance percentage</u></b>
Up to 6	0%
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%

**Allowance for real estate property**

<b><u>Time elapsed as of the repossession or Payment-in-kind (months)</u></b>	<b><u>Allowance percentage</u></b>
Up to 12	0%
More than 6 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%

**(q) *Property, furniture and equipment, net-***

Are recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDI up to that date. The related depreciation and amortization is recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007, as appropriate using the straight-line method as of the month following of the acquisition date, applying the following rates:

	<b><u>Rate</u></b>
Real estate	2.5%
Construction	1.3%
Construction components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioners	2.8%
Computer equipment	25.0%
ATM's	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Security equipment	10.0%

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The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimate is recognized initially recorded on a prospective basis.

Maintenance and minor repair expenses are recognized in results for the year when they are incurred.

**(r) *Impairment of long-lived assets in use-***

The Group tests the net carrying value of long-live assets in order to determine the existence of impairment indicators that such value exceeds its recovery value. The recovery value represents the potential amount of net income that it is reasonably expected to be obtained as a consequence of the use or realization of such assets.

If it is determined that net carrying value exceeds recovery value, the Group records the required allowances. When it is intended to sell the assets, these are recorded in the financial statements at the lower of net carrying value or realizable value. The assets and liabilities of a group classified as available for sale are shown separately in the consolidated balance sheet.

**(s) *Equity investments-***

Are represented by those equity investments made by the Group in entities over which it has significant influence but lacks control, and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results for the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

**(t) *Goodwill-***

Represents the excess of the purchase price over the book value of a subsidiary company's shares at the acquisition date and it is recognized in "Other assets"; the amount of goodwill is annually assessed for impairment following the accounting criteria C-15 "Impairment in the value of long-lived assets and their disposal".

**(u) *Income tax (IT)-***

IT payable for the year are determined in conformity with the tax regulations in effect.

Deferred IT is accounted for under the asset and liability method.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss carry forwards and other recoverable tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized on the statement of income in the period that includes the enactment date.

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**(v) Other assets-**

Software, computer developments and intangible assets are recorded originally at the face value incurred, and for those acquired before 2008, were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from UDI.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the rate from 20% to the restated expense.

**(w) Deposits funding-**

Deposits funding comprises demand and time deposits from the general public, as well as bank bonds and money market funding and global deposit account without changes. Interest expenses is recognized in the statement of income on an accrual basis.

**(x) Bank and other borrowings-**

Bank and other borrowings comprise loans from domestic and foreign banks. Interest is recognized on an accrual basis under the caption "Interest expenses" in the statement of income.

**(y) Employee benefits-**

The Group's net obligation corresponding to the defined benefit pension plans, seniority premiums, medical expenses, benefits upon death, sports benefits and post-employment benefits, which is calculated on a separate basis for each plan, estimating the amount of the future benefits brought to present value earned by the retirees in previous years, deducting from such amount, the fair value of the plan assets.

Calculation of the obligation for the defined benefit plans is performed on an annual basis by actuaries, using the projected unit credit method. When the calculation results in a possible asset for the Group, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or any curtailment in future contributions thereto. To calculate the present value of the economic benefits, any minimum financing requirement must be taken into consideration.

The amendments to the plans that affect the cost for services provided are recognized in earnings immediately in the year where said amendment occurs, without the possibility for deferral in subsequent years. Furthermore, the effects of any death events or obligations curtailment for the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to benefits, respectively, are recognized in earnings for the period.

The Group determines the net interest expense (income) on the net liability (asset) for defined benefits of the year, by multiplying the discount rate used to measure the defined benefit obligation by the net liability (asset) defined at the beginning of the reporting annual period, considering changes in the net liability (asset) from the defined benefits during the period as result of the estimations of the contributions and benefit payments. Net interest and labor cost are recognized as part of the cost of the year under other administrative expenses.

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All remeasurment resulting from any differences between the projected and actual actuarial hypotheses by the end of the period, are recognized in the period where they are incurred in as part of the OCI within stockholders' equity.

**(z) Technical reserves-**

The Group creates and measured technical reserves in accordance with the terms and provisions established by the Law of Insurance and Bonding Institutions and with the general rules issues by the CNSF in Title 5 of the Insurance provisions.

The technical reserves are established and measured in relation to all insurance and reinsurance obligations that the Group has assumed before the insured and beneficiaries of insurance and reinsurance contracts, the administration expenses, as well as the acquisition cost assumed in relation thereto.

To create and assess technical reserves, actuarial methods based on the application of actuarial practice standards indicated by the CNSF through general provisions, are used, and considering the information available in the financial markets, as well as the information available on technical insurance and reinsurance risks. The valuation of these reserves is assessed and validated by an independent actuary registered with the CNSF.

Regarding the technical reserves related to catastrophic risks and other reserves that the CNSF determined in accordance with the Law, the Group used the actuarial methods of creation and measurement established by the CNSF through general provisions.

The most significant aspects of their calculation and accounting are as follows:

**Reserve for current risks-**

The Group registered with the CNSF the technical notes and the actuarial methods used for creating and measuring the current risk reserve.

The purpose of this reserve is cover the expected value of future obligations (best estimate), from the payment of claims, benefits, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.

The best estimate will be equal to the expected value of the future cash flows, considering income and expenses, of obligations, understood as the weighted average by probability of these cash flows, considering the temporary value of money based on the curves of market-risk free interest rate for each currency or monetary unit provided by the independent price vendors, as of the valuation date. The hypothesis and procedures with which the future cash flows of obligations are determined, based on which the better estimate will be obtained, were defined by the Group in the method recorded for the calculation of the best estimate. For purposes of calculating the future cash flows of revenues, the premiums that upon valuation are overdue and outstanding are not considered, nor are the fractional payments accounted for in "Insurance premium receivable" in the consolidated balance sheet.

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Special mathematical reserve for pensions has the purpose of setting aside any required resources for the Group to face potential increases in the survival indexes of insured population.

Reserve for pension additional benefits has the purpose of setting aside any required resources for the Group to face future rents of additional benefits offered to its pensioners. The Group registered before the CNSF the technical notes and actuarial methods used to set up and value this reserve.

*Multiannual insurance-*

In the case of multiannual policies, the reserve for current risks is the best estimate of the future obligations for the year of validity concerned, plus the gross premium corresponding to future cumulative annuities including the expected return of such annuities, during the validity of the policy and the risk margin. The acquisition cost shall be deduced from the premiums corresponding to future annuities and, if applicable, for accounting effects, shall be recorded at the date of issuance separately from the reserve.

The Group considers as multiannual policies, those insurance contracts whose lifetime is more than one year and except those long-term life insurance or insurance with contingent future premiums and their devolution is not anticipated at the time of extinction of the risk.

*Catastrophic risk insurance-*

The Group determines the balance of reserve for current risks of the coverage for earthquake, hurricane and other hydrometeorology risks, based on the non-accrued annual risk premium, and applying the technical basis included in the Insurance provisions.

In the case of policies including risks which, because of their characteristics, cannot be valued on the basis of these technical criteria, mainly reinsurance taken abroad or covered goods located overseas, the reserve for current risks is calculated as the non-accrued part of the retained risk premium, the premium being set as 35% of the issues premiums of each of the policies effective at the date of valuation.

*Risk margin-*

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For purposes of valuation of the current risk reserve, the SCR of closing of the month immediately preceding valuation is used. If there are relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Insurance Commission is informed of the adjustment made and the procedures used to make this adjustment.

The risk margin is determined for each insurance line and type, according to the term and currency considered in calculating the best estimate of the corresponding retained insurance obligation.

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The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

***Outstanding claims provision-***

The establishment, increase, valuation and recording of the outstanding claims provision is made through estimating obligations using the actuarial methods that the Group has registered for such purposes with the CNSF.

The purpose of this provision is to cover the expected value of accidents, benefits, guaranteed values or dividends, once the contingency provided for in the insurance contract occurs, plus a risk margin.

The amount of the outstanding claims provision will be equal to the sum of the best estimate and of a risk margin, which are calculated separately and in terms of Title 5 of the Insurance provisions.

This reserve includes the following components:

*Outstanding claims provision for claims and other obligations of known amount-*

- These are the outstanding obligations at closing of the period from claims reported, past due rents, guaranteed values and dividends accrued, among others, whose amount payable is determined upon valuation and is not likely to have adjustments in the future, the best estimate, for purposes of establishing this reserve is the amount corresponding to each one of the obligations known upon valuation.

For a future obligation payable in installments, the current value of future payment flows is estimated, discounted using the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force.

In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

*Outstanding claims provision for claims incurred but not reported and adjustment expenses-*

- These are the obligations that arise from claims that having occurred as of the valuation date, have not yet reported or have not been completely reported, as well as the adjustment, salvage and recovery expenses. The reserve upon valuation is determined as the best estimate of future obligations, brought to the present value using discount rates corresponding to the market-risk free interest rate curves for each currency or monetary unit, plus the risk margin calculated according to the provisions in force. In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

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For purposes of calculating the reserve, a claim is defined as have not been completely reported when having occurred on dates prior to valuation of such accident, future claims or adjustments in addition to the estimates initially made, may derive.

*Risk margin-*

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Group's insurance and reinsurance obligations for the duration of the covered risk period. For purposes of valuation of the current risk reserve, the SCR of closing of the month immediately preceding valuation is used. If there are relevant increases or decreases in the amount of the Group's obligations as of the report date, the Group makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the CNSF is informed of the adjustment made and the procedures used to make this adjustment. The risk margin is determined according to the term and currency considered in calculating the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the market-risk free interest rate that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding SCR.

***Catastrophic risk insurance-***

*Earthquake and/or volcanic eruption coverage-*

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic casualties in the underwritten obligations related to earthquake events. The reserve is cumulative and may only be affected in the event of casualties, and under certain situations included in the Law, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the earthquake insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

*Hurricane and other hydrometeorology risks-*

The purpose of this reserve is to cover the maximum likely loss of the Group in connection with the occurrence of catastrophic casualties in the underwritten obligations related to hurricane and other hydrometeorology risk insurance. The reserve is cumulative and may only be affected in the event of casualties, and under certain situations included in the Law, with the CNSF prior approval. Increases to the reserve require the release of the current risk reserve for the hurricane and other hydrometeorology risks insurance line and the capitalization of financial income. The balance of this reserve has a limit, determined by the technical procedure established in the rules issued by the CNSF.

***Reserve for contractual obligations for pensions-***

This reserve comprises the annuities to pensioners or beneficiaries, which claim period has expired but they have not been claimed and there is no evidence of their death or lost eligibility, respectively.



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***Contingency reserve-***

The funds of this reserve are intended for facing an adverse deviation in the obligations derived from the demographic hypotheses used in determining the pension amounts, which translates into excess obligations as a result of a change in the mortality rate provided for by the adopted demographic table.

***Reserve for investment fluctuations-***

Its purpose is assisting the institutions faced with possible variants in their investment yields. It is comprised by a portion of the financial yield derived from the difference between the investment yields of the institutions and the minimum yields credited to their technical reserves, without the balance exceeding the 50% of the gross solvency requirement, determined in provision 5.11.6 of the Insurance provisions.

***(aa) Reinsurance-***

*Current*

Transactions arising from reinsurance contracts, both ceded and inwards entered into by the Group, are shown under heading "Accounts receivable to reinsurers and bonding reinsurers" in the consolidated balance sheet; for presentation purposes, the credit balances by reinsurers company are reclassified to the corresponding heading under liabilities.

*Reinsurance assumed*

Transaction arising from reinsurance assumed are accounted for depending on the statements of account received from cedants, which in general are prepared monthly, an aspect that causes the deferral of a month in the recording of premiums, losses, commissions, etc.

*Ceded reinsurance*

The Group limits the amount of its liability for risks assumed through the distribution with reinsurers companies, through automatic and facultative contracts, ceding to such reinsurance a portion of the premium.

The Group has a limited retention capacity in all lines of insurance and contracts stop-loss coverage, that basically cover life, accidents and casualty transactions.

*Participation of reinsurance Institutions for current risks and pending claims.*

The Group registers the participation of reinsurers in the current risk reserves and for obligations not yet complied with for incurred but not reported losses and adjustment expenses allocated to the loss, as well as the expected amount of future obligations arising from reported losses.

The Group's management determines the estimate of the recoverable amounts for the participation of the reinsurers in the reserves mentioned in the preceding paragraph, considering the temporary differences between reinsurance recoveries and direct payments and the likelihood of recovery, as well as the expected loss from noncompliance of the counterparty. Methodologies for calculation of this estimate are registered with the CNSF and the effect is recognized in the consolidated income statement for the year.

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According to the CNSF provisions, recoverable amounts from reinsurance contracts with counterparties that do not have an authorized register, cannot cover the Investment Base and cannot be part of the Acceptable Own Funds.

**(ab) Provisions-**

They are recognized when there is a present obligation resulting from a past event, which is likely to result in an outflow of economic resources, and that can be estimated reasonably.

**(ac) Foreign currency transactions-**

Transactions denominated in foreign currency are recorded in the currency of the operation, and valued at the exchange rate determined by the Central Bank. Monetary assets and liabilities denominated in foreign currency are valued in local currency at the exchange rate at the end of each period, issued by the Central Bank. The differences in changes incurred in relation to assets or liabilities contracted in foreign currency are recorded in the results for the year.

Gain (loss) on foreign currency purchase-sale transactions originates from the difference between the exchange rates used to buy or sell foreign currency, including adjustment to the final position, valued at the exchange rate referred to in the previous paragraph.

**(ad) Financial margin-**

The Groups net interest income consists of the difference resulting from interest income less interest expense.

*Interest income-*

Interest income comprise returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers and agreed upon interest rates, earned interest income in capital lease transactions, amortization of interest collected in advance, as well as interest from deposits at financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities lending, accrual of collected fees for loan origination, as well as dividends of net worth instruments considered as interest income and insurance premium revenues.

Interest earned for loans granted is included in earnings as it accrues. Interest on past-due portfolio is included in earnings until it is collected.

Commissions charged for loan origination are recorded as deferred revenues under "Deferred credits and prepayments", and are amortized to earnings under "Interest income", using the straight line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

*Interest expense-*

Interest expense is comprised of premiums, bank deposits, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

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*Commissions charged and associated costs and expenses-*

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred credit that is amortized to results using the straight-line method throughout the new term of the loan.

Commissions recognized after the initial loan origination, those incurred as part of the maintenance of such loans, or those collected for other reasons than the granting are recognized in results when they are incurred.

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

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

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to results over a 12 month period under the respective line item that corresponds to the nature of such cost or expense.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12 month period are recognized directly in results for the year under the heading "Commissions and fees collected".

**(ae) *Salvage revenues-***

Salvage revenues are recorded as an asset and a reduction in the loss ratio cost on the date on which it become known and recorded at the estimated realization value.

**(af) *Memorandum accounts-***

(i) Own account operations

Memorandum accounts are used to record assets or commitments which do not form part of the Group's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively:

– *Contingent assets and liabilities:*

Formal claims that may involve any responsibility for the Group.

– *Loan commitments:*

The balance represents the value of letters of credit granted by the Group and that are considered as irrevocable commercial loans not used by borrowers and authorized unused lines of credit.

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The items recorded in this account are subject to loan rating.

– *Assets in trust or under mandate:*

These represent the value of property received in trust, all information concerning the management of each being kept in separate accounts. The mandate is recorded at the goods stated value subject to the mandate agreements entered into by the Group.

– *Assets in custody, guarantee and under management:*

Cash and securities owned by the clients under custody, guarantee and management are reflected in the respective memorandum accounts and were valued based on the price delivered by the price vendor.

Securities under custody and management are deposited at S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.

– *Collateral received by the entity:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, when the Group acts as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the entity:*

This balance represents the total collateral received and sold or given in guarantee when the Group acts as the repurchasing party and borrower.

– *Uncollected earned interest derived from past due portfolio:*

The interest earned is recorded in memorandum accounts once a performing portfolio loan is transferred to *past due portfolio*.

– *Other record accounts:*

As of December 31, 2018 and 2017, the other memorandum accounts present a balance of \$3,852,441 and \$3,532,686, respectively, which comprise mainly collaterals received by the Group.

(ii) Transactions on behalf of third parties:

It is represented by cash deposits from clients, securities in custody and transactions entered into on behalf of clients. Cash is deposited at banks in accounts other than those owned by the Group. Valuation of assets in custody, related to securities or certificates that qualify as securities, is carried out at fair value. For transactions on behalf of third parties, these are valued addressing the nature of the transaction, that is, investments in securities, repurchase agreements, securities lending and derivatives.

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**(ag) Contingencies-**

Significant contingency-related obligations or losses are accounted for when materialization becomes likely and there are reasonable elements for quantification. In the absence of these reasonable elements, a disclosure is included on a qualitative basis in the notes to the financial statements. Contingent revenues, profits or assets are recorded when there is certainty about their realization.

**(4) Cash and cash equivalents-**

At December 31, 2018 and 2017, cash and cash equivalents are comprised as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Cash in hand	\$	50,098	56,263
Banks		85,140	111,331
Restricted cash:			
Foreign currency purchases <sup>(2)</sup>		125,517	73,145
Foreign currency sales <sup>(2)</sup>		(79,459)	(65,589)
Deposits at Central Bank <sup>(1)</sup>		40,275	40,263
Other restricted cash funds		501	579
Interbank loans (call money) <sup>(3)</sup>		9,914	-
Other cash and cash equivalents		<u>4,693</u>	<u>6,718</u>
Total	\$	236,679 =====	222,710 =====

Banks include deposits in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of \$19.6512 and \$19.6629 pesos per one U.S. dollar, as of December 31, 2018 and 2017, respectively, and are comprised as follows:

	<u><b>Mexican pesos</b></u>		<u><b>U.S. Dollars (in Mexican pesos)</b></u>		<u><b>Total</b></u>	
	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
Deposits with local banks	\$ 88	-	-	-	88	-
Deposits with foreign banks	583	906	29,895	95,821	30,478	96,727
Central Bank	<u>53,769</u>	<u>13,446</u>	<u>805</u>	<u>1,158</u>	<u>54,574</u>	<u>14,604</u>
	\$ 54,440	14,352	30,700	96,979	85,140	111,331
	=====	=====	=====	=====	=====	=====

<sup>(1)</sup> As of December 31, 2018 and 2017 the deposits at Central Bank includes Institution's Monetary Regulation Deposits in Central Bank ("DRM, from its Spanish acronym"), which amount to \$40,275 and \$40,263, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which purpose Central Bank will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Regulations issued by Central Bank.

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On May 12, 2016 through Circular 9/2016, the Central Bank issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Provisions establish that the DRM may be comprised of cash, securities or both.

At December 31, 2018 and 2017, the Group holds BREMS R for the amount of \$32,685 and \$32,682, respectively, which form part of the DRM. These amounts are recorded as restricted under the heading of "Investments in securities" in the category of securities available-for-sale (note 6.b.), this is as a consequence of the bond prospectus establishing that it must only be sold directly or through repurchase/resell transactions to the Central Bank, when determined by the latter through its general provisions.

- (2) As of December 31, 2018 and 2017, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 and 48 hours are as follows:

	<b>Balance in foreign currency (millions)</b>		<b>Equivalent in Mexican peso</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Purchases of foreign currencies to be received at 24, 48, 72 and 96 hours:				
USD	6,139	3,382	\$ 120,633	66,509
EUR	217	281	4,884	6,632
JPY	-	20	-	4
	=====	=====		
Total			\$ 125,517	73,145
			=====	=====
Sales of foreign currencies to be settled at 24, 48, 72 and 96 hours:				
USD	(3,959)	(3,301)	\$ (77,794)	(64,907)
EUR	(74)	(29)	(1,655)	(682)
JPY	(57)	-	(10)	-
	=====	=====		
Total			\$ (79,459)	(65,589)
			=====	=====

Upon recording foreign currencies to be delivered or received from sales and purchases under caption "Cash and cash equivalents", the clearing accounts of the counter value of these transactions are recorded in the consolidated balance sheet under "Other accounts receivable, net" and "Creditors on settlement of transactions", accordingly.

- (3) Bank and other borrowings (Call money) in local currency contracted by the Group, are agreed to within 2 days, and a rate of 8.25%. These borrowings are contracted with 3 financial institutions. Call money loans are documented according to the bank union contract called "Testimony of the Instrument of the Framework Contract for the Celebration of Interbank Loan Operations Call money Instrument 3160 Book 83 Year 1997 LFLP / JJG / BMM", which was signed by the bank union before a Notary Public; As of December 31, 2018, Call Money transactions are as shown below:

<b><u>Counterparty</u></b>		<b><u>Market value</u></b>
Banco Inbursa S. A. I. B. M.	\$	200
Banco Santander México, S. A. I. B. M.		6,713
Nacional Financiera, S. N. C.		<u>3,001</u>
Total	\$	9,914
		=====

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**(5) Margin accounts-**

As of December 31, 2018 and 2017, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of \$10,548 and \$14,359, respectively.

**(6) Investment securities-**

At December 31, 2018 and 2017, investment securities were as follows:

a. Trading Securities

Unrestricted securities:

<u>Instrument</u>	<u>2018</u>			<u>2017</u>	
	<u>Acquisition Cost</u>	<u>Accrued Interests</u>	<u>Increase (decrease) valuation</u>	<u>Carrying amount</u>	<u>Book Value</u>
Equity shares, net	\$ 365	-	(28)	337	4,023
American Depositary Receipts (ADRS)	3,285	-	(303)	2,982	5,673
Bank bonds	1,666	35	(24)	1,677	388
Sovereign debt Eurobonds	5,147	79	(139)	5,087	6,464
Fixed-rate government bonds	5,908	34	(126)	5,816	16,146
Promissory notes with returns settle at maturity (PRLV)	3,632	-	-	3,632	297
Federal Mexican Treasury Securities (CETES)	2,994	69	1	3,064	6,709
Federal Government Development Bonds (BONDES)	1,313	6	-	1,319	104
Corporate commercial paper	540	9	(26)	523	768
Corporate Eurobonds	1,691	11	2	1,704	2,087
Securitization certificates	5,863	67	(115)	5,815	6,325
Exchangeable securitization certificates (CBICS)	683	15	(1)	697	107
Federal Mexican Government Development Bonds in UDIS (UDIBONOS)	7,976	16	(127)	7,865	11,328
Mexican Bank Saving Protection Bonds (BPA's)	2,364	52	-	2,416	12,355
Investment funds	54,041	-	916	54,957	37,013
Treasury notes	<u>98</u>	<u>1</u>	<u>(3)</u>	<u>96</u>	<u>97</u>
Unrestricted securities carried forward	\$ <u>97,566</u>	<u>394</u>	<u>27</u>	<u>97,987</u>	<u>109,884</u>

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<u><b>Instrument</b></u>	<u><b>2018</b></u>			<u><b>2017</b></u>	
	<u><b>Acquisition Cost</b></u>	<u><b>Accrued Interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Book Value</b></u>
Unrestricted Securities brought forward	\$ 97,566	394	27	97,987	109,884
Restricted Securities:					
Collateral granted (a.1.)	222,575	227	3,467	226,269	220,008
Value date purchase (a.2.)	17,824	2	40	17,866	16,605
Value date sales (a.3.)	<u>(12,145)</u>	<u>(4)</u>	<u>(23)</u>	<u>(12,172)</u>	<u>(10,492)</u>
Total	\$ 325,820	619	3,511	329,950	336,005
	=====	=====	=====	=====	=====

During 2018 and 2017, the Group recognized losses and gains on valuation from unrestricted securities in a net amount of \$(860) and \$3,072, respectively (note 32).

Likewise, as of December 31, 2018 and 2017, the residual terms of these unrestricted investments are as follows:

<u><b>Instrument</b></u>	<u><b>2018</b></u>				<u><b>Total acquisition cost</b></u>
	<u><b>Less than 1 month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without a fixed period</b></u>	
Unrestricted securities:					
Equity shares, net	\$ -	-	-	365	365
ADRS	-	-	-	3,285	3,285
Bank bonds	30	-	1,636	-	1,666
Sovereign debt Eurobonds	-	-	5,147	-	5,147
Fixed-rate government bonds	-	-	5,098	-	5,098
PRLV	3,125	-	507	-	3,632
CETES	1,027	197	1,770	-	2,994
BONDES	515	-	798	-	1,313
Corporate commercial paper	-	-	540	-	540
Corporate Eurobonds	-	18	1,673	-	1,691
Securitization certificates	-	50	5,813	-	5,863
CBICS	-	-	683	-	683
UDIBONOS	-	-	7,976	-	7,976
BPAS	1	21	2,342	-	2,364
Investment funds	-	-	-	54,041	54,041
Treasury notes	<u>-</u>	<u>-</u>	<u>98</u>	<u>-</u>	<u>98</u>
Total	\$ 4,698	286	34,891	57,691	97,566
	=====	=====	=====	=====	=====



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	2017				Total acquisition cost
<u>Instrument</u>	<u>Less than 1 month</u>	<u>Between 1 and 3 months</u>	<u>More than 3 months</u>	<u>Without a fixed period</u>	
Unrestricted securities:					
Equity shares, net	\$ -	-	-	4,029	4,029
ADRS	-	-	-	5,534	5,534
Bank bonds	30	20	340	-	390
Sovereign debt Eurobonds	-	-	6,359	-	6,359
Fixed-rate government bonds	-	-	15,983	-	15,983
PRLV	250	-	47	-	297
CETES	2,958	-	3,565	-	6,523
BONDESD	100	-	4	-	104
Corporate commercial paper	137	10	628	-	775
Corporate Eurobonds	-	5	2,021	-	2,026
Securitization certificates	-	-	6,326	-	6,326
CBICS	-	-	105	-	105
UDIBONOS	-	-	11,348	-	11,348
BPAS	-	-	12,171	-	12,171
Investment funds	-	-	-	30,852	30,852
Treasury notes	-	-	98	-	98
Total	\$ 3,475	35	58,995	40,415	102,920
	=====	==	=====	=====	=====

a.1. The collaterals granted as of December 31, 2018 and 2017 were comprised as follows:

<u><b>Instrument</b></u>	<b>2018</b>			<b>2017</b>	
	<b><u>Acquisition cost</u></b>	<b><u>Accrued interests</u></b>	<b><u>Increase (decrease) valuation</u></b>	<b><u>Carrying amount</u></b>	<b><u>Book value</u></b>
Collaterals under securities lending:					
IPAB Bonds	\$ 25,641	5	-	25,646	27,260
Fixed rate government bonds	15,462	40	-	15,502	21,305
BONDESD	-	-	-	-	3,993
Collaterals granted by securities lending, carried forward	\$ 41,103	45	-	41,148	52,558
	=====	==	=====	=====	=====

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<u><b>Instrument</b></u>	<u><b>2018</b></u>			<u><b>2017</b></u>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Book value</b></u>
Collaterals granted by securities lending, brought forward	\$ <u>41,103</u>	<u>45</u>	<u>-</u>	<u>41,148</u>	<u>52,558</u>
Collateral under repurchase/resale agreements:					
Bank securitization certificates	14,518	-	(30)	14,488	493
Bank bonds	130	-	-	130	-
BONDESD	1,353	-	-	1,353	11,116
Fixed-rate government bonds	58,144	70	1,908	60,122	46,809
BPAS	56,318	77	1,350	57,745	90,703
CETES	34,020	35	266	34,321	676
UDIBONOS	15,682	-	(27)	15,655	7,501
CBICS	-	-	-	-	7,800
Securitization certificates	<u>1,307</u>	<u>-</u>	<u>-</u>	<u>1,307</u>	<u>2,352</u>
Total collateral under repurchase/resale agreements	<u>181,472</u>	<u>182</u>	<u>3,467</u>	<u>185,121</u>	<u>167,450</u>
Total restricted securities by collaterals granted	\$ <u>222,575</u>	<u>227</u>	<u>3,467</u>	<u>226,269</u>	<u>220,008</u>
	=====	===	====	=====	=====

a.2. Value date purchases at December 31, 2018, and 2017 were comprised as follows:

<u><b>Instrument</b></u>	<u><b>2018</b></u>			<u><b>2017</b></u>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Book value</b></u>
Equity shares, net	\$ 40	-	-	40	619
ADRS	4,041	-	30	4,071	-
Fixed-rate government bonds	3,537	-	11	3,548	10,840
BPAS	-	-	-	-	4,513
BONDES D	537	2	2	541	11
CETES	6,453	-	-	6,453	-
UDIBONOS	1,507	-	(3)	1,504	585
Securitization certificates	-	-	-	-	16
Sovereign debt Eurobonds	<u>1,709</u>	<u>-</u>	<u>-</u>	<u>1,709</u>	<u>21</u>
Total	\$ <u>17,824</u>	<u>2</u>	<u>40</u>	<u>17,866</u>	<u>16,605</u>
	=====	==	==	=====	=====

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a.3. Value date sales at December 31, 2018, and 2017 were comprised as follows:

<u><b>Instrument</b></u>	<b>2018</b>			<b>2017</b>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Book value</b></u>	<u><b>Book value</b></u>
Equity shares, net	\$ (70)	-	-	(70)	(829)
ADRS	(3,881)	-	(18)	(3,899)	-
Sovereign debt Eurobonds	(1,713)	-	-	(1,713)	(6)
CETES	(2,859)	-	-	(2,859)	(647)
Fixed-rate government bonds	(2,842)	(4)	(3)	(2,849)	(6,942)
BONDES	(130)	-	(2)	(132)	(1,414)
UDIBONOS	(650)	-	-	(650)	(545)
Securitization certificates	-	-	-	-	(109)
Total	\$ (12,145)	(4)	(23)	(12,172)	(10,492)
	=====	=	==	=====	=====

During 2018 and 2017, the Group recognized gains on valuation of restricted securities coming from collaterals granted for a net amount of \$1,629 and \$1,475, respectively (note 32).

For the years ended December 31, 2018 and 2017, the returns associated with all of the securities to be traded recorded in the income for the year amount to \$33,182 and \$28,178, respectively.

b. Available for sale

<u><b>Instrument</b></u>	<b>2018</b>			<b>2017</b>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) due to valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Book value</b></u>
Equity shares, net	\$ 535	-	46	581	589
CETES	20,901	3	(49)	20,855	-
Sovereign debt Eurobonds	16,078	339	676	17,093	18,925
Corporate Eurobonds	6,770	102	(446)	6,426	8,180
Development bank Eurobonds	334	3	(9)	328	348
BONDES	17,971	62	(711)	17,322	-
Banking bonds	600	3	(7)	596	401
CEDES	84	67	(10)	141	134
Securitization certificates	5,760	75	(375)	5,460	7,549
BREMS R <sup>(1)</sup>	32,656	29	-	32,685	32,682
UDIBONOS	817	7	(60)	764	334
PRLV	125	70	(12)	183	223
CBICS	23	1	4	28	527
Fixed rate bonds	401	2	(33)	370	135
BPAS	66	1	-	67	-
Companies commercial paper	374	4	(4)	374	-
TBILLS	1,689	11	31	1,731	-
UMS	447	7	(14)	440	1,541
MEXC	<u>1,585</u>	<u>19</u>	<u>(26)</u>	<u>1,578</u>	<u>104</u>
Total unrestricted carried forward	\$ <u>107,216</u>	<u>805</u>	<u>(999)</u>	<u>107,022</u>	<u>71,672</u>

(1) BREMS R are part of the monetary regulation deposit (note 4).

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<u><b>Instrument</b></u>	<u><b>2018</b></u>			<u><b>2017</b></u>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Book value</b></u>	<u><b>Book value</b></u>
Total unrestricted brought forward	107,216	805	(999)	107,022	71,672
Restricted (b.1.)	<u>25,867</u>	<u>17</u>	<u>(1,292)</u>	<u>24,592</u>	<u>61,431</u>
	\$ 133,083	822	(2,291)	131,614	133,103
	=====	===	====	=====	=====

At December 31, 2018 and 2017, the remaining scheduled maturities of the available for sale instruments are as follows:

<u><b>Instrument</b></u>	<u><b>2018</b></u>				<u><b>Total acquisition cost</b></u>
	<u><b>Less than 1 month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without a fixed term</b></u>	
Unrestricted:					
Equity shares, net	\$ -	-	-	535	535
CETES	-	-	20,901	-	20,901
Sovereign debt Eurobonds	-	-	16,078	-	16,078
Corporate Eurobonds	-	-	6,770	-	6,770
Development bank' Eurobonds	-	-	334	-	334
BONDES	-	-	17,971	-	17,971
Banking Bonds	-	-	600	-	600
Securitization certificates	-	-	5,760	-	5,760
CEDES	-	-	84	-	84
BREMS R	-	-	32,656	-	32,656
UDIBONOS	-	-	817	-	817
PRLV	-	-	125	-	125
CBICS	-	-	23	-	23
Fixed-rate government bonds	-	-	401	-	401
BPAS	-	-	66	-	66
Corporate commercial paper	-	-	374	-	374
TBILLS	-	-	1,689	-	1,689
UMS	-	-	447	-	447
MEXC	<u>-</u>	<u>-</u>	<u>1,585</u>	<u>-</u>	<u>1,585</u>
Total unrestricted	\$ -	-	106,681	535	107,216
	===	===	=====	===	=====

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<u><b>Instrument</b></u>	<b>2017</b>				
	<u><b>Less than 1 month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without a fixed term</b></u>	<u><b>Total acquisition cost</b></u>
Unrestricted:					
Equity shares, net	\$ -	-	-	535	535
Sovereign debt Eurobonds	-	-	16,981	-	16,981
Corporate Eurobonds	-	-	8,489	-	8,489
Development bank Eurobonds	-	-	333	-	333
Securitization certificates	-	561	6,936	163	7,660
CEDES UDIS	-	-	81	-	81
Banking Bonds	200	-	200	-	400
BREMS R	-	-	32,662	-	32,662
UDIBONOS	-	-	261	-	261
PRLV	-	-	119	-	119
CBICS	-	-	413	-	413
Fixed-rate government bonds	-	-	148	-	148
UMC	-	-	1,391	-	1,391
MEXC	-	-	104	-	104
Total unrestricted	\$ 200	561	68,118	698	69,577
	====	====	=====	====	=====

- b.1. Collaterals granted (restricted securities) of investments available for sale as of December 31, 2018 and 2017 are as follows:

<u><b>Instrument</b></u>	<b>2018</b>				<b>2017</b>
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Book value</b></u>	<u><b>Book value</b></u>
Fixed-rate bonds	\$ 20,226	11	(1,237)	19,000	57,139
Securitization certificates	1,095	-	(53)	1,042	2,727
CETES	3,226	-	(8)	3,218	-
UDIBONOS	-	-	-	-	349
Collaterals receivable from repurchase agreements	24,547	11	(1,298)	23,260	60,215
Treasury Bills	1,320	6	6	1,332	1,216
Total restricted	\$ 25,867	17	(1,292)	24,592	61,431
	=====	==	=====	=====	=====

For the years ended December 31, 2018 and 2017, the returns associated with all of the securities available for sale of the Group recorded in income for the year, amount to \$3,119 and \$2,391, respectively.

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c. Held to maturity:

<u><b>Instrument</b></u>	<u><b>2018</b></u>			<u><b>2017</b></u>
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Book value</b></u>	<u><b>Book value</b></u>
Debtors Support Program				
Residential Mortgages -				
Special CETES	\$ 15,809	-	15,809	14,664
Fixed-rate bonds	6,808	24	6,832	-
Time deposits	3,544	232	3,776	-
Securitization certificates	12,517	157	12,674	11,495
CBICS	3,008	21	3,029	1,448
UDIBONOS	73,580	491	74,071	71,575
PRLV	-	-	-	145
Corporate Eurobonds	-	-	-	473
Banking bonds	-	-	-	7
Total held to maturity	\$ 115,266	925	116,191	99,807
	=====	===	=====	=====

For the years ended December 31, 2018 and 2017, the returns associated with all of the securities held to maturity of the Group recorded in income for the year, amount to \$9,415 y \$9,984, respectively.

d. Collateral received and pledged

The terms and conditions for the delivery of securities as collateral are in line with the master service agreements of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral received or pledged does not fulfill criteria for transfer of ownership, then the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these master service agreements stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a drop in the guaranteed value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver or receive to the other party (which therefore presents a positive market value) assets, liabilities or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

At December 31, 2018 and 2017, there are no investments in debt securities of one issuer other than government bonds exceeding 5% of the global capital of the Group.

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**(7) Repurchase transactions and securities lending-**

**a. Repurchase agreement receivables**

As of December 31, 2018 and 2017, repurchase transactions are comprised as follows:

<u>Instrument</u>	<u>2018</u>			<u>2017</u>		
	<u>Asset</u> <u>Receivable</u> <u>under</u> <u>repurchase</u> <u>agreement</u>	<u>Liability</u> <u>Collateral</u> <u>sold</u> <u>or pledged</u>	<u>Debit</u> <u>difference</u>	<u>Asset</u> <u>Receivable</u> <u>under</u> <u>repurchase</u> <u>agreement</u>	<u>Liability</u> <u>Collateral</u> <u>sold</u> <u>or pledged</u>	<u>Difference</u> <u>debit</u> <u>(credit)</u>
BONDES	\$ 8,551	492	8,059	583	2,402	(1,819)
Fixed rate bonds	469	-	469	-	-	-
BPAS	508	508	-	500	101	399
CETES	66	-	66	10,701	-	10,701
Securitization certificates	-	-	-	600	598	2
Total	\$ 9,594 =====	1,000 =====	8,594 =====	12,384 =====	3,101 =====	9,283 =====

**b. Creditors on repurchase / resale agreements**

As of December 31, 2018 and 2017, creditors on repurchase / resale agreements are comprised as follows:

<u>Instrument</u>	<u>2018</u>	<u>2017</u>
BONDES D	\$ 135	7,989
Fixed rate Bonds	76,486	104,566
BPAS	55,689	89,041
Securitization certificates	2,530	5,570
Banking bond	130	-
CETES	35,992	676
PIC'S	14,336	7,769
UDIBONOS	15,504	7,846
Total	\$ 200,802 =====	223,457 =====

At December 31, 2018 and 2017, the interest (premiums) receivable recorded by the Group were \$1,583 and \$1,150, respectively which is presented in the consolidated statements of income under "Interest income" and "Interest expense". Also, at December 31, 2018 and 2017, the interest (premiums) charged to the Group were \$20,812 and \$20,093, respectively, see note 30.

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- c. Collateral sold or pledged in repurchase/resale agreements and securities lending transactions as of December 31, 2018 and 2017 are as follows:

<u>Instrument</u>	<u>2018</u>			<u>2017</u>		
	<u>Memorandum accounts</u>	<u>Liability</u>		<u>Memorandum accounts</u>	<u>Liability</u>	
	<u>Collateral received</u>	<u>Collateral sold or pledged</u>	<u>Collaterals sold or pledged</u>	<u>Collateral received</u>	<u>Collateral sold or pledged</u>	<u>Collateral sold or pledged</u>
Securities lending:						
Fixed rate bonds	\$ 3,150	3,150	3,150	33,566	33,566	33,566
UDIBONOS	13,102	13,102	13,102	5,383	5,383	5,383
CETES	10,333	10,333	10,333	3,552	3,552	3,552
CBICS	12,649	12,649	12,649	7,906	7,906	7,906
Net equity instruments	<u>699</u>	<u>203</u>	<u>204</u>	<u>668</u>	<u>312</u>	<u>312</u>
	<u>39,933</u>	<u>39,437</u>	<u>39,438</u>	<u>51,075</u>	<u>50,719</u>	<u>50,719</u>
Repurchase agreements:						
Securitization certificates	-	-	-	599	599	1
BONDES	492	492	-	2,003	2,003	-
BPAS	508	508	-	500	500	-
CETES	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,066</u>	<u>1,000</u>	<u>-</u>	<u>3,102</u>	<u>3,102</u>	<u>1</u>
Other collateral received:	<u>4,856</u>	<u>-</u>	<u>-</u>	<u>4,287</u>	<u>-</u>	<u>-</u>
Total	\$ <u>45,855</u>	<u>40,437</u>	<u>39,438</u>	<u>58,464</u>	<u>53,821</u>	<u>50,720</u>
	=====	=====	=====	=====	=====	=====

Interest income and expense recognized in the consolidated statements of income during 2018 amounted to \$2 and \$4,337, respectively (in 2017, amounted to \$3 and \$2,860, respectively), see note 30.

At December 31, 2018 and 2017, the Group has repurchase agreements for an average period of 27 days and 47 days, while transactions involving securities lending are performed over an average period of 14 days and 11 days, respectively.

**(8) Derivatives-**

At December 31, 2018 and 2017, securities and derivative transactions are as follows:

- a. As of December 31, 2018 and 2017, the Group carries out transactions with derivative financial instruments as described on the following page. Foreign currency position arising from such derivative financial instruments is shown in the assets and liabilities position shown in note 27.



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*Trading:*

		<b>2018</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Futures contracts long position	\$	35,061	35,061	-	-
Futures contracts short position		13,186	13,186	-	-
Forward contracts long position		710,463	721,147	7,070	17,754
Forward contracts short position		738,898	734,053	13,701	8,856
Options acquired		4,145	-	4,145	-
Options sold		-	10,145	-	10,145
Swaps		<u>1,280,973</u>	<u>1,272,335</u>	<u>100,888</u>	<u>92,250</u>
	\$	2,782,726	2,785,927	125,804	129,005
		=====	=====	=====	=====

  

		<b>2017</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Futures contracts long position	\$	103,155	103,155	-	-
Futures contracts short position		30,147	30,147	-	-
Forward contracts long position		612,130	595,004	21,896	4,770
Forward contracts short position		697,286	723,610	2,161	28,485
Options acquired		4,704	-	4,704	-
Options sold		-	10,497	-	10,497
Swaps		<u>1,147,896</u>	<u>1,145,366</u>	<u>93,763</u>	<u>91,233</u>
	\$	2,595,318	2,607,779	122,524	134,985
		=====	=====	=====	=====

*Hedging purposes:*

		<b>2018</b>				
		<b>Notional amount</b>		<b>Balance</b>		<b>Net</b>
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>	<b>Position</b>
Forward contracts long position	\$	5,119	5,076	56	13	43
Swaps		<u>104,561</u>	<u>98,863</u>	<u>14,757</u>	<u>9,059</u>	<u>5,698</u>
	\$	109,680	103,939	14,813	9,072	5,741
		=====	=====	=====	=====	=====

  

		<b>2017</b>				
		<b>Notional amount</b>		<b>Balance</b>		<b>Net</b>
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>	<b>Position</b>
Forward contracts long position	\$	6,378	5,988	390	-	390
Swaps		<u>82,432</u>	<u>78,151</u>	<u>15,644</u>	<u>11,363</u>	<u>4,281</u>
	\$	88,810	84,139	16,034	11,363	4,671
		=====	=====	=====	=====	=====

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- b. Future and forward contracts** – For the year ended December 31, 2018, the Group carried out transactions in organized markets (Mexican Derivatives Market (Mex-Der) and Chicago, obtaining a loss of \$(982) distributed according to the underlying in Rates for \$615, Foreign currency for \$(1,282), Indexes for \$(304) and Securities for \$ (11). For the year ended December 31, 2017, the Group carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), obtaining a loss of \$(7,517) distributed in rates of \$(383), currencies of \$(24,072), \$16,648 indexes and securities of \$290.

Likewise, the Group entered into advanced contracts “Forwards” with the main currencies. As of December 31, 2018, open contracts are as follows:

*Trading:*

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Net Position</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Future contracts	U.S. dollars	\$ 11,656	11,656	34,159	34,159	-
	Index	813	813	-	-	-
	Bono M10	-	-	655	655	-
	S&P	<u>717</u>	<u>717</u>	<u>247</u>	<u>247</u>	<u>-</u>
		\$ 13,186	13,186	35,061	35,061	-
		=====	=====	=====	=====	=====

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Net Position</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$ 688,797	685,123	696,191	705,556	(5,691)
	Equity	825	773	739	790	1
	Index	14,668	13,531	13,533	14,801	(131)
	Bonds	<u>34,608</u>	<u>34,626</u>	<u>-</u>	<u>-</u>	<u>(18)</u>
		\$ 738,898	734,053	710,463	721,147	(5,839)
		=====	=====	=====	=====	=====

*Hedging:*

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Net Position</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$ -	-	5,119	5,076	43
		===	===	=====	=====	=====

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At year end 2017 the following contracts are open:

*Trading:*

<u>Type of transaction</u>	<u>Underlying</u>		<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
			<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Future contracts	U.S. dollars	\$	27,285	27,285	102,161	102,161	-
	Index		2,609	2,609	390	390	-
	Bono M10		-	-	410	410	-
	S&P		241	241	194	194	-
	Euro stock		12	12	-	-	-
		\$	30,147	30,147	103,155	103,155	-
			=====	=====	=====	=====	=====

<u>Type of transaction</u>	<u>Underlying</u>		<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
			<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$	629,506	656,629	579,998	562,729	(9,854)
	Equity		34,095	33,877	31,850	32,015	53
	Index		482	501	282	260	3
	Bonds		33,203	32,603	-	-	600
		\$	697,286	723,610	612,130	595,004	(9,198)
			=====	=====	=====	=====	=====

*Hedging:*

<u>Type of transaction</u>	<u>Underlying</u>		<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
			<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$	-	-	6,378	5,988	390
			===	===	=====	=====	=====

**Grupo Financiero BBVA Bancomer, S. A. de C. V.  
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c. **Options** - At December 31, 2018, the Group option transactions are as follows:

*Trading:*

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Fair Value</u>
Purchases	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 26,171	\$ 841
		Interest rates	136,586	1,669
		Equity securities and indexes	15,976	<u>884</u>
		=====	<u>3,394</u>	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 7,526	749
		U.S. dollars	96	<u>2</u>
		=====	<u>751</u>	
				\$ 4,145
			=====	
	Sales	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 25,355
Interest rates			196,844	1,824
Equity securities and indexes			12,831	<u>6,492</u>
=====			<u>9,188</u>	
OM Options <sup>(2)</sup>		Equity securities and indexes	\$ 14,351	949
		U.S. dollars	840	<u>8</u>
		=====	<u>957</u>	
				\$ 10,145
			=====	

At December 31, 2017, the Group option transactions are as follows:

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Fair Value</u>
Purchases	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 62,345	\$ 1,453
		Interest rates	123,482	1,545
		Equity securities and indexes	15,466	<u>1,264</u>
		=====	<u>4,262</u>	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 9,458	<u>442</u>
		=====		\$ 4,704
			=====	
Sales	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 60,193	\$ 1,444
		Interest rates	142,188	1,623
		Equity securities and indexes	8,500	<u>6,767</u>
		=====	<u>9,834</u>	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 17,676	<u>663</u>
		=====		\$ 10,497
			=====	

<sup>(1)</sup> OTC (Over The Counter)

<sup>(2)</sup> OM (Organized Markets)

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d. **Swaps** - At December 31, 2018, the Group swap transactions are as follows:

*Trading:*

		Receivable contract value	Payable contract value			Net Position
<u>Underlying</u>	<u>Currency</u>			<u>Receivable</u>	<u>Payable</u>	
Currency	Peso	\$ 204,591	194,110	273,747	275,750	(2,003)
	U.S. Dollar	270,507	221,480	290,409	229,970	60,439
	UDIS	74,956	83,614	-	-	-
	Euro	53,114	92,338	56,251	101,868	(45,617)
	YEN	-	131	-	135	(135)
	COP	1,925	-	-	-	-
	GBP	1,252	1,252	1,580	1,613	(33)
	CLP	3,363	-	-	-	-
	CHF	-	3,997	-	4,175	(4,175)
		=====	=====			
			\$ 621,987	613,511	8,476	
			<b><u>Notional amount</u></b>			
Interest rates	Peso <sup>(1)</sup>	\$ 2,838,072	520,578	518,927	1,651	
	Euro	179,958	2,748	2,866	(118)	
	U.S. Dollar	1,624,110	135,571	136,820	(1,249)	
	GBP	501	11	15	(4)	
	COP	738	112	105	7	
		=====	659,020	658,733	287	
Equities	Mexican Peso	\$ 428	26	36	(10)	
		=====				
CDS	U.S. Dollar	\$ 295	10	10	-	
		=====				
	Subtotal		1,281,043	1,272,290	8,753	
	Valuation adjustments		(70)	45	(115)	
	Total		\$ 1,280,973	1,272,335	8,638	
			=====	=====	=====	

<sup>(1)</sup> The Group entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at annual rates ranging from 4.47% and 20.26%.

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At December 31, 2017, the Group swap transactions are as follows:

*Trading:*

<u>Underlying</u>	<u>Currency</u>	<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican Peso	\$ 223,243	207,544	305,915	303,058	2,857
	U.S. Dollar	290,341	253,197	312,191	264,723	47,468
	UDIS	87,955	96,847	-	-	-
	Euro	54,495	91,836	58,624	101,519	(42,895)
	COP	2,339	838	-	-	-
	GBP	1,330	1,330	1,741	1,814	(73)
	CLP	3,809	-	-	-	-
	CHF	-	4,047	-	4,342	(4,342)
		=====	=====			
				<u>678,471</u>	<u>675,456</u>	<u>3,015</u>
			<b><u>Notional amount</u></b>			
Interest rates	Mexican Peso <sup>(1)</sup>	\$ 2,737,741	370,352	369,372	980	
	Euro	186,888	2,988	3,063	(75)	
	U.S. Dollar	1,207,948	94,626	95,926	(1,300)	
	GBP	532	14	24	(10)	
	COP	803	156	152	4	
		=====				
			<u>468,136</u>	<u>468,537</u>	<u>(401)</u>	
Equities	Mexican Peso	\$ 1,195	19	1,428	(1,409)	
	U.S. Dollar	1,375	1,392	-	1,392	
		=====				
			<u>1,411</u>	<u>1,428</u>	<u>(17)</u>	
CDS	U.S. Dollar	\$ 492	13	14	(1)	
		=====				
CRA	Mexican Peso	-	(66)	-	(66)	
		=====				
Organized markets	Mexican Peso	\$ 78,148	(69)	(69)	-	
		=====				
		\$	1,147,896	1,145,366	2,530	
			=====	=====	=====	

<sup>(1)</sup> The Group entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at annual rates ranging from 4.07% and 20.26%.

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*Swaps for hedging purposes:*

At December 31, 2018:

<u>Underlying</u>	<u>Currency</u>		<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican Peso	\$	16,817	31,024	17,460	33,169	(15,709)
	U.S. Dollar		49,577	5,441	54,417	5,866	48,551
	GBP		-	1,182	-	1,362	(1,362)
	Euro		-	23,828	-	<u>26,376</u>	<u>(26,376)</u>
			=====	=====	<u>71,877</u>	<u>66,773</u>	<u>5,104</u>
<b><u>Notional amount</u></b>							
Interest rates	Mexican Peso (1)	\$	22,268	10,260	9,230	1,030	
	U.S. Dollar		72,345	<u>22,424</u>	<u>22,860</u>	<u>(436)</u>	
			=====		<u>32,684</u>	<u>32,090</u>	<u>594</u>
		\$		104,561	98,863	5,698	
				=====	=====	=====	

<sup>(1)</sup>The Group entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.78% and 8.91%.

At December 31, 2017:

<u>Underlying</u>	<u>Currency</u>		<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican Peso	\$	17,811	21,034	18,704	22,794	(4,090)
	U.S. Dollar		31,533	7,013	36,644	7,762	28,882
	GBP		-	1,255	-	1,726	(1,726)
	Euro		-	16,701	-	<u>19,410</u>	<u>(19,410)</u>
			=====	=====	<u>55,348</u>	<u>51,692</u>	<u>3,656</u>
<b><u>Notional amount</u></b>							
Interest rates	Mexican Peso <sup>(2)</sup>	\$	28,770	11,458	11,136	322	
	U.S. dollar		63,976	<u>15,626</u>	<u>15,323</u>	<u>303</u>	
			=====		<u>27,084</u>	<u>26,459</u>	<u>625</u>
		\$		82,432	78,151	4,281	
				=====	=====	=====	

<sup>(2)</sup> See explanation on the next page.

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- (2) The Group entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.43% and 8.91%.

Collaterals received in OTC derivatives as of December 31, 2018 and 2017 is recorded under the caption "Payables for collateral received in cash" and is as follows:

<b>Collaterals received in cash from Derivatives</b>	<b>2018</b>			<b>2017</b>
	<b>Acquisition cost</b>	<b>Accrued interest</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Actinver Casa de Bolsa	\$ 5	-	5	5
Alsea	201	-	201	236
Banco Inbursa	701	2	703	1,191
Banco Nacional de México	-	-	-	242
Citi Banamex USA	6,662	-	6,662	3,999
Banco Santander México	706	5	711	487
Banco Ve Por Mas	20	-	20	-
Banco BBVA Madrid	1,935	-	1,935	-
Banco Nacional Comercio Exterior	87	1	88	470
Banco Mercantil del Norte	4,078	9	4,087	3,273
Banco del Bajío	58	1	59	-
Compass Bank	1	-	1	-
Casa de Bolsa Finamex	144	-	144	137
Credit Agricole CIB	889	2	891	1,084
Credit Suisse Securities	137	-	137	343
Deutsche Bank	2,822	6	2,828	2,853
Goldman Sachs Paris	3,501	8	3,509	4,280
HSBC Bank USA NA NY	-	-	-	79
HSBC México	639	1	640	-
MUFG BANK México	49	-	49	-
J. Aron and Company	637	1	638	587
Merrill Lynch Cap.SE	436	1	437	934
Mexichem	-	-	-	107
Morgan Stanley & Co	-	-	-	2
Morgan Stanley Cap S	6	-	6	622
Morgan Stanley SAS	1,552	3	1,555	1,507
Natixis	1,428	3	1,431	965
Nacional Financiera	1	-	1	-
Standard Chartered	3	-	3	-
UBS Ag Zurich	330	1	331	593
Valores Mexicanos	-	-	-	11
Xignux	59	-	59	41
Collaterals received in cash for derivatives	27,087	44	27,131	24,048
Collaterals received in cash other than derivative transactions	171	-	171	346
	\$ 27,258	44	27,302	24,394
	=====	==	=====	=====



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As of December 31, 2018 and 2017, the Group has recorded "received collateral" in memorandum accounts amounting to of \$5,352.

e. **Transactions with embedded derivatives.**

Embedded derivatives shown below are part of the derivatives for trading balances.

		<b>2018</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b><u>Asset</u></b>	<b><u>Liability</u></b>	<b><u>Asset</u></b>	<b><u>Liability</u></b>
Options acquired	\$	550	-	550	-
Options sold		-	586	-	586
Swaps		<u>10,253</u>	<u>9,671</u>	<u>2,067</u>	<u>1,485</u>
	\$	10,803	10,257	2,617	2,071
		=====	=====	=====	=====
		<b>2017</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b><u>Asset</u></b>	<b><u>Liability</u></b>	<b><u>Asset</u></b>	<b><u>Liability</u></b>
Options acquired	\$	585	-	585	-
Options sold		-	1,156	-	1,156
Swaps		13,991	12,897	3,603	2,509
Forward contracts short position		<u>32</u>	<u>34</u>	<u>-</u>	<u>2</u>
	\$	14,608	14,087	4,188	3,667
		=====	=====	=====	=====

e.1. Embedded options (Underlying):

*Trading:*

				<b>2018</b>	
				<b><u>Nominal amount</u></b>	<b><u>Fair value</u></b>
<b><u>Underlying</u></b>					
Purchases	OTC Options	U.S. dollar	\$	1,778	23
		Indexes		48,485	<u>527</u>
				=====	
					\$ 550
					===

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				2018	
				Nominal amount	Fair value
				<u>Underlying</u>	
Sales	OTC Options	U.S. dollar	\$	1,271	87
		Indexes		31,989	174
		Interest rates		8,814	<u>325</u>
				=====	
					\$ 586
					=====

				2017	
				Nominal amount	Fair value
		<u>Underlying</u>			
Purchases	OTC Options	U.S. dollar	\$	731	26
		Indexes		30,041	550
		Interest rates		997	<u>9</u>
				=====	
					\$ 585
					===

				2017	
				Nominal amount	Fair value
		<u>Underlying</u>			
Sales	OTC Options	U.S. dollar	\$	737	83
		Interest rates		8,214	1
		Indexes		15,257	<u>1,072</u>
				=====	
					\$ 1,156
					=====

e.2 Embedded swaps (Underlying)

*For Trading purposes:*

						<b>2018</b>	
				<b>Receivable market value</b>	<b>Payable market value</b>	<b>Fair value</b>	
<b><u>Underlying</u></b>	<b><u>Currency</u></b>	<b><u>Notional amount</u></b>					
Currency	Mexican Peso	\$ 3,305		3,125	3,145	(20)	
	U.S. dollar	3,509		3,546	3,516	30	
	Euro	315		<u>331</u>	<u>330</u>	<u>1</u>	
		=====		<u>7,002</u>	<u>6,991</u>	<u>11</u>	
Interest rate	Mexican Peso	\$ 30,856		3,226	2,659	567	
	U.S. dollar	371		<u>25</u>	<u>21</u>	<u>4</u>	
		=====		<u>3,251</u>	<u>2,680</u>	<u>571</u>	
				\$ 10,253	9,671	582	
				=====	=====	=====	

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		<b>2017</b>			
<b><u>Underlying</u></b>	<b><u>Currency</u></b>	<b><u>Notional amount</u></b>	<b><u>Receivable market value</u></b>	<b><u>Payable market value</u></b>	<b><u>Fair value</u></b>
Currency	Mexican Peso	\$ 3,974	3,834	3,886	(52)
	U.S. dollar	4,461	4,318	4,241	77
	Euro	379	<u>420</u>	<u>415</u>	<u>5</u>
		=====	<u>8,572</u>	<u>8,542</u>	<u>30</u>
Interest rate	Mexican Peso	\$ 38,741	5,345	4,298	1,047
	U.S. dollar	791	<u>74</u>	<u>57</u>	<u>17</u>
		=====	<u>5,419</u>	<u>4,355</u>	<u>1,064</u>
			\$ 13,991	12,897	1,094
			=====	=====	=====

e.3 Forward embedded (Underlying)

*For Trading purposes:*

		<b>2017</b>		
		<b><u>Sales</u></b>		
<b><u>Underlying</u></b>		<b><u>Receivable</u></b>	<b><u>Contract value</u></b>	<b><u>Balance</u></b>
Forward contracts	U.S. dollar	\$ 32	34	(2)
		==	==	=

According to the structured banking bonds issuance programs, the Group has recorded options and swaps with nominal value of \$33,902 and \$38,356, respectively (options, swaps and embedded forwards for \$55,978, \$48,346 and \$33, respectively, as of December 31, 2017), with underlying interest rates for swaps and foreign currencies, indexes and interest rates for options.

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As of December 31, 2018, the Group has entered into the following hedge contracts as follow:

**Type of Hedge relationship:** Cash Flow Hedges

<u>Description of the hedge item</u>	<u>Risk hedge</u>	<u>Hedge instrument</u>	<u>Maximum maturity date of hedge</u>	<u>Fair value hedge instrument</u>	<u>Periods in which flows affect results</u>	<u>Amount recognized in comprehensive income of the period</u>	<u>Amount that is reclassified from equity to income statement</u>	<u>Caption in the Consolidated income statement where the hedge is being applied</u>	<u>Caption in the Consolidated Balance Sheet where the primary position is recognized</u>	<u>Ineffectiveness recognized</u>
Partial Coverage of Monetary Regulation Deposit DRM <sup>(1)</sup>	Variable flows from the DRM	15 IRS Fixed/TIE	jun-20	\$ (206) ===	18 months	\$ 68 ==	\$ (10) ===	Interest Margin from cash and cash equivalents	Restricted cash	\$ - ==
Coverage of expenses and investment in EUR <sup>(1)</sup> and USD	Exchange rate in estimated expense cash flows	19 FWD Sale Usd/Mxp 9 FWD Sale Eur/Mxp	sep-19	\$ 43 ===	8 months	\$ (343) ==	\$ 6 ===	Expenses	Property, furniture and equipment marketing	\$ - ==

As of December 31, 2018, \$ 36 were recognized, net of deferred taxes, due to amortization of early maturity of DRM coverage swaps.

<sup>(1)</sup> At December 31, 2018, the remaining balance of maturities of hedging forwards amounts to \$(140).

\* Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

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**Type of Hedge relationship: Fair Value**

<b>Description of the hedge</b>	<b>Nature of the records covered</b>	<b>Hedge instrument</b>	<b>Maximum maturity of hedge</b>	<b>Fair value hedge instrument</b>	<b>Gain/Loss hedge instrument for December 18</b>	<b>Gain/Loss hedging element for December 18</b>	<b>Caption in the balance sheet where the primary position is recorded</b>	<b>Ineffectiveness recognized</b>
Hedge of loans in USD and MXN from fixed Rate to floating rate <sup>(2)</sup>	Fixed Rate Risk on loans in USD and Fixed rate in MXN	2 IRS pays fixed Interest in USD and Receives 2 variable IRS pays fixed Interest in MXP and Receives Variable	2040	\$ 998 =====	\$ 522 ===	\$ (501) ===	Performing Loan Portfolio	\$ - ==
Hedge of Mexican sovereign bonds in EUR/USD/GBP <sup>(2)</sup>	Fixed rate on bonds UMS in EUR/USD/GBP	70 CCS V/F	2025	\$ (5,392) =====	\$ (120) ===	\$ 139 ===	Investment in securities	\$ - ==
Hedge of issuance of subordinate notes USD <sup>(2)</sup>	Fixed rate on notes issued USD V/F	33 IRS F/V	2028	\$ (676) =====	\$ 1,719 ===	\$ (1,727) ===	Subordinated debt	\$ - ==
Hedge of issuance of subordinated notes USD <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in notes USD V/F	27 CCS F/V	2024	\$ 1,832 =====	\$ 479 ===	\$ (479) ===	Subordinated debt	\$ - ==
Hedge of corporate bonds <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in foreign currency USD, EUR, UDI	41 CCS V/F	2025	\$ (342) =====	\$ (121) ===	\$ 111 ===	Investment in securities	\$ - ==
Hedge of corporate bonds <sup>(2)</sup>	Fixed rates in bonds USD	25 IRS V/F (22 MXN y 3 USD)	2025	\$ 350 =====	\$ 49 ===	\$ (52) ===	Investment in securities	\$ 1 ==
Hedge of Asset Grupo Carso	Fixed rate risk from loans in Eur	3 CCS	2023	\$ 266 =====	\$ 95 ===	\$ (94) ===	Investment in securities	\$ - ==

<sup>(2)</sup> At December 31, 2018, the balance of interest from hedging derivatives open position amounts to \$1,051.

<sup>(3)</sup> At December 31, 2018, there is an effect for the exchange rate component amounting to \$10,526.

\* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

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As of December 31, 2017, the Group has entered into the following hedge contracts as follow:

**Type of Hedge relationship:** Cash Flow Hedges

<u>Description of the hedge</u>	<u>Risk hedge</u>	<u>Hedge instrument</u>	<u>Maximum maturity date of hedge</u>	<u>Fair value hedge instrument</u>	<u>Periods in which flows affect results</u>	<u>Amount recognized in comprehensive income of the period</u>	<u>Amount that is reclassified from equity to income statement</u>	<u>Caption in the Consolidated income statement where the hedge is being applied</u>	<u>Caption in the Consolidated Balance Sheet where the primary position is recorded</u>	<u>Ineffectiveness recognized</u>
Partial Coverage of Monetary Regulation Deposit DRM <sup>(1) y (2)</sup>	Variable flows from the DRM	24 IRS Fixed/TIIE	jun-20	\$ (274) ===	32 months	\$ 28 ==	\$ (293) ===	Interest Margin from cash and cash equivalents	Restricted cash	\$ - ==
Coverage of expenses and investment in EUR <sup>(2)</sup> and USD	Exchange rate in estimated expense cash flows	24 FWD Sale Usd/Mxp 12 FWD Sale Eur/Mxp	dec-18	\$ 386 ===	11 months	\$ (3) ==	\$ (194) ===	Expenses	Property, furniture and equipment, marketing	\$ - ==

<sup>(1)</sup> At December 31, 2017, the remaining balance of maturities of hedging forwards amounts to \$3.

At December 31, 2017, amortization of early-expiration of DRM hedging swaps amounting to \$36, net of deferred tax, is recognized in earnings.

<sup>(2)</sup> At December 31, 2017, the balance of interest from hedging derivatives open position amounts to \$52.

\* Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

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Type of Hedge relationship: Fair Value

<u>Description of the hedge</u>	<u>Nature of the records covered</u>	<u>Hedge instrument</u>	<u>Maximum maturity of hedge</u>	<u>Fair value hedge instrument</u>	<u>Gain/Loss hedge instrument for December 17</u>	<u>Gain/Loss hedging element for December 17</u>	<u>Caption in the balance sheet where the primary position is recognized</u>	<u>Ineffectiveness recognized</u>
Hedge of loans in USD and MXN from fixed Rate to floating rate <sup>(2)</sup>	Fixed Rate Risk on loans in USD and Fixed rate in MXN	4 IRS Pays fixed Interest in USD and receives variable IRS Pays fixed Interest in MXP and Receives Variable	2040	\$ 100 =====	\$ (34) ===	\$ 34 ===	Performing Loan Portfolio	\$ - ==
Hedge of Mexican sovereign bonds in EUR/USD/GBP <sup>(2)</sup>	Fixed rate on bonds UMS in EUR/USD/ GBP	70 CCS V/F	2025	\$(6,744) =====	\$ 126 ===	\$ (153) ===	Investment in securities	\$ - ==
Hedge of issuance of subordinate notes USD <sup>(2)</sup>	Fixed rate on notes issued USD V/F	31 IRS F/V	2024	\$ 260 =====	\$ (611) ===	\$ 611 ===	Subordinated debt	\$ - ==
Hedge of issuance of subordinated notes USD <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in notes USD V/F	24 CCS F/V	2024	\$ 2,900 =====	\$ (758) ===	\$ 779 ===	Subordinated debt	\$ - ==
Hedge of corporate bonds <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in foreign currency USD, EUR, UDI	49 CCS V/F	2025	\$ (674) =====	\$ 69 ===	\$ (98) ===	Investment in securities	\$ - ==
Hedge of corporate bonds <sup>(2)</sup>	Fixed rates on bonds USD/	42 IRS V/F (39 MXN y 3 USD)	2025	\$ 480 =====	\$ (41) ===	\$ 97 ===	Investment in securities	\$ (61) ==

<sup>(2)</sup> At December 31, 2017, the balance of interest from hedging derivatives open position amounts to \$52.

<sup>(3)</sup> At December 31, 2017, there is an effect for the exchange rate component amounting to \$8,182.

\* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

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**(9) Loan portfolio -**

Loans classified by type of loan at December 31, 2018 and 2017, are as follows:

	<u>Performing portfolio</u>		<u>Past due portfolio</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Commercial loans-						
Denominated in Mexican pesos:						
Commercial	\$ 328,385	290,976	7,735	6,186	336,120	297,162
Rediscounted portfolio	11,534	11,739	24	28	11,558	11,767
Finance Lease	1,805	1,686	13	28	1,818	1,714
Denominated in UDIS's (equivalent in Mexican pesos)						
Commercial	4	4	1	2	5	6
Denominated in foreign currency (equivalent in Mexican pesos):						
Commercial	154,347	146,297	242	121	154,589	146,418
Rediscounted portfolio	916	904	-	-	916	904
Finance Lease	<u>1,441</u>	<u>1,038</u>	<u>-</u>	<u>1</u>	<u>1,441</u>	<u>1,039</u>
Total Commercial or business activity loans	498,432	452,644	8,015	6,366	506,447	459,010
Denominated in Mexican pesos:						
Financial entities	29,503	22,780	-	-	29,503	22,780
Government entities	116,854	112,204	-	-	116,854	112,204
Denominated in foreign currency (equivalent in Mexican pesos):						
Financial entities	1,395	5,119	-	-	1,395	5,119
Government entities	<u>12,324</u>	<u>12,060</u>	<u>-</u>	<u>-</u>	<u>12,324</u>	<u>12,060</u>
Total commercial loans	<u>658,508</u>	<u>604,807</u>	<u>8,015</u>	<u>6,366</u>	<u>666,523</u>	<u>611,173</u>
Consumer-						
Credit card	107,093	105,273	4,402	4,738	111,495	110,011
Other consumer loans	<u>167,997</u>	<u>154,104</u>	<u>4,632</u>	<u>4,965</u>	<u>172,629</u>	<u>159,069</u>
Total consumer loans	<u>275,090</u>	<u>259,377</u>	<u>9,034</u>	<u>9,703</u>	<u>284,124</u>	<u>269,080</u>
Mortgage -						
Denominated in Mexican pesos:						
Residential and non -residential	193,120	175,589	5,266	5,461	198,386	181,050
Low income	10,752	12,547	622	762	11,374	13,309
Denominated in UDI's (equivalent in Mexican pesos):						
Residential and non -residential	4,686	5,670	336	451	5,022	6,121
Low income	-	-	-	1	-	1
Denominated in foreign currency (equivalent in Mexican pesos):						
Residential and non -residential	<u>19</u>	<u>27</u>	<u>1</u>	<u>1</u>	<u>20</u>	<u>28</u>
Total mortgage loans	<u>208,577</u>	<u>193,833</u>	<u>6,225</u>	<u>6,676</u>	<u>214,802</u>	<u>200,509</u>
Total loan portfolio	\$ 1,142,175	1,058,017	23,274	22,745	1,165,449	1,080,762
	=====	=====	=====	=====	=====	=====

At December 31, 2018 and 2017 mortgage loan portfolio includes restricted securitized performing portfolio of \$3,222 and \$3,923, respectively; and non-performing portfolio of \$63 and \$76, respectively.



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Commercial loans are described below; the distressed and non-distressed performing and non-performing portfolios at December 31, 2018 and 2017, are also identified. This portfolio does not include guarantees and interest collected in advance, which are shown as part of the commercial portfolio on the consolidated balance sheet.

<b>2018</b>					
	<b><u>Distressed</u></b>		<b><u>Non-distressed</u></b>		<b><u>Total</u></b>
	<b><u>Current</u></b>	<b><u>Past due<sup>(1)</sup></u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	
Business or commercial activity	\$ -	6,155	468,275	370	474,800
Loans to financial entities	-	-	30,807	-	30,807
Loans to government entities	-	-	129,154	-	129,154
Credit card Small-Medium enterprises	5	1,478	30,200	1,289	32,972
Credit card Small business	-	13	291	5	309
Total	\$ 5	7,646	658,727	1,664	668,042
	=	=====	=====	=====	=====

<b>2017</b>					
	<b><u>Distressed</u></b>		<b><u>Non-distressed</u></b>		<b><u>Total</u></b>
	<b><u>Current</u></b>	<b><u>Past due<sup>(1)</sup></u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	
Business or commercial activity	\$ -	4,824	420,926	469	426,219
Loans to financial entities	-	-	27,497	-	27,497
Loans to government entities	-	-	124,264	-	124,264
Credit card Small-Medium enterprises	-	1,378	31,675	1,264	34,317
Credit card Small business	-	4	241	-	245
Total	\$ -	6,206	604,603	1,733	612,542
	===	=====	=====	=====	=====

(1) It includes loans written off from the consolidated balance sheet (financially written-off portfolio).

The restructured and renewed portfolio at December 31, 2018, and 2017 were as follows:

<b>2018</b>			<b>Prior years</b>		
<b>Restructured Portfolio</b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Total</u></b>
Commercial	\$ 38,511	333	26,767	618	66,229
Financial entities	-	-	32	-	32
Government entities	17,760	-	8,694	-	26,454
Consumer loans	32	1,430	61	837	2,360
Mortgage loans	290	1,487	11,139	4,805	17,721
Total	\$ 56,593	3,250	46,693	6,260	112,796
	=====	=====	=====	=====	=====

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<b>Restructured Portfolio</b>	<b>2017</b>		<b>Prior years</b>		<b>Total</b>
	<b>Current</b>	<b>Past due</b>	<b>Current</b>	<b>Past due</b>	
Commercial	\$ 26,376	273	16,733	760	44,142
Financial entities	42	-	-	-	42
Government entities	1,674	-	22,711	-	24,385
Consumer loans	133	1,500	13	793	2,439
Mortgage loans	<u>250</u>	<u>1,763</u>	<u>12,965</u>	<u>4,273</u>	<u>19,251</u>
Total	\$ 28,475	3,536	52,422	5,826	90,259
	=====	=====	=====	=====	=====

At December 31, 2018 and 2017, the Financial Group holds collateral in real property for the amount of \$8,742 and \$9,399, respectively and it holds collateral in securities for the amount of \$1,386 in both years, for restructured commercial loans.

As of December 31, 2018 and 2017 aging of non current portfolio is as follows:

	<b>2018</b>				
	<b>Period</b>				
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 to 2 years</b>	<b>Collateral</b>	<b>Total</b>
Business or commercial activity	\$ 4,029	3,293	1,987	(1,294)	8,015
Consumer loans	8,454	580	-	-	9,934
Mortgage loans	<u>1,881</u>	<u>1,889</u>	<u>2,455</u>	<u>-</u>	<u>6,225</u>
Total	\$ 14,364	5,762	4,442	(1,294)	23,274
	=====	=====	=====	=====	=====

  

	<b>2017</b>				
	<b>Period</b>				
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 to 2 years</b>	<b>Collateral</b>	<b>Total</b>
Business or commercial activity	\$ 2,108	2,643	3,182	(1,567)	6,366
Consumer loans	9,154	549	-	-	9,703
Mortgage loans	<u>1,789</u>	<u>1,906</u>	<u>2,981</u>	<u>-</u>	<u>6,676</u>
Total	\$ 13,051	5,098	6,163	(1,567)	22,745
	=====	=====	=====	=====	=====

At December 31, 2018 and 2017, unaccrued commissions for initial loan origination by type of loan and average amortization period are comprised as shown on the following page.

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		<b>2018</b>			
		<b>By amortization period</b>			
		<b>1 to 5 years</b>	<b>6 to 15 years</b>	<b>More than 15 years</b>	<b>Total</b>
Business or commercial activity	\$	968	416	148	1,532
Consumer loans		486	635	-	1,121
Mortgage loans		<u>-</u>	<u>13</u>	<u>201</u>	<u>214</u>
Total	\$	1,454	1,064	349	2,867
		=====	=====	=====	=====

		<b>2017</b>			
		<b>By amortization period</b>			
		<b>1 to 5 years</b>	<b>6 to 15 years</b>	<b>More than 15 years</b>	<b>Total</b>
Business or commercial activity	\$	916	458	157	1,531
Consumer loans		302	479	-	781
Mortgage loans		<u>-</u>	<u>15</u>	<u>173</u>	<u>188</u>
Total	\$	1,218	952	330	2,500
		=====	=====	=====	=====

As of December 31, 2018 and 2017, the balances of non-performing credit loan portfolio fully reserved and eliminated from the balance sheet are as follows:

		<b>2018</b>	<b>2017</b>
Business or commercial activity	\$	<u>9,552</u>	<u>5,825</u>
Consumer loans:			
Credit card		3,027	3,389
Other consumer loans		<u>2,639</u>	<u>2,756</u>
		5,666	6,145
Mortgage loans		<u>5,241</u>	<u>5,387</u>
Total	\$	20,459	17,357
		=====	=====

As of December 31, 2018 and 2017, the amounts of portfolio sold without including securitization transactions, are as follows:

<b><u>Loan portfolio</u></b>		<b>2018</b>	<b>2017</b>
Business or commercial activity	\$	1,059	1,101
Consumer loans		21,878	39,335
Residential mortgage		<u>2,234</u>	<u>2,419</u>
Total	\$	25,171	42,855
		=====	=====

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As of December 31, 2018 and 2017, the amount of lines of credit and letters of credit recorded in memoranda accounts amount to \$588,114 and \$566,652, respectively.

As of December 31, 2018 and 2017, the revenues from interest income and commissions recorded in the net interest income, segmented by type of loan, are composed as follows:

<b>Type of loan</b>	<b>2018</b>			<b>2017</b>
	<b>Interest</b>	<b>Commissions</b>	<b>Total</b>	<b>Total</b>
Commercial loans-				
Denominated in Mexican pesos:				
Commercial	\$ 35,177	1,175	36,352	29,743
Rediscounted portfolio	1,338	-	1,338	1,288
Finance Lease	195	-	195	170
Denominated in foreign currency (equivalent in Mexican pesos):				
Commercial	7,860	-	7,860	6,067
Rediscounted portfolio	170	-	170	99
Finance Lease	<u>63</u>	<u>-</u>	<u>63</u>	<u>55</u>
Business or commercial activity	44,803	1,175	45,978	37,422
Loans to financial entities	2,237	7	2,244	1,765
Loans to government entities	<u>10,392</u>	<u>77</u>	<u>10,469</u>	<u>9,916</u>
Total commercial loans	<u>57,432</u>	<u>1,259</u>	<u>58,691</u>	<u>49,103</u>
Consumer loans-				
Credit card	29,940	45	29,985	29,589
Other consumer loans	<u>33,534</u>	<u>622</u>	<u>34,156</u>	<u>31,671</u>
Total Consumer loans	<u>63,474</u>	<u>667</u>	<u>64,141</u>	<u>61,260</u>
Mortgage loans	<u>20,871</u>	<u>37</u>	<u>20,908</u>	<u>19,683</u>
Total (see note 30)	\$ 141,777 =====	1,963 =====	143,740 =====	130,046 =====

As of December 31, 2018 and 2017, the amount of recoveries of previously written off or eliminated loan portfolio from the balance sheet were \$1,538 and \$907, respectively.

At December 31, 2018 and 2017, loans classified by economic sectors are as follows:

<b>Sector</b>	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Concentration Percentage</b>	<b>Amount</b>	<b>Concentration Percentage</b>
Private (companies and individuals)	\$ 506,440	43.46%	459,005	42.47%
Credit card and consumer	284,124	24.38%	269,080	24.90%
Mortgage	214,802	18.43%	200,509	18.55%
Government entities	129,178	11.08%	124,264	11.50%
Financial	29,254	2.51%	26,143	2.42%
Foreign (non-Mexican entities)	1,644	0.14%	1,756	0.16%
Other past-due loans	<u>7</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total	\$ 1,165,449 =====	100.00% =====	1,080,762 =====	100.00% =====

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Related-party loans- At December 31, 2018 and 2017, loans granted to related parties in accordance with the provisions of article 73 of credit institutions law, amounted to \$44,061 and \$40,172, respectively. The amount of related-party loans at December 31, 2018 and 2017 comprises \$19,471 and \$16,482, of letters of credit, respectively, which are recorded in the memorandum accounts.

Loan support program-

Position in special Cetes and special "C" Cetes which the group keeps under the financial statement caption of "Securities held to maturity":

As of December 31, 2018, the remnant of the special Cetes and special "C" Cetes is composed as follows:

<b>Originating trust</b>	<b>Special Cetes</b>			<b>Special "C" Cetes</b>		
	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>
422-9	128,738,261	\$ 14,493	07/07/2022	-	\$ -	-
423-9	10,656,993	1,200	01/07/2027	468,306	17	01/07/2027
431-2	964,363	99	04/08/2022	1,800	-	04/08/2022
Total		\$ 15,792			\$ 17	
		=====			==	

**Loan granting policies and procedures** – the Group's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Credit Institutions Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function the general process from promotion to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk which form part of the credit manuals are presented in the next page.

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*Common risk*

- Establish the criteria for determining the individuals or corporations that represent common risk for the Group.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

*Maximum financing limit:*

- Make known the maximum legal credit rules issued by the authorities.
- Communicate the updated maximum credit limit for the Group, as well as the handling of exceptions.

*Risk diversification:*

At December 31, 2018, and 2017, the Group maintains the following credit risk operations in compliance with the general risk diversification rules established in the accounting Criteria and applicable to asset and liability transactions, as follows:

- At December 31, 2018 and 2017, the Group keeps loans granted to a debtor or groups of persons representing a common risk for an individual amount of \$24,616 and \$22,507, respectively, which represents 12.76% and 12.73%, respectively, of the Group's basic capital.
- As of December 31, 2018 and 2017, the maximum amount of financing with the three largest debtors amounts to \$41,925 and \$40,510, respectively and represent 21.74% and 22.91%, respectively of the basic capital.

*Potential risk:*

- Loan applications must be approved in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Group's criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

**(10) Restructured loans denominated in UDIS**

At December 31, 2018 and 2017, restructured loans denominated in UDIS amounted to \$982 and \$1,774, respectively.

**(11) Allowance for loan losses-**

Loan ratings of the Group made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3, is composed as shown in the next page.

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<b>2018</b>						
<b><u>Risk category</u></b>	<b><u>Total loans</u></b>	<b><u>Allowance for the losses</u></b>			<b><u>Total allowance</u></b>	
		<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Mortgage</u></b>		
A1	\$ 910,449	1,420	1,192	422	3,034	
A2	100,576	647	1,024	62	1,733	
B1	78,704	358	2,030	48	2,436	
B2	48,317	157	1,984	75	2,216	
B3	32,148	415	1,241	63	1,719	
C1	21,892	111	1,512	253	1,876	
C2	20,018	110	2,898	665	3,673	
D	14,795	1,681	1,854	1,439	4,974	
E	<u>16,265</u>	<u>3,064</u>	<u>6,782</u>	<u>375</u>	<u>10,221</u>	
Total	1,243,164 =====	7,963 =====	20,517 =====	3,402 =====	31,882 =====	

<b>2017</b>						
<b><u>Risk category</u></b>	<b><u>Total loans</u></b>	<b><u>Allowance for the losses</u></b>			<b><u>Total allowance</u></b>	
		<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Mortgage</u></b>		
A1	\$ 826,629	1,343	1,201	298	2,842	
A2	102,338	616	1,027	43	1,686	
B1	70,820	198	1,912	21	2,131	
B2	44,342	115	1,910	28	2,053	
B3	30,754	393	1,264	25	1,682	
C1	20,912	153	1,432	137	1,722	
C2	20,527	39	3,326	283	3,648	
D	13,267	1,251	1,504	1,040	3,795	
E	<u>15,711</u>	<u>2,693</u>	<u>7,384</u>	<u>753</u>	<u>10,830</u>	
Total	1,145,300	6,801	20,960	2,628	30,389	
Additional allowance	<u>-</u>	<u>-</u>	<u>7</u>	<u>1,260</u>	<u>1,267</u>	
Total	\$ 1,145,300 =====	6,801 =====	20,967 =====	3,888 =====	31,656 =====	

The total loan portfolio balance used for calculation of the allowance for loan losses includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the allowance for loan losses at December 31, 2018 and 2017 is determined based on the balance of the portfolio at that date.

The allowance for loan losses at December 31, 2018 and 2017 covers 100% of non-performing interest.

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The amount of the allowance for loan losses at December 31, 2018 and 2017 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on December 31, 2018 and 2017.

As mentioned in note 3 (I) (iii), the Group has implemented an internal methodology for determining the mortgages' allowance for loan losses, which is based on an internal model of expected losses, which was approved by the Commission on November 16, 2018. At December 31, 2018 and 2017 the Group had set up reserves based on its internal methodology for the amount of \$3,888, which were above the methodology established by the Commission for the amount of \$1,260.

At December 31, 2018 and 2017, the allowance for loan losses represents 136.99% and 139.17%, respectively, of the non-performing loan portfolio.

At December 31, 2018 and 2017, allowance for loan losses by type of portfolio is comprised as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Commercial loans:		
Commercial	\$ 7,181	6,276
Financial entities	401	326
Government entities	<u>381</u>	<u>199</u>
	7,963	6,801
Consumer	20,517	20,967
Mortgage	<u>3,402</u>	<u>3,888</u>
For loan losses total allowance	\$ 31,882	31,656
	=====	=====

***Changes in the allowance for loan losses*** - There is an analysis below of the allowance for loan losses for years ended on December 31, 2018 and 2017:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Balance at the beginning of the year	\$ 31,656	30,056
Allowance for loan losses charged to the year earnings <sup>(1)</sup>	33,848	34,079
Reserves created against previous years	-	1,408
Applications, write-downs and others	(33,620)	(33,876)
Exchange rate fluctuations	<u>(2)</u>	<u>(11)</u>
Balance at end of year	\$ 31,882	31,656
	=====	=====

<sup>(1)</sup>The recoveries amounted for \$1,538 are presented under the allowance for loan losses item in the consolidated income statement, therefore, the net allowance for loan losses variation in the year earnings for the year ended on December 31, 2018, is for \$32,310.



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**(12) Premiums receivable-**

At December 31, 2018 and 2017 is as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Life	\$	3,431	3,257
Car		1,505	1,680
Damage		1,123	1,074
Accident, disease and pensions		<u>601</u>	<u>488</u>
	\$	6,660	6,499
		=====	=====

As of December 31, 2018 and 2017, premium debtors represents 6.73% and 8.60% of the total assets from Seguros BBVA Bancomer.

**(13) Securitization operations-**

Mortgage portfolio securitizations-

The Group has issued securitization certificates ("CB"), which have generally been formalized through contracts mentioned as follows:

***Irrevocable Trusts created between BBVA Bancomer - Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates (Trust number 711, 752, 847 and 881).***

**- Transfer contract**

This contract is entered into by and between BBVA Bancomer, S.A., (Transferor), Banco Invex, S.A. (Transferee) and Monex Casa de Bolsa, S.A. de C.V. (Common Representative) for the purpose of assigning, on the part of the Transferor, mortgage performing loan portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust (the Stock Market Certificates), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason noncompliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the Stock Market Certificates (SMCs), less the respective issuance costs.

**- Irrevocable Trust Contract for the Issuance of securitized debt instruments**

This contract is entered into by and between BBVA Bancomer, S.A., (Trustor and First Beneficiary), Banco Invex, S.A. (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of Securitized debt Certificates, which will have such mortgage loans as a source of payment and the placement of the Securitized debt Certificates among small investors; while the Trustee will have all those rights and obligations considered necessary to achieve such purpose.

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The same contract established the initial value of guarantees with respect to the loan backing the certificate, which amount is recorded for accounting purposes under “Benefits receivable from securitized transactions” for BBVA Bancomer.

– **Loan Servicing Contract**

This contract is entered into by and between BBVA Bancomer, S.A., (Administrator), Trustee and Common Representative. Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any “foreclosed assets” that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management fee to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

***Irrevocable Trust Number 989 created between BBVA Bancomer - CI Banco (formerly the Bank New York Mellon) for the Issuance of Securitization certificates***

On June 17, 2013, the Commission through document 153/6937/2013 authorized the registration of BBVA Bancomer with the National Securities Registry of the Program for the issuance of Securitization Certificates for up to the amount up to of \$20,000 or the equivalent in UDIS for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of \$4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– **Assignment Contract**

On that same date, BBVA Bancomer, in its capacity as trustor and final trust beneficiary and CI Banco, S. A., Institución de Banca Múltiple (Trustee), in its capacity as trustee and through their Common Representative, executed irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitized certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. (“BMV”), and which will be underwritten by mortgage loans.

– **Irrevocable Trust Contract for the Issuance of Securitized Debt Certificates**

This contract was executed by BBVA Bancomer; (Trustor and final Trust Beneficiary) (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

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**– Loan Servicing Contract**

This contract was executed between BBVA Bancomer (Administrator), Trustee and Joint Representative. Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration fee to the Administrator.

The specific characteristics of each trust are detailed below:

	<b>Trusts</b>				
	<b><u>711</u></b>	<b><u>752</u></b>	<b><u>847</u></b>	<b><u>881</u></b>	<b><u>989</u></b>
Execution date of trust contract	Dec-19-07	Mar-13-08	Dec-08-08	Aug-03-09	Jun-21-13
Number of loans assigned	2,943	1,587	18,766	15,101	10,830
Amount of portfolio	\$ <u>2,644</u>	<u>1,155</u>	<u>5,823</u>	<u>6,545</u>	<u>4,413</u>
Securitized debt certificates issued	25,404,498	11,143,185	55,090,141	59,101,116	41,920,673
Face value per securitized debt certificates (in Mexican pesos)	\$ <u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>
Amount of issue of securitized debt certificates	\$ <u>2,540</u>	<u>1,114</u>	<u>5,509</u>	<u>5,910</u>	<u>4,192</u>
Tranche A1	\$ -	-	-	<u>562</u>	-
Tranche A2	\$ -	-	-	<u>1,732</u>	-
Tranche A3	\$ -	-	-	<u>3,616</u>	-
Gross annual interest rate	9.05%	8.85%	9.91%	-	6.38%
Tranche A1	-	-	-	6.14%	-
Tranche A2	-	-	-	8.04%	-
Tranche A3	-	-	-	10.48%	-
Effective duration of the SMC (years)	20.5	20.42	22	20.08	20
Value of certification	\$ 103	40	314	635	221
	=====	=====	=====	=====	=====
Loan to value %	3.9%	3.5%	5.4%	9.7%	5.0%
Total cash flow received for the assignment	\$ 2,507	1,091	5,475	5,733	4,129
	=====	=====	=====	=====	=====

As of December 31, 2018 and 2017, amounts reported under "Benefits to be received in securitization transactions", of \$87 and \$158, respectively, represent the outstanding trust certificates of non-consolidable securitizations.

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The summarized financial information of non-consolidable securitization trusts as of December 31, 2018 and 2017, are shown below:

<u>Trust number</u>	<u>711</u>		<u>752</u>		<u>847</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets	\$ 306	418	164	222	897	1,166
Liabilities	282	384	150	201	826	1,071
Stockholders' equity	24	34	14	21	71	95
Net result	\$ 2	5	(1)	5	13	18
	===	===	===	===	=====	=====

**(14) Other accounts receivable, net-**

Other accounts receivable as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Debtors from pending settlement transactions <sup>(a)</sup>	\$ 51,685	54,260
Loans to officers and employees <sup>(b)</sup>	12,892	11,594
Sundry debtors	4,195	3,199
Collateral provided through OTC derivatives <sup>(c)</sup>	6,315	9,789
Other	<u>1,651</u>	<u>1,291</u>
	76,738	80,133
Allowance for uncollectible accounts	<u>(285)</u>	<u>(308)</u>
	\$ 76,453	79,825
	=====	=====

**(a)** The receivables from pending to be settle transactions as of December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Foreign currencies	\$ 35,627	45,683
Investments in securities	15,102	7,297
Derivatives	<u>956</u>	<u>1,280</u>
	\$ 51,685	54,260
	=====	=====

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- (b) Corresponds to officials and employees belonging to BBVA Bancomer Operadora and BBVA Bancomer Servicios Administrativos who provide administrative services to the Group (see note 1).
- (c) Receivables from collateral granted on OTC derivatives as of December 31, 2018 and 2017 is comprised as follows:

		<u>2018</u>		<u>2017</u>
	<u>Acquisition</u>	<u>Accrued</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>cost</u>	<u>interest</u>	<u>amount</u>	<u>amount</u>
Collateral granted through derivatives:				
Actinver Casa Bolsa GFA	\$ 5	-	5	-
BBVA Servex	-	-	-	1,292
Banca Afirme, S.A.	-	-	-	2
Banca Mifel, S. A. IBM	25	-	25	28
Banco Actinver IBM	-	-	-	5
Banco Interacciones	-	-	-	202
Banco Invex	90	-	90	100
Banco Regional de Monterrey	224	1	225	61
Banco Monex	66	-	66	52
Banco Base, S. A.	18	-	18	-
Banco Nacional de México	391	3	394	-
Banco Nacional de Obras	1,855	13	1,868	1,532
Banco Scotiabank	81	1	82	50
Bank of Nova Scotia	9	-	9	-
Barclays Bank Plc	145	1	146	147
BBVA Chile	-	-	-	31
BBVA Colombia S.A	86	-	86	13
BNP Paribas	599	1	600	2,636
Nacional Financiera	4	-	4	-
HSBC México, S.A.	-	-	-	613
JP Morganchase Bank NY	1,738	4	1,742	41
Banco JP Morgan S.A	-	-	-	2,145
Royal Bank of Scotland	14	-	14	36
Societe Generale	<u>939</u>	<u>2</u>	<u>941</u>	<u>803</u>
	\$ 6,289	26	6,315	9,789
	=====	==	=====	=====

**(15) Foreclosed assets, net-**

Foreclosed assets account balance at December 31, 2018 and 2017, are as follows:

		<u>2018</u>	<u>2017</u>
Buildings	\$	3,567	4,148
Land		1,622	1,745
Securities and rights		<u>23</u>	<u>24</u>
		5,212	5,917
Less - Allowance for impairment of foreclosed assets		<u>(3,453)</u>	<u>(3,315)</u>
Total	\$	1,759	2,602
		=====	=====

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The changes in the reserve for decreases in value of foreclosed assets are summarized below, for the years ended December 31, 2018 and 2017:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Opening balance	\$	3,315	2,984
Reserves created against "Other operating expenses"		707	1,030
Merge of Hipotecaria Nacional, S. A. de C. V., SOFOM ER		-	33
Reserve applications for foreclosure sales and others		<u>(569)</u>	<u>(732)</u>
Ending balance	\$	3,453	3,315
		=====	=====

Fully reserved foreclosed assets at December 31, 2018 and 2017 are as follows:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Premises – Foreclosed value	\$	2,106	1,813
Lands – Foreclosed value		1,828	1,340
Securities and rights – Foreclosed value		<u>20</u>	<u>20</u>
Total	\$	3,954	3,173
		=====	=====

**(16) Property, furniture and equipment, net-**

Property, furniture and equipment at December 31, 2018 and 2017 are as follows:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Furniture and equipment	\$	15,322	14,423
Office buildings		19,579	19,708
Installation costs		17,923	17,872
Land		<u>5,622</u>	<u>5,929</u>
		58,446	57,932
Less- Accumulated depreciation and amortization		<u>(18,181)</u>	<u>(16,491)</u>
Total	\$	40,265	41,441
		=====	=====

For the year ended December 31, 2018, the amount of depreciation and amortization which are recognized in the results of the year were \$3,186 and \$949, respectively (for the year 2017, it were \$3,227 and \$810, respectively).

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**(17) Equity investments-**

As of December 31, 2018 and 2017, investments in associates were valued based on equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

<u>Entity</u>	<u>Participation</u>		<u>2018</u>	<u>2017</u>
	<u>2018</u>	<u>2017</u>		
Fideicomiso No.1729 INVEX - Disposal of Portfolio <sup>(1)</sup>	32.25%	32.25%	\$ -	758
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%	50.00%	167	151
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	46.14%	191	143
Fideicomiso FIMPE	28.50%	28.50%	76	77
Investment Funds	Various	Various	208	191
Other investments recognized at cost	Various	Various	<u>199</u>	<u>172</u>
Total			\$ 841	1,492
			====	====

Investment in shares of associated companies was determined in some cases, based on the non-audited financial information, which is adjusted should there were differences, once it is available.

For years ended on December 31, 2018 and 2017, dividends received from associated companies and other permanent investments amounted to \$102 and \$81, respectively. Recognized in the results of the year in the item "Other income from the operation".

For years ended on December 31, 2018 and 2017, participation in results of associated companies amounted to \$117 and \$58, respectively.

Contributions made by the Bank and the movement of the reserve, in the trust 1729 for the year ended December 31, 2018 and 2017, are as follows:

<u>Concept</u>	<u>2018</u>	<u>2017</u>
Total contributions	\$ 1,243	1,243
Associated reserve	<u>(485)</u>	<u>(485)</u>
Net value	758	758
Reserve for impairment value	<u>(758)</u>	-
Net value	\$ -	758
	===	===

<sup>(1)</sup>In October 2013, the Trust number 1729, Invex Portfolio Allocation (Trust number 1729) was constituted by the banks that had a distressed factoring portfolio with "Corporación GEO", acting as trustee; Banco Invex, S. A., the trustors contributed the collection rights and cash for expenses. On the other hand, "Corporación GEO" exchanged the collection rights inherent to the trust for real estate buildings located in different parts of Mexico.

The Group recorded in the year earnings during the year ended December 31, 2018, an impairment reserve on the participation of the Trust number 1729, which amounted to \$ 758.

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**(18) Other assets-**

The balance of deferred charges, advance payments and intangibles assets at December 31, 2018 and 2017 is comprised as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Goodwill	\$	8,869	8,869
Software, net		4,809	4,539
Deferred charges, prepaid expenses and intangibles		<u>2,139</u>	<u>3,750</u>
Total	\$	15,817 =====	17,158 =====

At December 31, 2018 and 2017, goodwill is as follows:

BBVA Bancomer, S. A.	\$	5,431
Seguros BBVA Bancomer, S.A. de C.V.		3,295
Pensiones BBVA Bancomer, S.A. de C.V.		<u>143</u>
Total	\$	8,869 =====

As of December 31, 2018 and 2017, the accumulated amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

At December 31, 2018 and 2017, the amount of the historical cost and software amortization are detailed below:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Historical cost	\$	17,711	15,870
Accumulated amortization		<u>(12,902)</u>	<u>(11,331)</u>
Total	\$	4,809 =====	4,539 =====

For the years ended on December 31, 2018 and 2017, the amount of amortization recorded in the results of the years are \$1,628 y \$1,450, respectively.

**(19) Deposits-**

At December 31, 2018, average rates of bank deposits (unaudited) in "local currency", according to their short and long-term demand are 1.51% and 5.97% and 0.06% and 0.94%, in "Foreign currency", respectively, (at December 31, 2017, these were 1.04% and 4.69% in "local currency" and 0.11% and 0.31% in "Foreign currency", respectively, unaudited).



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		<u><b>2018</b></u>	<u><b>2017</b></u>
Deposit funding:			
Demand deposits	\$	864,477	834,993
Time deposits:			
Notes payable		195,752	177,626
Time deposits		43,961	56,477
Credit instruments issued <sup>(a)</sup>		88,135	86,280
Inactive global deposits account		<u>3,565</u>	<u>3,324</u>
Total	\$	1,195,890 =====	1,158,700 =====

<sup>(a)</sup> Credit instruments issued:

Description of the principal programs

As of December 31, 2018 and 2017, the Financial Group has placed short-term and long-term, composed as follows:

	<u><b>2018</b></u>			<u><b>2017</b></u>		
	<u><b>Amount</b></u>	<u><b>Term (days)</b></u>	<u><b>Rate</b></u>	<u><b>Amount</b></u>	<u><b>Term (days)</b></u>	<u><b>Rate</b></u>
Long term banking bonds	27,829	1,353	8.26%	\$ 27,908	1,348	7.39%
Short term banking bonds	4,869	221	8.41%	6,013	289	7.19%
Securitized debt certificates MXP	19,437	1,028	8.28%	17,342	2,063	7.69%
Securitized debt certificates UDI's	21,117	5,355	4.03%	20,125	5,355	4.03%
Senior Notes	<u>14,883</u>	3,653	4.38%	<u>14,892</u>	3,653	4.38%
		=====	=====		=====	=====
Total	\$ 88,135 =====			\$ 86,280 =====		

**Liquidity ratio (unaudited)** -The provisions of the "Regime of admission of liabilities and investment for transactions in foreign currency" issued by the Central Bank for financial institutions include the mechanism for determining the liquidity coefficient for liabilities denominated in foreign currency.

According to aforementioned regime, in 2018 and 2017, the Bank generated a liquidity requirement of 986 and 2,306 million US dollars, respectively and kept an investment in liquid assets of 1,666 and 5,041 million US dollars with a surplus of 1,665 million and 2,735 million US dollars, respectively.

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**(20) Interbank loans and loans from other entities-**

At December 31, 2018 and 2017, interbank loans and loans from other entities are as follows:

	<b>Mexican pesos</b>		<b>U.S. dollars in Mexican pesos</b>		<b>Total</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Instituto de Crédito Oficial	\$ -	-	90	126	90	126
Trusts Instituted in Relation to Agriculture (FIRA)	<u>15,957</u>	<u>15,308</u>	<u>1,814</u>	<u>1,946</u>	<u>17,771</u>	<u>17,254</u>
Total	\$ <u>15,957</u>	15,308	1,904	2,072	17,861	17,380
	=====	=====	=====	=====	=====	=====

As of December 31, 2018 interbank loans and loans from other entities in foreign currency were contracted by the Group with terms ranging from 2 days and up to 2 years (4 days and up to 3 years in 2017) at annual USD rates ranging between 1.5% and 8.25% (between 1.50% and 7.25% annual rates in 2017).

The Group has a liquidity line of credit in the Central Bank of an amount equivalent to up to the DRM (see note 4). Such line of credit amounted to \$40,230 at December 31, 2018 and 2017, without considering interest in both years. At December 31, 2018 and 2017, the Group did not use such line of credit.

**(21) Technical reserves -**

At December 31, 2018 and 2017, technical reserves are as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
<u>Seguros BBVA Bancomer</u>		
Reserve for current risks:		
Direct life insurance	\$ 67,401	47,247
Direct accidents and illness	61	50
Damage direct insurance	3,467	3,396
Reinsurance assumed	<u>6</u>	<u>2</u>
	<u>70,935</u>	<u>50,695</u>
Contractual obligations:		
Claims incurred	1,882	2,143
Claims incurred and paid in terms	1,106	1,156
Past due US dollars to be paid	481	386
Claims incurred but not reported	<u>942</u>	<u>835</u>
	<u>4,411</u>	<u>4,520</u>
Catastrophic risk reserve	<u>5,396</u>	<u>4,665</u>
	80,742	59,880
Premiums in deposit:	<u>22</u>	<u>22</u>
Total reserves Seguros BBVA Bancomer	\$ <u>80,764</u>	59,902
	=====	=====

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		<b><u>2018</u></b>	<b><u>2017</u></b>
<i><u>Seguros Salud</u></i>			
Reserve for current risks	\$	<u>47</u>	<u>42</u>
Reserve for current risks to be fulfilled:			
Claims incurred		15	22
Claims incurred but not reported		<u>120</u>	<u>92</u>
		<u>135</u>	<u>114</u>
		182	156
Premiums in deposit:		<u>4</u>	<u>5</u>
Total reserves BBVA Bancomer Seguros Salud	\$	186	161
		===	===
 <i><u>Pensiones BBVA Bancomer</u></i>			
Reserve for current risks:			
Mathematical reserves for Basic Benefits:			
Labor Risk:			
Permanent disability	\$	12,109	10,482
Death		8,360	7,928
Life and disability:			
Disability		21,823	20,368
Death		44,283	41,299
Retirement Severance:			
Retirement		10,041	8,860
Mathematical reserves for additional benefits:			
Labor Risk:			
Permanent disability		18	18
Death		16	16
Life and disability:			
Disability		45	45
Death		69	71
Un-paid claims		210	174
Contingent reserve		1,922	1,768
Reserves for investment fluctuations		<u>652</u>	<u>609</u>
		99,548	91,638
Premiums in deposit		<u>13</u>	<u>69</u>
Total reserves Pensiones BBVA Bancomer		99,561	91,707
Total Seguros BBVA Bancomer		80,764	59,902
Total Seguros Salud		<u>186</u>	<u>161</u>
Total technical reserves	\$	180,511	151,770
		=====	=====

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**(22) Labor obligations**

The Group has liabilities for labor obligations arising from employee benefits, resulting from termination and post-employment benefits, which consider the payment of seniority premiums upon retirement, post-retirement obligations for payment of integrated medical services to retirees and their economic dependents, life insurance and sports benefits. Said benefits are applicable according to the Group's subsidiary at which the employee is hired.

The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and Plan conformity with the methodology established in NIF D-3. Plan assets is are made through an irrevocable trust.

Below is the breakdown of the net liabilities for defined benefits at December 31, 2018 and 2017, and it is included in the caption "Sundry creditors and other accounts payable".

	<b>2018</b>					
	<b>Pension plan and seniority premium</b>	<b>Other retirement benefits</b>				<b>Total</b>
		<b>Comprehensive medical services</b>	<b>Death benefit</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	
As of December 31, 2018, net (liability) from defined benefits are as follows:						
Benefit obligations	\$ (9,982)	(24,290)	(1,109)	(86)	(923)	(36,390)
Plan assets	<u>7,503</u>	<u>25,243</u>	<u>2,089</u>	<u>-</u>	<u>-</u>	<u>34,835</u>
Net (liability) for defined benefits	\$ (2,479) =====	953 =====	980 =====	(86) ==	(923) =====	(1,555) =====
As of December 31, 2018, the defined benefit obligations are as follows:						
Initial balance	\$ 9,592	27,425	1,063	112	788	38,980
Service Cost	101	596	5	2	104	808
Financial cost	866	2,560	98	10	71	3,605
Actuarial (gains) and losses of the period	466	(4,409)	(38)	(28)	259	(3,750)
Paid benefits	(1,033)	(740)	(16)	(4)	(269)	(2,062)
Acquisition, sale or spin-off business	-	-	-	-	3	3
Early reduction of obligations	<u>(10)</u>	<u>(1,142)</u>	<u>(3)</u>	<u>(6)</u>	<u>(33)</u>	<u>(1,194)</u>
Ending before of defined benefit obligations	\$ 9,982 =====	24,290 =====	1,109 =====	86 ==	923 =====	36,390 =====
As of December 31, 2018, the Plan Assets ("PA") are integrated as follows:						
PA at the beginning of the year	\$ 8,924	25,704	2,192	-	-	36,820
Contributions made by the entity	-	1,524	-	-	-	1,524
PA expected return	810	2,405	205	-	-	3,420
Actuarial gains generated in the period	(1,207)	(3,649)	(292)	-	-	(5,148)
Paid benefits	(1,024)	(739)	(16)	-	-	(1,779)
Restricted investments	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>
PA at the end of the year	\$ 7,503 =====	25,243 =====	2,089 =====	- =	- =	34,835 =====

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	<b>2018</b>					
	<b>Pension plan and seniority premium</b>	<b>Other retirement benefits</b>				<b>Total</b>
		<b>Comprehensive medical services</b>	<b>Death benefit</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	
Net assets (liabilities) for defined benefits at the beginning of the year	\$ (668)	(1,721)	1,129	(112)	(788)	(2,160)
Service Cost	(91)	544	(2)	4	(74)	381
Net interest	(56)	(155)	107	(10)	(71)	(185)
Plan contributions	-	1,524	-	-	-	1,524
Payments made	9	1	-	4	269	283
Actuarial (losses) gains recognized in OCI during the period	<u>(1,673)</u>	<u>760</u>	<u>(254)</u>	<u>28</u>	<u>(259)</u>	<u>(1,398)</u>
Net assets (liabilities) for defined benefits at the end of the year	\$ (2,479) =====	953 =====	980 =====	(86) =====	(923) =====	(1,555) =====
As of December 31, 2018, the (cost) defined benefit income for the period is integrated as follows:						
Current service cost	\$ (101)	(596)	(5)	(2)	(104)	(808)
Services passed by modification by the plan	-	(2)	-	-	-	(2)
Services passed through early reduction of obligations	10	1,142	3	6	33	1,194
Acquisition, sale or spin-off business	-	-	-	-	(3)	(3)
Net interest on the (liability) net asset for defined benefits:						
Interest cost of defined benefit obligations	(866)	(2,560)	(98)	(10)	(71)	(3,605)
PA interest income	810	2,405	205	-	-	3,420
Reclassification of remeasurement of assets (liabilities) net defined benefit to recognize in the OCI:						
Gains (losses) on the obligation for defined benefits	(161)	(520)	46	2	(79)	(712)
PA profits	<u>(17)</u>	<u>(60)</u>	<u>(5)</u>	<u>-</u>	<u>6</u>	<u>(76)</u>
Income (Cost) Net of the Period	\$ (325) =====	(191) =====	146 =====	(4) =====	(218) =====	(592) =====

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2018						
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retiree sports club	Legal compensation	Total
As of December 31, 2018, the remeasurements of the net asset (liability) for defined benefit recognized in the OCI, are integrated as follows:						
Reconciliation of actuarial (loss) gains:						
Opening balance (losses) gains on the obligation	\$ (1,630)	(5,718)	551	(2)	(271)	(7,070)
(Losses) gains in the obligation	(466)	4,409	38	28	(259)	3,750
Reclassification of remeasurement of the obligation	<u>161</u>	<u>520</u>	<u>(46)</u>	<u>(2)</u>	<u>79</u>	<u>712</u>
Ending balance (losses) gains on the obligation	<u>(1,935)</u>	<u>(789)</u>	<u>543</u>	<u>24</u>	<u>(451)</u>	<u>(2,608)</u>
Opening balance (losses) gains on return on assets						
	(201)	(674)	(58)	-	-	(933)
Gains (losses) on the PA return	(1,207)	(3,649)	(292)	-	-	(5,148)
Reclassification of remeasurement in the PA return	<u>17</u>	<u>60</u>	<u>5</u>	<u>-</u>	<u>(6)</u>	<u>76</u>
Ending balance (losses) gains on the obligation	<u>(1,391)</u>	<u>(4,263)</u>	<u>(345)</u>	<u>-</u>	<u>(6)</u>	<u>(6,005)</u>
Final balance (losses) net gains recognized in OCI	\$ (3,326)	(5,052)	198	24	(457)	(8,613)
	=====	=====	=====	=====	=====	=====
2017						
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retiree sports club	Legal compensation	Total
As of December 31, 2017, net (liability) asset from defined benefits are as follows:						
Benefit obligations	\$ (9,592)	(27,425)	(1,063)	(112)	(788)	(38,980)
Plan assets	<u>8,924</u>	<u>25,704</u>	<u>2,192</u>	<u>-</u>	<u>-</u>	<u>36,820</u>
Net (liability) for defined benefits	\$ (668)	(1,721)	1,129	(112)	(788)	(2,160)
	=====	=====	=====	=====	=====	=====
As of December 31, 2017, the defined benefit obligations are as follows:						
Initial balance	\$ 8,154	21,241	1,317	99	609	31,420
Service Cost	106	531	5	3	108	753
Financial cost	762	2,077	126	9	30	3,004
Actuarial gains and (losses) of the period	1,470	4,602	(369)	6	257	5,966
Paid benefits	(930)	(764)	(15)	(4)	(183)	(1,896)
Acquisition, sale or spin-off business	(1)	-	-	-	-	(1)
Early reduction of obligations	<u>31</u>	<u>(262)</u>	<u>(1)</u>	<u>(1)</u>	<u>(33)</u>	<u>(266)</u>
Defined benefit obligations	\$ 9,592	27,425	1,063	112	788	38,980
	=====	=====	=====	=====	=====	=====

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	<b>2017</b>					
	<b>Pension plan and seniority premium</b>	<b>Other retirement benefits</b>				<b>Total</b>
		<b>Comprehensive medical services</b>	<b>Death benefit</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	
As of December 31, 2017, the Plan assets ("PA") are integrated as follows:						
PA at the beginning of the year	\$ 8,816	23,639	1,986	-	-	34,441
PA Expected return	838	2,329	193	-	-	3,360
Actuarial gains of in the period	190	500	28	-	-	718
Paid benefits	<u>(920)</u>	<u>(764)</u>	<u>(15)</u>	<u>-</u>	<u>-</u>	<u>(1,699)</u>
PA at the end of the year	\$ 8,924	25,704	2,192	-	-	36,820
	=====	=====	=====	==	==	=====
Net assets (liabilities) for defined benefits at the beginning of the year	\$ 663	2,398	669	(99)	(609)	3,022
Service Cost	(137)	(269)	(4)	(2)	(74)	(486)
Net interest	76	252	67	(9)	(30)	356
Payments made	10	-	-	4	183	197
Actuarial (losses) gains recognized in OCI during the period	<u>(1,280)</u>	<u>(4,102)</u>	<u>397</u>	<u>(6)</u>	<u>(258)</u>	<u>(5,249)</u>
Net assets (liabilities) for defined benefits at the end of the year	\$ (668)	(1,721)	1,129	(112)	(788)	(2,160)
	=====	=====	=====	===	===	=====
As of December 31, 2017, the (cost) defined benefit income for the period is integrated as follows:						
Current service cost	\$ (106)	(531)	(5)	(3)	(108)	(753)
Services passed through early reduction of obligations	(31)	262	1	1	33	266
Acquisition, sale or spin-off business	-	-	-	-	1	1
Net interest on the (liability) net asset for defined benefits:						
Interest cost of defined benefit obligations	(762)	(2,077)	(126)	(9)	(30)	(3,004)
PA interest income	838	2,329	193	-	-	3,360
Reclassification of remeasurement of assets (liabilities) net defined benefit to recognize in the OCI:						
Gains (losses) on the obligation for defined benefits	(15)	(104)	16	-	1	(102)
PA profits	<u>(34)</u>	<u>(108)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(149)</u>
Income (Cost) Net of the Period	\$ (110)	(229)	72	(11)	(103)	(381)
	===	===	===	==	===	=====

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	<b>2017</b>					
	<b>Pension plan and seniority premium</b>	<b>Other retirement benefits</b>				<b>Total</b>
		<b>Comprehensive medical services</b>	<b>Death benefit</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	
As of December 31, 2017, the remeasurements of the net asset (liability) for defined benefit recognized in the OCI, are integrated as follows:						
Reconciliation of actuarial (loss) gains:						
Opening balance (losses) gains on the obligation	\$ (175)	(1,220)	198	4	(13)	(1,206)
(Losses) gains in the obligation	(1,470)	(4,602)	369	(6)	(257)	(5,966)
Reclassification of remeasurement of the obligation	<u>15</u>	<u>104</u>	<u>(16)</u>	<u>-</u>	<u>(1)</u>	<u>102</u>
Ending balance (losses) gains on the obligation	<u>(1,630)</u>	<u>(5,718)</u>	<u>551</u>	<u>(2)</u>	<u>(271)</u>	<u>(7,070)</u>
Opening balance (losses) gains on return on assets	(425)	(1,282)	(93)	-	-	(1,800)
Gains (losses) on the return of PA	190	500	28	-	-	718
Reclassification of replenishments in the return of AP	<u>34</u>	<u>108</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>149</u>
Ending balance (losses) gains on the obligation	<u>(201)</u>	<u>(674)</u>	<u>(58)</u>	<u>-</u>	<u>-</u>	<u>(933)</u>
Final balance (losses) net gains recognized in OCI	\$ (1,831) =====	(6,392) =====	493 =====	(2) =====	(271) =====	(8,003) =====

At December 31, 2018 and 2017, the severance plan and the sports club plan for retirees have no assets for financing the obligations for defined benefits.

At December 31, 2018 and 2017, assets of several plans were invested in government securities. Likewise, expected return of the plan assets to those dates was estimated in the amount of \$3,420 and \$3,360 of surplus, respectively. Real return to the same dates in the amount of \$1,728 and \$4,078 of surplus and deficit, respectively.

The main actuarial hypotheses used in 2018 and 2017 are shown below:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Average remaining employee labor life (years)	11.10	11.34
Nominal discount rate used to estimate the obligation's present value	10.45%	9.48%
Yield rate expected for plan assets	10.45%	9.48%
Salary increase rate	4.75%	4.75%
Pension increase rate	2.13%	2.13%
Medical services increase rate	7.00%	7.00%
Nominal increase rate on future salaries	3.75%	3.75%
Long term inflation rate	3.75%	3.75%



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**(23) Subordinated debt -**

Subordinated obligations are comprised as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Junior notes of USD 1,000 million, issued in April 2010, at interest rate of 7.25%, payable semiannually from October 22, 2010, due on April 22, 2020; the number of outstanding securities is of 1,000,000, with a nominal value of 1,000 dollars each.	\$ 19,651	19,663
Senior notes of USD 1,250 million, issued in March 2011, at interest rate of 6.50%, payable semiannually as from September 10, 2011, due on March 10, 2021; the number of outstanding securities is 1,250,000, with a nominal value of 1,000 dollars each.	24,564	24,579
Senior notes of USD 1,000 million, issued in July 2012, at interest rate of 6.75% and an extension of the issuance of USD 500 million in September 2012, at interest rate of 6.75%, payable semiannually from March 30, 2013, due on September 30, 2022; the number of outstanding securities is 1,500,000, with a nominal value of 1,000 dollars each.	29,477	29,494
Senior notes of USD 200 million, issued in November 2014, at interest rate of 5.35%, payable semiannually from May 12, 2015, due on November 12, 2029; the number of outstanding securities is 200,000, with a nominal value of 1,000 dollars each.	3,390	3,933
Senior notes of USD 1,000 million, issued in January 2018, at interest rate of 5.125%, payable semiannually from July 17, 2018, due on January 18, 2033; the number of outstanding securities is 1,000,000, with a nominal value of 1,000 dollars each.	19,651	-
Unpaid accrued interest	<u>1,756</u>	<u>1,297</u>
Total	\$ 99,029 =====	78,966 =====

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**(24) Related parties-**

Following provisions of Criteria C-3 "Related parties" issued by the Commission, significant related parties balances/transactions are described below:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Banco Bilbao Vizcaya Argentaria, S. A.		
Derivative financial instruments <sup>(1)</sup>	\$ 11,118	(1,773)
Repurchase/resell agreements payable <sup>(1)</sup>	-	(4,238)
	=====	=====
Aplica Tecnología Avanzada, S. A. de C. V.		
Deposits <sup>(1)</sup>	\$ 611	779
Loans portfolio <sup>(1)</sup>	-	1,005
	=====	=====
Income:		
Interest <sup>(2)</sup>	\$ 15	41
Loans origination commissions <sup>(2)</sup>	58	31
	=====	=====
Administrative services fees <sup>(2)</sup>	\$ 42	44
	=====	=====
Expense:		
Processing and systems development <sup>(2)</sup>	\$ 2,500	2,374
	=====	=====
BBVA Leasing México, S. A. de C. V. (formerly known as Facileasing S. A. de C. V.)		
Loans portfolio <sup>(1)</sup>	\$ 8,581	12,086
Deposits <sup>(1)</sup>	151	258
	=====	=====
Income:		
Interest <sup>(2)</sup>	\$ 649	296
Administrative services fees <sup>(2)</sup>	-	65
	=====	=====
Facileasing Equipment, S. A. de C. V.		
Income:		
Interest <sup>(2)</sup>	\$ -	113
Fees paid for administrative services <sup>(2)</sup>	-	31
	=====	=====

<sup>(1)</sup> Balances of accounts payable/receivable at December 31, 2018 and 2017, respectively.

<sup>(2)</sup> It relates to the income or (expense) recorded in the income statement for years ended on December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, there are other related parties transactions that are regarded as non-significant, they have not been disclosed.

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**(25) Income tax (ISR from its Spanish acronym)-**

The current Income Tax Law establishes an income tax rate of 30%.

Main items affecting the Group taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivative financial instruments, the differences between the accounting and tax depreciation and amortization and the deductible written-off portfolio.

A reconciliation of the income tax rate and the effective tax rate, as a percentage of the income before income tax, is as follows:

	<b>2018</b>		<b>2017</b>	
	<b><u>Tax</u></b>	<b><u>Rate</u></b>	<b><u>Tax</u></b>	<b><u>Rate</u></b>
Statutory rate	\$ 21,830	30.00%	\$ 18,634	30.00%
Increase (reduction from):				
Non-deductible expenses	806	1.11%	502	0.81%
Effects of inflation	(3,368)	(4.63%)	(3,112)	(5.01%)
Reversal on revenues/expenses from previous years	928	1.27%	571	0.92%
Other accruals	<u>47</u>	<u>0.07%</u>	<u>(27)</u>	<u>(0.04%)</u>
Effective rate	\$ 20,243	27.82%	\$ 16,568	26.68%
	=====	=====	=====	=====

*Recoverable Asset Tax (IMPAC from its Spanish acronym):*

At December 31, 2018 and 2017, the Group has an IMPAC of \$282 and \$199, respectively.

*Other tax issues:*

At December 31, 2018 and 2017, balances are as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Net after-tax profit account	\$ 31,546	22,608
Capital contributions account	246,626	199,193
	=====	=====

The Group has recognized a deferred income tax resulting from the temporary differences arising from the comparison of accounting and taxable values of the assets and liabilities that are detailed on the next page.

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		2018		2017		
		Temporary differences	Temporary differences	Temporary differences	Temporary differences	Movement
		Base	Deferred IT	Base	Deferred IT	for the year
Deferred tax assets:						
Allowance for loan losses (not deducted)	\$	34,809	10,443	31,933	9,580	863
Fees and interest charged in advance		8,144	2,443	8,092	2,427	16
Provisions		10,751	3,225	10,154	3,046	(1,202)
Other assets		4,716	1,415	5,346	1,604	1,012
Foreclosed assets		4,687	1,406	4,458	1,337	237
Net operating loss carry forwards		-	-	1,176	353	(353)
Valuation of available-for-sale securities (comprehensive income)		3,208	962	2,983	895	67
Market valuation results		-	-	3,419	1,026	(1,026)
Valuation of hedging derivatives and available-for-sale-securities (comprehensive income)		163	49	-	-	49
Employee benefits		<u>1,007</u>	<u>302</u>	<u>-</u>	<u>-</u>	<u>302</u>
Total asset		<u>67,485</u>	<u>20,245</u>	<u>67,561</u>	<u>20,268</u>	<u>(35)</u>
Deferred tax liabilities:						
Market valuation income		5,945	1,784	-	-	1,784
Valuation of hedging derivatives and available-for-sale securities (comprehensive income)		-	-	459	138	(138)
Pre-maturity of derivative financial instruments		381	114	10,868	3,260	(3,146)
Employee benefits		-	-	2,127	638	(638)
Other liabilities		<u>1,009</u>	<u>302</u>	<u>223</u>	<u>67</u>	<u>223</u>
Total liabilities		<u>7,335</u>	<u>2,200</u>	<u>13,677</u>	<u>4,103</u>	<u>(1,915)</u>
Net deferred assets	\$	<u>60,150</u>	<u>18,045</u>	<u>53,884</u>	<u>16,165</u>	<u>1,880</u>
		=====	=====	=====	=====	=====
Movement in results for the year						\$ (1,841)
Movement in equity						\$ (39)
						---

In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

In accordance with the IT Law, companies carrying out transactions with the related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's length transactions.

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**(26) Stockholders' equity**

**(a) Structure of the Capital stock–**

The capital stock of the Group at December 31, 2018 and 2017, was as follows:

**Number of shares at Par Value of \$0.11 Mexican pesos per shared**

	<b><u>Capital stock</u></b>	<b><u>Capital stock Unsubscribed</u></b>	<b><u>Paid-in</u></b>
Series "B"	4,605,999,999	(60,462,657)	4,545,537,342
Series "F"	<u>4,794,000,001</u>	<u>(62,930,521)</u>	<u>4,731,069,480</u>
Total	9,400,000,000 =====	(123,393,178) =====	9,276,606,822 =====

**Historical amount**

	<b><u>Capital stock</u></b>	<b><u>Capital stock Unsubscribed</u></b>	<b><u>Paid-in</u></b>
Series "B"	\$ 507	(7)	500
Series "F"	<u>527</u>	<u>(7)</u>	<u>520</u>
Subtotal	\$ 1,034 =====	(14) ==	1,020
Capital reordering, updated			15,191
Accrued inflation effects until December 2007			2,725
Reduction /increase in capital in fiscal year 2009, net			<u>(9,137)</u>
Total			\$ 9,799 =====

At General Ordinary Stockholders' Meeting held on February 28, 2018, it was agreed distribution of dividends for up to \$31,922, from the account "Retained Earnings", on the basis of \$3.441128918420380 pesos per share, which were paid to shareholders as follows: on March 22, 2018, June 21, 2018, September 20, 2018 and December 13, 2018, for \$7,980, \$7,981, \$7,980 and \$7,981, respectively.

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At General Ordinary Stockholders' Meeting held on February 28, 2017, it was agreed distribution of dividends for up to \$28,551, which were declared from the account "Retained Earnings", on the basis of \$3.72830288742834 pesos per share, which were paid to shareholders as follows: September 29, 2017 and December 22, 2017, for \$21,413, and \$7,138, respectively. On January 19, 2017, it was agreed dividends for \$6,035, (which were paid on January 26, 2017 and October 11, 2017, for \$4,796, \$1,239, respectively), which were declared from the February 26, 2016.

**(b) Comprehensive income-**

Comprehensive income for years ended on December 31, 2018 and 2017, amounted to \$51,494 and \$42,044, net of deferred taxes, respectively. Such amount is shown in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Group and its subsidiaries during the year, and includes the items according to the applicable accounting criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale, result from valuation of cash flow hedging, initial effect of the application of provisions in effect in year 2017, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits).

**(c) Stockholders' equity restrictions -**

Series "F" shares represent, at all times, no less than 51% of the capital stock and may only be purchased, directly or indirectly, by a Foreign Financial Institution, as defined in the Law. Series "B" shares may represent up to 49% of the capital stock, shall be subscription free and shall be governed by article 74 of said Law.

At no time, foreign business entities that exercise authority functions, according to article 24 of the Law, may participate in any way in the Group's capital. Domestic financial entities, even those that form part of the Financial Group, may not participate either, except when acting as institutional investors in terms of article 27 of the Law.

The Group's net income is subject to the legal provision requiring 5% of profits for each period to be set aside to increase the legal reserve until it reaches 20% of the capital stock. This reserve may not be distributed amongst shareholders while the Group remains in existence, except as dividends in shares.

In the event of profits distribution not subject to taxes applicable to the Group, such tax must be paid upon distribution of the dividend. Therefore, the Group must consider the profits subject to each rate.

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**(d) Bank's capitalization index (unaudited)-**

Capitalization rules establish requirements in relation to specific levels of net capital, as a percentage of the assets subject to market risk, credit and operational risks; however, for calculation purposes of the net capital, deferred taxes shall represent a maximum of 10% of the basic capital.

Under the standard method, transactions are classified in twelve different groups, according to the counterparty, which must be weighted pursuant to the corresponding risk degree.

In addition, under this method, a greater weight is allocated to the past-due portfolio (115% and 150%) and the mortgage loans shall have a factor of 50% to 100%, depending on the level of the down payment and the related guarantees, which serve to increase the down payment percentage and to allocate a better weight.

- *Capitalization for operational risk*

In order to calculate the capital requirement for exposure to operational risk, the Bank must use the following:

- The Group is using the Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement for alternative standard method must be implemented within a term of 3 years and it must consider the weight according to the business line.

According to modifications to the capitalization rules issued in December 2014, in effect as of October 2015, the following is shown:

- *Capitalization for market risk*

According to amendments to the capitalization rule in effect as of October 2016, the applicable weights for reports RC-01, RC-02, RC-03 y RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing- The portfolio diversification calculation is omitted, using instead 8% of the market specific risk and, finally, the liquidation risk calculation is suppressed.

A new RC was added to the market requirements, RC-18, which captures the effect of Gamma and Vega on the option positions and is reflected in the total market risk at the end of December 2018. This requirement is additional to requirements generated in the other RCs.

- *Capitalization for credit risk*

In relation to credit risk, changes to the capitalization rule caused the counterparty risk to be split in counterparty and related party credit risk and credit risk for credit valuation adjustment and with related parties and exposure to non-compliance fund in bank clearing houses.

The Group's capitalization index at December 31, 2018 amounted to 15.27% of total risk (market, credit and operational) and 21.60% of credit risk, which are 4.02% and 10.35% points above the minimum required, including in addition the conversation the equity are 2.5% and 0.75% of supplementary for the risk systematic.

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The Commission authorized on November 16, 2018 the internal model for the mortgage loan portfolio to be used as of December 2018.

The amount of net capital, made up of basic and supplementary capital, is broken down below (shown figures may differ in their presentation in the Bank's consolidated financial statements):

- *Basic capital:*

<b><u>Concept</u></b>	<b><u>Amount</u></b>
Stockholders' equity, without cumulative conversion effect	\$ 193,745
Capitalization instruments	6,241
Instruments of subordinated debt in relation to securitization programs	(450)
Deductions of investments in shares of financial entities	(695)
Organization expenses and other intangibles	(5,233)
Deferred taxes for tax losses	<u>(756)</u>
Total	\$ 192,852 =====

The main features of the obligations are shown below:

<b><u>Concept</u></b>	<b><u>Valued amount</u></b>	<b><u>Maturity date</u></b>	<b><u>Calculation percentage</u></b>	<b><u>Weighted average (basic capital)</u></b>
Non-convertible - Computable in basic capital: Computable capitalization instruments	\$ 29,477 =====	30/09/2022	40%	\$ 11,791 =====

- *Supplementary capital*

<b><u>Concept</u></b>	<b><u>Amount</u></b>
Obligations and capitalization instruments	\$ 43,697
Allowance for loan losses	<u>110</u>
Total	\$ 43,807 =====
Net capital	\$ 236,659 =====

<b><u>Concept</u></b>	<b><u>Valued amount</u></b>	<b><u>Maturity date</u></b>	<b><u>Calculation percentage</u></b>	<b><u>Weighted average (basic capital)</u></b>
Computable capitalization instruments	\$ 24,564	10/03/2021	40%	\$ 9,826
Computable capitalization instruments	19,651	22/04/2020	40%	7,860
Computable capitalization instruments	3,930	12/11/2029	40%	1,572
Computable capitalization instruments	<u>19,651</u>	18/01/2033	100%	<u>19,651</u>
Total	\$ 67,796 =====			\$ 38,909 =====



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Assets on risk are comprised as follows:

– *Assets subject to market risk:*

<u>Concept</u>	<u>Assets weighted by risk</u>	<u>Capital requirement</u>
Transactions in Mexican pesos with nominal rate	\$ 248,882	19,911
Transactions in Mexican pesos, with real rate or denominated in UDIS	26,301	2,104
Return rate referred to the general minimum wage	7,436	595
Transactions in foreign currency with nominal rate	39,942	3,195
Positions in UDIS or with return referred to the NCPI	63	5
Positions in foreign currencies with return indexed to the exchange rate	15,831	1,266
Positions in shares or with return indexed to the price of a share or group of shares	14,265	1,141
Transactions referred to the general minimum wage	233	19
Gamma (RC-18)	8,044	644
Vega (RC-18)	101	8
Spread	<u>5,821</u>	<u>466</u>
Total market risk	\$ 366,919 =====	29,354 =====

– *Assets subject to market risk:*

<u>Concept</u>	<u>Assets weighted by risk</u>	<u>Capital requirement</u>
Weighted at 10%	\$ 2,286	183
Weighted at 11.5%	2,079	166
Weighted at 20%	21,745	1,740
Weighted at 23%	31	2
Weighted at 50%	9,092	727
Weighted at 57.5%	312	25
Weighted at 100%	389,565	31,165
Weighted at 115%	4,715	377
Weighted at 150%	2,645	212
Weighted at 1250%	857	69
CCC / E and C Internal methodology	609,910	48,793
CVA	18,646	1,492
ECC	116	9
Counterparty	15,523	1,242
Related	18,228	1,458
Repurchase agreements and Spot	<u>55</u>	<u>4</u>
Total credit risk	\$ 1,095,805 =====	87,664 =====
Operational risk	\$ 87,240 =====	6,979 =====

Capital management - The Bank has the required staff, process and systems for the right identification, measurement, oversight, control and mitigation of the risks to which the Bank is exposed; for further detail and explanation, see note 34.

In turn, the periodic processes to guarantee that the financial reports are disclosed and reflect the risks to which the Bank is exposed are defined and established.

Stress testing are performed annually; these are required by the Commission to assess capital sufficiency of the Bank in order to continue acting as intermediary of resources and granting loans under different scenarios.

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In addition, there is an analysis comprising liquidity crisis scenarios. These stress scenarios estimate the impact on the auto-financing ratio and the capacity of explicit assets available to cover maturities in a horizon of 12 months, which allows to know the Bank survival horizon. Results show a satisfactory resistance of the Bank to liquidity crisis.

On the other hand, the Bank has different management levers to be actioned should it faced different stress scenarios that could impair its solvency position in terms of capital and/or liquidity. Given the strong condition of the Bank, both financial and of its balance structure, such levers allow it to access wholesale markets, both local and international, to obtain financing and capital, have at its disposal high quality assets for its sale and/or securitization, as well as discount securities, either at the market or with the Central Bank.

Based on the foregoing, it is determined that the Bank has the mechanisms necessary to efficiently face stress scenarios that may impair the situation, both in relation to the capital and liquidity.

For further details, see "Exhibit 1-O", required by the Provisions "Supplementary Information for the fourth quarter of 2018", in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage <https://investors.bancomer.com/>.

**(27) Foreign currency position -**

Central Bank Regulations establish standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Bank's basic capital. At December 31, 2018 and 2017, the Bank kept an exchange rate risk position within the mentioned limit.

At December 31, 2018 and 2017, the exchange rate determined by the Central Bank of Mexico and used by the Group to value its assets and liabilities in foreign currency (translated to U.S. dollars) was \$19.6512 Mexican pesos and \$19.6629 Mexican pesos per U.S. dollar, respectively, and the position in foreign currency was as follows:

	<b>Millions of U.S Dollars</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Assets	15,973	17,431
Liabilities	<u>(15,420)</u>	<u>(16,936)</u>
Net assets position in U.S. dollars	553	495
	=====	=====
Net assets position in Mexican pesos (nominal value)	\$ 10,867	9,733
	=====	=====

As of February 28, 2019, date of issuance of the audited financial statements, the last exchange rate established by the Mexican central bank was 1 USD = MXN \$19.2201.

According to the provisions of the Central Bank of Mexico, the position reported to that institution as of December 31, 2018 and 2017 was USD \$360 million and USD \$312 million long, which includes delta FX options, and excludes assets and liabilities that are not computable.

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The Financial Group performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Financial Group does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank of Mexico regulations, so that the foreign currency position of all currencies is consolidated in US dollars at each monthly closing.

**(28) Position in UDIS-**

At December 31, 2018 and 2017, the Group had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of \$6.226631 and \$5.934551 Mexican pesos per UDI, respectively, as follows:

		<b>Millions of UDIS</b>	
		<b><u>2018</u></b>	<b><u>2017</u></b>
Assets		23,779	21,559
Liabilities		<u>(23,394)</u>	<u>(20,941)</u>
Net liability position in UDIs		385	618
		=====	=====
Net liability position in Mexican pesos (nominal value)	\$	2,398	3,668
		=====	=====

As of February 28, 2019, date of issuance of the audited consolidated financial statements, the last known UDIS exchange rate of that date was \$6.250861 Mexican pesos per UDI.

**(29) Preventive and protective savings mechanism-**

The Bank Savings Protection Institute ("IPAB for its Spanish acronym") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest for an equivalent of up to 400,000 UDIS.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fees must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2018 and 2017, contributions made by the financial group to IPAB for insurance to deposits amounted to \$5,217 and \$4,917, respectively.

Protection to the securities market, reserve fund - in March 1999, brokerage firms acting as trustors created a trust with the purpose of building a fund to allow the brokerage firms to have a financial reserve amount up to the contributions made by each brokerage firm. Contributions made by the Group and interest earned at December 31, 2018 and 2017 amounted to \$48.2 and \$43.8, respectively.

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**(30) Net interest income-**

For the years ended December 31, 2018 and 2017, the main items comprising the net interest income were as follows:

		<b>2018</b>		
		<b><u>Mexican Pesos</u></b>	<b><u>Dollars</u></b>	<b><u>Total</u></b>
Interest income:				
Interest and returns on loan portfolio (note 9)	\$	129,700	12,077	141,777
Interest and return on securities (note 6 (a), 6(b), and 6 (c))		45,586	130	45,716
Interest on cash and cash equivalents		3,714	1,207	4,921
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))		1,585	-	1,585
Interest on margin accounts		486	-	486
Interest on subordinated debt		63	-	63
Commissions collected on loan originations (note 9)		1,952	11	1,963
Other		<u>1,493</u>	<u>578</u>	<u>2,071</u>
Total interest income		<u>184,579</u>	<u>14,003</u>	<u>198,582</u>
Written insurance premiums, net		<u>21,384</u>	<u>-</u>	<u>21,384</u>
Interest expense:				
Deposits' interest		(29,293)	(836)	(30,129)
Interest from loans provided by banks and other entities		(1,670)	(20)	(1,690)
Interest on subordinated obligations		(2,373)	(3,759)	(6,132)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))		(25,149)	-	(25,149)
Expenses from loan originations		(446)	-	(446)
Other		<u>(1,113)</u>	<u>(86)</u>	<u>(1,199)</u>
Total interest expense		<u>(60,044)</u>	<u>(4,701)</u>	<u>(64,745)</u>
Net increase in technical reserves		<u>(3,750)</u>	<u>(1)</u>	<u>(3,751)</u>
Claims, and other contractual obligations, net		<u>(18,819)</u>	<u>(1)</u>	<u>(18,820)</u>
Net interest income		<u>\$123,350</u> =====	<u>9,300</u> =====	<u>132,650</u> =====

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		<b>2017</b>	
	<b>Mexican Pesos</b>	<b>Dollars valued at Mexican pesos</b>	<b>Total</b>
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 118,289	10,215	128,504
Interest and return on securities (note 6 (a), 6 (b) and 6 (c))	40,118	1,058	41,176
Interest on cash and cash equivalents	3,101	978	4,079
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))	1,153	-	1,153
Interest on margin accounts	352	-	352
Commissions collected on loan originations (note 9)	1,542	-	1,542
Other	<u>1,280</u>	<u>80</u>	<u>1,360</u>
Total interest income	<u>169,835</u>	<u>12,331</u>	<u>178,166</u>
Written insurance premiums, net	<u>21,444</u>	<u>-</u>	<u>21,444</u>
Interest expense:			
Deposits' interest	(22,213)	(710)	(22,923)
Interest from loans provided by banks and other entities	(1,501)	(30)	(1,531)
Interest on subordinated obligations	(1,257)	(3,467)	(4,724)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))	(22,953)	-	(22,953)
Expenses from loan originations	(410)	-	(410)
Other	<u>(1,761)</u>	<u>(59)</u>	<u>(1,820)</u>
Total interest expense	(50,095)	(4,266)	(54,361)
Net increase in technical reserves	(4,067)	-	(4,067)
Claims, and other contractual obligations, net	<u>(18,555)</u>	<u>-</u>	<u>(18,555)</u>
Net interest income	\$ 114,562 =====	8,065 =====	122,627 =====

**(31) Commissions and fee income -**

For the years ended December 31, 2018 and 2017, the main items for which the Group recorded commissions and fee income in the consolidated statement of income were as follows:

	<b>2018</b>	<b>2017</b>
Credit and debit cards	\$ 23,598	21,531
Bank commissions	7,275	4,879
Investment funds	18	3,724
Insurance	468	519
Other	<u>11,371</u>	<u>8,117</u>
Total	\$ 42,730 =====	38,770 =====

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During 2018 and 2017, the amount of revenues earned by the Group in trust operations amounted to \$414 and \$400, respectively.

For the years ended December 31, 2018 and 2017, the main items for which the Group recorded commission and fee expense in the consolidated statement of income were as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Credit card	\$ (9,999)	(8,307)
Effective credit card reward points	(2,734)	(2,445)
Promotion fund collateral	(666)	(619)
Cash management and fund transfers	(394)	(391)
Credit placement	(333)	(387)
Appraisals	(265)	(338)
Sale of foreclosed assets	(135)	(308)
Purchase-sale of securities	(280)	(291)
Insurance	(236)	(337)
Other	<u>(678)</u>	<u>(521)</u>
Total	\$ (15,720) =====	(13,944) =====

**(32) Net gain on financial assets and liabilities -**

For the years ended December 31, 2018 and 2017, the main items comprising the net gain on financial assets and liabilities were as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Valuation:		
Derivatives	\$ 9,350	(17,512)
Foreign currency	(2,527)	15,349
Investments in securities (note 6)	<u>769</u>	<u>4,547</u>
	<u>7,592</u>	<u>2,384</u>
Purchase-sale result:		
Derivatives	(6,920)	2,567
Foreign currency	5,727	4,340
Investments in securities	<u>(441)</u>	<u>(2,227)</u>
	<u>(1,634)</u>	<u>4,680</u>
Total	\$ 5,958 =====	7,064 =====

**(33) Segment information –**

The Group and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, insurance and foresight sector, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Group's business units, more than the legal entities in which the results generated are recorded.

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Below we present the revenues obtained during the years 2018 and 2017, which show the difference segments as indicated in the preceding page:

<b><u>2018</u></b>						
<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Corporate and Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Retirement saving Funds</u></b>	<b><u>Other Segments</u></b>
Financial margin	\$ 132,650	94,067	28,380	766	8,790	647
Allowance for loan losses	<u>(32,310)</u>	<u>(29,262)</u>	<u>(3,037)</u>	<u>-</u>	<u>(11)</u>	<u>-</u>
Financial margin adjusted for allowance for loan losses	100,340	64,805	25,343	766	8,779	647
Commissions and fees, net	27,010	19,062	8,630	1,432	(4,041)	1,927
Net gain on financial assets and liabilities	5,958	2,264	772	874	2,371	(323)
Other operating income (expenses)	<u>1,788</u>	<u>(36)</u>	<u>162</u>	<u>(71)</u>	<u>556</u>	<u>1,177</u>
	135,096	86,095	34,907	3,001	7,665	3,428
		=====	=====	=====	=====	=====
Administration and promotion costs	<u>(62,330)</u>					
Net operating revenues	72,766					
Equity in the income of non-consolidated subsidiaries and associates	<u>117</u>					
Income before income tax	72,883					
Current income tax	(22,084)					
Deferred income tax, net	<u>1,841</u>					
Income before discontinued operations	52,640					
Non-controlling interest	<u>(2)</u>					
Net income	\$ 52,638					
	=====					

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<b><u>2017</u></b>						
<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Corporate and Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Retirement saving Funds</u></b>	<b><u>Other Segments</u></b>
Financial margin	\$ 122,627	88,545	25,448	1,748	9,333	(2,457)
Allowance for loan losses	<u>(34,079)</u>	<u>(31,271)</u>	<u>(2,800)</u>	<u>-</u>	<u>(8)</u>	<u>-</u>
Financial margin adjusted for allowance for loan losses	88,548	57,274	22,648	1,758	9,325	(2,457)
Commissions and fees, net	24,826	19,007	7,384	1,602	(2,339)	(828)
Net gain on financial assets and liabilities	7,064	1,720	671	3,378	2,164	(869)
Other operating income (expenses)	<u>200</u>	<u>644</u>	<u>277</u>	<u>(32)</u>	<u>(380)</u>	<u>(309)</u>
	120,638	78,645	30,980	6,706	8,770	(4,463)
		=====	=====	=====	=====	=====
Administration and promotion costs	<u>(58,524)</u>					
Net operating revenues	62,114					
Equity in the income of non-consolidated subsidiaries and associates	<u>58</u>					
Income before income tax	62,172					
Current income tax	(16,636)					
Deferred income tax, net	<u>68</u>					
Income before discontinued operations	45,604					
Non-controlling interest	<u>(1)</u>					
Net income	\$ 45,603					
	=====					



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**(34) Risk management and derivatives from the bank, considering the most significant subsidiary (Unaudited figures) -**

Organizational structure

The Risk Department reports directly to senior management of the Bank, thus guaranteeing the independence of the business units and establishing the necessary autonomy to determine the functions and profile of the respective teams.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: one covering the wholesale portfolio, PyMEs and the other the retail portfolio, assuming the admission, follow-up and recovery functions. By the same token, the management of market, structural and liquidity risks is gathered into a single unit, to which is added the management of risks of non-bank businesses and asset handling.

As support for the above-mentioned units, the Technology and Methodologies unit has been created, with technical expertise which will help to meet the specialized needs of the risks areas, while a Follow-Up and Reporting Unit has been established for the integration, follow-up and generation of the necessary reports for all the internal or external areas which have to participate in best risk management; this unit also plays an important role in the information disclosure processes and their strict adherence to national and international regulations.

Furthermore, the Internal Controllershship unit has been established to guarantee the correct implementation and development of the Internal Control System of the Bank, while also including the Technical Unit.

Compliance in the area of Comprehensive Risk Management is based on the recognition of fundamental principles for the efficient and effective management of risks, evaluating them on quantifiable and non-quantifiable bases, with the aim of satisfying the basic processes of identification, measurement, monitoring, limiting, control and dissemination.

In conformity with the Commission's regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management.

**Qualitative information:**

- *Participation of the governing bodies:*

The Bank's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

The Board of Directors establishes the general risk strategy. In accordance with this strategy, the Board of Directors' Risk Committee Representative proposes policies and specific risk limits for each risk type for the Board's approval, while also providing follow-up on compliance. In this way, the strategy approved by the Board of Directors includes the Bank's risk appetite, fundamental metrics and the basic structure of limits, risk types and asset classes, together with risk management control model bases.

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The Board of Directors' Risk Committee Representative is responsible for performing a risk analysis and providing periodic risk follow-up within the sphere of corporate entity attributes, while controlling and providing detailed follow-up on the risks affecting the Bank taken as a whole, which allows the integration of the risk management strategy and application of approved policies to be effectively monitored.

- *Policies and procedures:*

Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies. Business risk and reputation risk manuals, which provide for the methodologies associated to the calculation and follow up thereof.

Defined and limited third-party responsibilities, risk training programs and communication of policies and procedures.

- *Tactic decision making*

Independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

The Bank's different risk units participate in the preparation of the Risk Appetite that the Bank is willing to assume to attain its business objectives and which must be submitted for the approval of the Board of Directors, as regards general issues, and to the Risk Committee in the case of specific exposures and sub-limits.

The Bank has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

- *Tools and analyses*

Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Bank's risk management.

Follow-up on the analysis of risks incurred by the Banks's different business units. This follow-up considers risk metrics, the risk appetite, the main risk concentrations, compliance with regulatory limits, the credit stress analysis, calculation of the regulatory capital requirement, structural risks, market risks, the liquidity risk, operational risk, legal risk and reputational risk.

The methodologies and parameters measuring risks are periodically calibrated and submitted for the approval of the competent entities.

Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

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Install monitoring and operational and legal risk control methodologies in conformity with international standards.

- *Information*

Information is the cornerstone of risk management and is utilized for preventive management purposes based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (customers, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

- *Technological platform*

Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

- *Audit and Comptroller's Office*

Involvement of internal audit in relation to compliance with the "Provisions in matters of risk management" and implementation of compliance plans by risk type and area.

Recommendations included in the audit reports are subject to regular follow up by the Audit Committee.

Carrying out of audits of compliance with the legal referred provisions by a firm of independent experts on risk measure models, systems, methodologies, assumptions, parameters and procedures to determine whether they comply with or not their functionality in view of the characteristics of the Bank's operations, instruments, portfolios and risk exposures.

The Bank considers that to date, it fully complies with the "Provisions on matters of risk management". Likewise, the Bank continues with measurement and limitation improvement projects, automation of processes and methodological refinements.

On the other hand, the Comptroller's Office is responsible for guaranteeing the proper functioning of the internal control programs and the timely update and dissemination of internal regulations, which further, among other aspects, compliance with the provisions in matters of comprehensive risk management.

The Internal Validation Units is part of the Comptroller's Office, which is responsible for reviewing the proper design, documentation and functioning of the internal models used in the measurement and management of the different types of discretionary and non-discretionary risks faced by the Group's activity.

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**Methodological framework - Risk valuation, measurement and description techniques**

For risk purposes, the Group's consolidated balance sheet is broken-down as follows:

- *Market risk:* Operation and investment portfolios - Investment in securities for negotiation purposes, repurchase agreements and transactions with derivative financial instruments.

Structural balance - Available for sale, remaining transactions, including securities held to maturity and derivative financial instruments for structural risk management of interest rates and exchange rates.

- *Credit risk:*

Commercial loans - Traditional wholesaler loans portfolio, as well as exposures for investments in issuances as counterparty in derivative financial instruments.

Consumer - Credit cards and non-revolving consumer loans.

Mortgage - Mortgage loans.

For the purpose of calculating capital and reserves, advanced internal models are used in the credit card and companies and corporate portfolios; such models are approved by the Commission.

Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

**Sales volume**

**Segment**

>60 millions mxp	Enterprises
>=50 millions usd and <60 millions usd	Large Enterprises (Corporate)

Non-revolving consumer loans, mortgage loans and the commercial loans with a sales volume of less than \$60 using standard models to assess capital and reserves.

- *Liquidity risk:* Banking business, with positions on and off-balance, including loans, traditional deposits, investments in securities, derivatives, wholesale financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same Financial Group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

**Market Risk:**

The purpose of market risk management is as follows:

- The proper identification of the risks to which the Bank is exposed, by maintaining positions in financial instruments for operational or investment purposes.
- Measurement of exposures through the application of proven and reliable processes and methodologies.

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- Continuous risk monitoring.
- Efficient limitation of exposures.
- Effective control over positions.
- Inform decision-making bodies of the risks assumed/profitability obtained within the portfolios controlled.

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.
2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved.
3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time, in the positions that are within Global Markets, considering a horizon of 500 business days.

When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the trading portfolios and the structural balance sheet. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

	<b><u>4Q 2017</u></b>	<b><u>3Q 2018</u></b>	<b><u>4Q 2018</u></b>
VaR of trading securities:			
VaR 1 day	\$ 138	124	90
VaR 10 days	<u>432</u>	<u>397</u>	<u>293</u>
	\$ 570	521	383
	===	===	===

**VaR 1 day   VaR 10 days**

Value at risk, trade securities		
Interest rate	\$ <u>80</u>	\$ <u>262</u>
Equity securities	\$ <u>41</u>	\$ <u>134</u>
Foreign currency	\$ <u>15</u>	\$ <u>55</u>
Interest rate Vega	\$ <u>24</u>	\$ <u>78</u>

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month back testing is performed to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

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Structural balance sheet

The market risk of the structural balance sheet or structural risk is defined as the potential change produced in the financial margin and/or in the net worth of an entity due to changes in interest rates and/or exchange rates.

In relation to the structural balance of interest rates and exchange rates, sensitivity of economic value and financial margin are calculated by virtue of movements parallel to an increase or drop in interest rates (+/- 100 basis points), as well as the estimate of expected losses in simulation scenarios of nonparallel movements in risk factors (interest rate and exchange rate), according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the structural balance sheet according to the financial characteristics of each heading.

The methodology behind the economic value consists of estimating the fair value of the positions on the structural balance sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the financial margin metrics is based on the projection of the interest income and expenses from the structural balance sheet, month-to-month in a 12-month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the structural balance sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the structural balance sheet, such as mortgage loans, commercial portfolio, among others.
- Evolution of products which do not have a maturity date: for sight deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the structural balance sheet are modeled based on historical observations, of the same headings of the structural balance sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the structural balance sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and delegated Risk Committee of the Board.

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**Estimated Economic Value Sensitivity**

<u>Portfolio</u>	<u>(100) bp</u>	<u>+100 bp</u>	<u>Red flag use</u>
Mexican pesos	\$ 1,671	(2,025)	15.2 %
Foreign currency	<u>(4,086)</u>	<u>3,473</u>	<u>58.4 %</u>
Total	\$ (2,415)	1,448	18.2%
	=====	=====	=====

**Financial Margin Sensitivity Projected to 12 Months**

<u>Portfolio</u>	<u>(100) bp</u>	<u>+100 bp</u>	<u>Red flag use</u>
Mexican pesos	\$ (3,658)	3,628	64.0%
Foreign currency	<u>(1,305)</u>	<u>1,275</u>	<u>36.5%</u>
Total	\$ (4,963)	4,903	69.4%
	=====	=====	=====

In terms of consumption, the use of alerts in the quarter shows the following exposure (percentage of the use of alerts, average of monthly closings):

<u>Portfolio</u>	<u>Use Alert SVE</u>	<u>Use Alert SMF</u>
Mexican pesos	14.5%	60.2%
Foreign currency	<u>57.3%</u>	<u>44.8%</u>
Total	18.6%	70.6%
	=====	=====

In terms of annual consumption for 2018, exposures are as follows (percentage of use of alerts, average of monthly closings):

<u>Portfolio</u>	<u>Use Alert SVE</u>	<u>Use Alert SMF</u>
Mexican pesos	10.1%	61.5%
Foreign currency	<u>58.8%</u>	<u>41.5%</u>
Total	34.0%	69.9%
	=====	=====

- Credit risk

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss ("EL") and Unexpected Loss ("UL")

The EL of a portfolio represents the average credit balance which was not paid, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting loans over time. The calculation of the Global EL of each portfolio first requires the determination of the EL for each borrower; for this reason, the model focuses initially on an individual situation.

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- Expected Loss = Probability of Default x Severity of Loss x Exposure
- Exposure refers to the maximum amount of the balance at the time of the default; the elements which enable this factor to be determined are the size of the line, disposition of the line and type of product.
- Probability of Default is the likelihood that a customer may default on his obligations. The elements which enable the determination of this factor are risk classification by client, migration of credit quality and situation of non-performing portfolio.
- Severity of Loss is that net economic loss from the recovery of financing; the elements which enable this factor to be determined are recovery expenses (foreclosure and sale) and the type of collateral.

<b><u>Portfolio *</u></b>	<b><u>Percentage</u></b>	
Commercial	0.6%	
Consumer	3.6%	
Mortgage	0.5%	

  

<b><u>Portfolio *</u></b>	<b><u>PD's</u></b>	<b><u>Severity</u></b>
Commercial	1.6%	33.7%
Consumer	6.9%	75.8%
Mortgage	2.6%	20.4%

\* The parameters are weighted on the current portion of each of the portfolios and are calculated based on internal models of the Bank.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. As the credit losses may vary significantly over time, it may be inferred that creating a fund with an amount equal to the average loss will have covered the loan loss in the long term; however, in the short-term the fluctuations and, therefore, the risk, remain in effect and generate uncertainty. Therefore, it should also be covered with a second fund that can be used as collateral to be paid when the latter exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business.

The second fund created to cover unexpected losses should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Bank in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as economic capital, so as to give it a risk connotation.

The level of solvency desired by the Bank has to be established in the calculation of the UL, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the Bank wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards. These models, apart from supporting the credit decision, are linked with the probability of default established above.



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Every month an estimate is made of Expected Loss, Economic Capital and Regulatory Capital based on Internal Models.

**Scope and nature of risk information and measurement systems and their reporting**

The information systems are housed in a system developed internally for the Bank, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Bank ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

**Internal model approval**

The Bank applies internal methodologies to standardized portfolios; i.e., it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises.

Authorizations of new parameters took place on January 16, 2017 for credit cards, on August 16, 2017 for companies and on February 5, 2016 for large companies; on April 6, 2017, the authorization for this portfolio was extended.

**Exposure at Default**

The exposure to default (EAD) is defined as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

$$\text{EAD} = \text{Disposed Balance} + \text{CCF1} * \text{Undisposed Balance} + \text{CCF2} * \text{Limits}$$

**Probability of default**

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Bank, a transaction/customer will be considered as “bad” or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment
- The amount should go through a materiality filter so that the transaction/customer may be considered in arrears.

The materiality filter is the only difference as regards the default definition established by Article 2 Bis 68 of the National Banking and Securities Commission provisions.

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### Loss Given Default

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure to Default, it is known as Severity of Loss.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the severity is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure to default.

$$\text{Severity} = \text{LGD} = (\Sigma \text{ entries in arrears} - \Sigma \text{ recoveries})/\text{EAD}$$

- Coverage and/or mitigation policies by each type of risk

The establishment of personal guarantees or security interests in personal or real property, apart from improving the credit structure of the operation, allows the estimate of the Severity of the Loss to be mitigated in order to reduce the credit reserves derived from the regulatory portfolio classification.

The Bank performs revaluations of the loans, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Bank has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission according to the integral method to recognize credit risk coverage, established in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the CUB.

The integral approach used for the hedge recognition is governed by the following points:

Amount of adjusted collateral: The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA_i = \frac{C_i}{C_i} \cdot (1 - H_C^i - H_{FX}^i) \cdot \frac{(t - 0.25)_i}{T - 0.25}$$

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Covered and uncovered exposure: The calculation of uncovered exposure (E\*) is a cyclical process in which each iteration is incorporated into a new collateral (Cai) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Enterprises and Large Enterprises internal model (E&LE), the Bank considers groups III and IV and certain cases from group V of the rules for the capitalization requirements of full-service banks and national credit institutions and development banks of the Commission. Group IV excludes customers with investment projects, as well as small and medium mortgage promoters, and small and medium companies (Pymes) according to the sales volume (customers with transactions valued at less than MX \$ 60 million). Large promoters are considered from group III.

Description of portfolios with certified internal models:

A Description of the wholesale portfolio, which has been rated according to internal models, is provided below:

<b>Closing E&amp;LE December 2018</b>								
<b>Scale</b>	<b>Available</b>	<b>Balance</b>	<b>Exposure to default</b>	<b>Weighted median severity</b>	<b>Weighted median risk</b>	<b>Exposure non-financial security interest</b>	<b>Exposure security interest</b>	
A1	\$ 64,399	624,738	383,566	39.66%	0.42%	\$ 18,292	150,101	
A2	2,510	62,241	12,955	38.18%	2.98%	944	13,785	
B1	998	21,797	5,363	39.56%	4.45%	164	4,107	
B2	12	7,182	3,071	37.58%	6.15%	143	3,989	
B3	1,173	13,361	5,078	38.03%	9.57%	725	5,742	
C1	64	1,769	303	36.83%	20.37%	33	506	
C2	-	1,898	348	37.38%	30.36%	-	-	
D	5	5,251	629	39.67%	88.22%	55	219	
E	<u>2</u>	<u>5,983</u>	<u>3,710</u>	64.32%	98.15%	<u>201</u>	<u>7,216</u>	
Total	\$ 69,163	744,220	415,023	40% *	1.76% *	\$ 20,557	185,665	
	=====	=====	=====	=====	=====	=====	=====	

\* Average weighted percentage

For the credit card internal model, the Bank considers group VI (Consumer and mortgage loans) in accordance with the capitalization rules of the CUB. Such group matches the loans made to customers -Individuals - who were granted a revolving credit line for personal use.

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A description of the credit card portfolio is detailed below:

<b>Closing CC December 2018</b>					
<b><u>Scale</u></b>	<b><u>Available</u></b>	<b><u>Balance</u></b>	<b><u>Exposure to default</u></b>	<b><u>Weighted median severity</u></b>	<b><u>Weighting average weighted risk</u></b>
A1	\$ 49,372	45,139	64,707	76.30%	1.50%
A2	15,547	15,387	20,022	77.70%	3.90%
B1	8,941	9,093	11,542	77.50%	5.90%
B2	8,559	8,080	10,971	78.00%	7.60%
B3	8,726	8,931	11,124	78.40%	9.20%
C1	9,254	8,910	11,834	78.20%	11.40%
C2	10,040	10,251	13,212	76.00%	24.60%
D	2,750	2,618	3,565	77.20%	46.70%
E	<u>2,619</u>	<u>2,290</u>	<u>3,183</u>	<u>82.30%</u>	<u>73.00%</u>
Total	\$ 115,808 =====	110,699 =====	150,160 =====	77.10%* =====	8.60%* =====

\* Average weighted percentage

- *Analysis of estimated losses according to certified internal models*

The back testing exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

The result obtained for certified portfolios during the third quarter of 2018 is detailed below:

<b>Backtesting 3Q 18</b>				
<b><u>Loan Portfolio</u></b>	<b><u>EL MI Sep17</u></b>	<b><u>Clean-up Oct17-Sep18</u></b>	<b><u>DIF \$ (OL - EL)</u></b>	<b><u>%USE EL Sep 17</u></b>
Credit card	\$ 10,374	12,880	2,506	124%
EyGE	<u>3,028</u>	<u>995</u>	<u>(2,033)</u>	33%
Total	\$ 13,402 =====	13,875 =====	473 =====	104%

\* OL = Observed Loss

\*\* EL = Expected Loss

The loss use is 98%, which is acceptable.

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*Internal ratings systems and the relationship between internal and external credit risk ratings.*

<b>Backtesting 3Q 18</b>				
<b><u>Loan Portfolio</u></b>	<b><u>EL MI Sep17</u></b>	<b><u>Clean-up Oct17-Sep18</u></b>	<b><u>DIF \$ (OL - EL)</u></b>	<b><u>%USE EL Sep 17</u></b>
Credit card	\$ 10,374	12,880	2,506	124%
EyGE	<u>3,028</u>	<u>995</u>	<u>(2,033)</u>	33%
Total	\$ 13,402	13,875	473	104%
	=====	=====	=====	

The Bank utilizes two types of credit risk model, which are clearly differentiated by the portfolio to which they are applied and the informatics systems supporting the rating tools used for contracts and customers (scoring and rating, respectively). The rating institutions utilized to assign ratings to loan portfolio transactions are Standard & Poor's, Moody's and Fitch.

Scoring (retail portfolios) and rating (wholesale portfolios) tools are utilized to ensure that the decisions made by the Institution's entities maintain the portfolio's profitability and the required quality level.

- Rating

The rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the Group. The rating is a tool for customer classification, geared towards company banking and corporate banking.

The rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the financial statements (Balance Sheet and profit and loss account) and from a series of qualitative variables (sector, market position, etc.).

Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted. The rating is part of the information used in the process to make decisions on a transaction and it is the indispensable support to set price policies considering the risk-profitability binomial.

- Scoring

The scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the financial group. There are two types of Scoring.

- Origination scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.
- Behavioral scoring is obtained each month, based on payments behavior with the Bank. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

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- Profitability measurement

Aside from calculating capital requirements derived from its credit risk, the Bank also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock. In the case of loans granted to enterprises, large enterprises, IFI, states and sovereign entities, profitability and added economic benefit indicators are calculated during the customer evaluation process.

The Bank utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures profitability in relation to economic capital (RAROEC).

*Liquidity Risk*

- a) Concentration limits regarding the different groups of collaterals received and the principal sources of financing.

Apart from the regulatory liquidity ratios, the liquidity risk control scheme of the Bank is based on the establishment of limits in three fundamental areas: a) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); b) financing structure diversification through a maximum amount of Short-Term (FCP); and c) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of financing concentration or foreign exchange liquidity or long-term financing diversification, among others.

December 2017 Liquidity risk exposure: average monthly closing.

Absolute margin in relation to the limit (positive without excess, negative with excess)

LtSCD	11%
FCP 12m	\$213,954
CB 30d	69%

\* Annual perspective

- b) Exposure to liquidity risk and financing needs at Bank level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity.

The Bank's exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including the Bank or any of its associates), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Bank, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Provisions, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the

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Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of Banxico.

The Bank gaps at different terms are detailed below:

<b><i>Millions of Mexican pesos</i></b>	<b><i>At sight</i></b>	<b><i>30 days</i></b>	<b><i>6 months</i></b>	<b><i>1 year</i></b>	<b><i>More than 1 year</i></b>	<b><i>No expiration date</i></b>	<b><i>Total</i></b>
Cash and cash equivalents	\$ 238,511	4,558	11,408	5,580	18,685	40,230	318,972
Loan portfolio	-	75,066	197,356	106,040	746,151	12,372	1,136,985
Securities portfolio	-	103	60,844	14,312	337,719	-	412,978
Total assets	\$ 238,511	79,727	269,608	125,932	1,102,555	52,602	1,868,935
	=====	=====	=====	=====	=====	=====	=====
Deposits	\$ -	154,320	63,747	3,899	53	864,707	1,086,726
Debt securities issued and subordinated debt	-	3,207	22,149	20,003	163,879	-	209,438
Creditors on repurchase/resale agreements	-	204,457	284	-	-	-	204,741
Other, net	-	-	-	-	-	368,029	368,029
Total liabilities	\$ -	361,984	81,180	24,102	163,932	1,232,736	1,868,934
	=====	=====	=====	=====	=====	=====	=====
Off-balance-sheet	\$ -	(1,311)	671	2,257	922	-	2,539
Liquidity gaps	238,511	(238,567)	184,098	104,087	939,544	(1,180,134)	2,539
Accumulated gaps	238,511	(45,056)	139,042	243,129	1,182,673	2,539	-
	=====	=====	=====	=====	=====	=====	=====

\* *The figures in the preceding table only consider the Group individually, not on a consolidated basis.*

*Embedded derivatives*

Pursuant to the Bank's programs for issuance of structured bank bonds, the Group holds foreign currency, indexes and interest rates options, equivalent to a nominal of \$33,902. Likewise, the entity has interest rates and foreign currency swaps with a nominal of \$38,356 and forwards of \$0.

**Qualitative information**

- I. The liquidity risk is handled in the Bank by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

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The handling of liquidity risk in the Bank is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- Setting of general policies, fundamental metrics and limits. The risk liquidity policies are approved by the Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.
- Risk identification, measurement and control. Risks identifies, measures and establishes measurements to control liquidity risk to which the Bank is subject through the setting, follow-up and reporting of a limits scheme.
- Management of investing and deposits activity. This is performed by the business areas in accordance with the risks policy.
- Liquidity management and financing. This is performed by Finance, specifically in the Financial Management area.
- Generation of follow-up information. As much as possible, the Systems and Finance areas of the Bank supply the relevant information for purposes of liquidity risk. At the same time, Risks promotes the ongoing improvement of information quality to ensure a correct decision making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, internal audit and the areas which handle risk, even more frequently in times of crisis.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board, and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

- a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized.

Every year the Bank prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.



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b) Liquidity risk mitigation techniques used

The Bank liquidity risk model, based on the principles quoted in subsection (a) of this Section, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Bank is based on the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale customers. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

In the event of liquidity risk limit or alert triggering, there are specific action and communication procedures within the Group established with a clear definition of roles for the different areas and decision-making bodies, differentiating the communication level based on whether a limit or alert was triggered. Likewise, there is a Liquidity Contingency Plan, which in the event of activation has a stock of actions classified by their typology based on whether they are related or not to the Mexican central bank, the wholesale market or the commercial activity.

c) Use of stress tests.

Liquidity risk stress tests are carried out in different stress scenarios, evaluating in each one the buffer coverage state of available liquidity with the liquidity needs of the scenario in question under different temporary horizons and delimiting the survival horizon under different situations. The results of these tests are integral part of the Liquidity Contingency Plan, as they are part of its activation program.

Description of contingent financing plans.

The Liquidity Contingency Plan or Contingency Financing Plan is set up as a fundamental element of liquidity risk management in moments of liquidity stress.

It contains clear procedures to make decision making easier, as well as to enable a fast adoption of contingent measures and effective communication, specifying functions and responsibilities in these situations, as well as the authority to activate it. It is defined based on four principles: coordination among the involved units, efficient level of information, confidentiality of performances and information and enforceability. It is sanctioned by the Group's Board of Directors, with the prior favorable opinion of its delegated Risk Committee; the proposal of the Liquidity Contingency Plan to the Board of Directors and its subsequent amendments are made by the Bank's Chief Executive Officer. Its activation would be carried out by the Asset/Liability Committee, under a traffic light approach for the plan indicators, which allows to distinguish severity of the situation.

Also, the Group has a Contingency Plan or Recovery Plan that provides for potential actions to be performed with the purpose of restoring its financial situation in different adverse scenarios that could affect solvency and/or liquidity. This plan describes the bank situation detailing key business lines, recovery indicators, corporate governance for its preparation, as well as in the case of occurrence of adverse scenarios and the process to implement recovery measures.

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Likewise, this plan is approved by the Board of Directors.

- **Liquidity Coverage Ratio (LCR)**

The Liquidity Coverage Ratio quantifies the potential capacity of the Group to face liquidity needs at 30 days, with available liquid assets, under a stress scenario.

According to the information disclosure requirements set forth in Exhibit 5 of the General Provisions on Liquidity Requirements for Banking Entities, below, there is a Liquidity Coverage Ratio Disclosure Form for the fourth quarter of 2018.

<b><u>Liquidity Coverage Ratio</u></b>	<b><u>Unweighted amount</u></b>	<b><u>Weighted amount</u></b>
<b>Computable liquid assets</b>		
Total computable liquid assets	\$ -	291,665
	=====	=====
<b>Cash outflows</b>		
Stable financing	\$ 490,167	24,508
Less stable financing	<u>107,921</u>	<u>10,792</u>
Non-guaranteed retail financing	\$ <u>598,088</u>	<u>35,300</u>
Operational deposits	117,495	26,774
Non-operational deposits	295,908	123,621
Non-guaranteed debt	<u>3,519</u>	<u>3,519</u>
Non-guaranteed wholesale financing	\$ <u>416,922</u>	<u>153,914</u>
Guaranteed wholesale financing	212,132	857
Outflows related to derivative financial instruments	28,611	21,209
Facilities and liquidity	506,835	30,467
Additional requirements	535,446	51,676
Other contractual financing obligations	97,895	16,366
Total cash outflows	-	258,113
	=====	=====
<b>Cash inflows</b>		
Cash inflows from guaranteed transactions	\$ 21,673	-
Cash inflows from non-guaranteed transactions	89,685	53,723
Other cash inflows	<u>4,581</u>	<u>4,581</u>
Total cash inflows	\$ 115,939	58,304
	=====	=====
Total computable liquid assets	\$ -	291,665
Total net cash outflows	-	199,809
Liquidity Coverage Ratio	-	145.90%
	=====	=====

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- a) Calendar days provided for in the quarter that is disclosed.

The reported quarter includes 92 calendar days.

- b) Main causes of the results of Liquidity Coverage Ratio and the evolution of their main components.

During the quarter, the LCR improves due to an increase in the client attraction, mainly retailers, improving the composition with a more stable fund, being greater than that of credit activity.

Fund attraction growth allowed to keep more liquid assets, which are mostly of high quality (government debt and deposits in central banks).

<b>Description</b>	<b>4Q-17</b>	<b>1Q-18</b>	<b>2Q-18</b>	<b>3Q-18</b>	<b>4Q-18</b>
Liquid assets	\$ 299,196	294,502	276,727	263,438	291,665
Outlays	\$ 214,366	199,893	204,162	195,884	199,809
	=====	=====	=====	=====	=====
LCR	139.58%	147.55%	135.88%	134.42%	145.9%
	=====	=====	=====	=====	=====

- c) Changes of the main components in the reported quarter.

<b>Description</b>	<b>3Q-18</b>	<b>4Q-18</b>	<b>Variance</b>
Liquid assets	\$ 263,438	291,665	28,227
Outlays	249,785	258,113	8,328
Receipts	53,901	58,304	4,403
Net outputs	195,884	199,809	3,925
	=====	=====	=====
LCR	134.42%	145.9%	11.48%
	=====	=====	=====

- d) Evolution of the composition of Eligible and Computable Liquid Assets

<b>Computable Liquid Assets</b>	<b>3Q-18</b>	<b>4Q-18</b>	<b>Variance</b>
N1 Cash	\$ 137,358	125,737	(11,621)
N1 Securities	107,985	151,147	43,162
N2 A	14,439	11,698	(2,741)
N2 B	<u>3,656</u>	<u>3,083</u>	<u>(573)</u>
Total	\$ 263,438	291,665	28,227
	=====	=====	=====

\* Weighted amounts based on the LCR discount factor.

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e) Concentration of financing sources

One of the great strengths of the Bank is the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of both retail and wholesale customers. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets. The following table shows the Group's funding structure.

<b><u>Sources of financing (December 2018)</u></b>	<b><u>% of total liabilities</u></b>
Customers' deposits	72%
Collateralized financing	13%
Securities	6%
Subordinate obligations	7%
Money market	1%
Interbank	<u>1%</u>
Total	100%
	=====

f) Exposures in financial derivatives and possible margin calls.

Exposure, according to current local exposure guidelines in derivatives for the Liquidity Coverage Coefficient referenced to the net disbursements expected for the next 30 days, plus a contingent disbursement for transactions involving derivative financial instruments (LBA: lookback approach), is detailed below:

<b><u>Description</u></b>	<b><u>4Q-18</u></b>
Net outlay of derivatives to 30 days plus contingent outlay (LBA)	\$ 16,914
	=====

g) Mismatch of foreign currencies

Liquidity risk associated to transactions in foreign currency is covered according to the provisions on the liquidity coefficient in foreign currency, established by the Mexican central bank. Also, risk associated to exchange rate is duly funded and managed within the regulatory limits.

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- h) Degree of centralization of liquidity management and interaction between the group's units

The responsibility for handling liquidity is concentrated in the Financial Management unit, which reports directly to the General Director of Finance and is independent from the business units. It maintains a direct interaction with the business areas, defining strategies for how to use and attract liquidity. The strategies are applied within the risk limits approved by the Board of Directors and the Board's delegated Risk Committee, and are agreed upon in the Assets and Liabilities Committee, the executive body responsible for handling capital and the structural risks of the balance sheet with regard to interest rates, exchange rates and liquidity.

- i) Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Bank considers relevant for its liquidity profile.

The Bank considers that all relevant flows are covered in the LCR metric, for which reason there are no additional flows to be considered.

#### Operational Risk

The measurement and control of operational risk is the responsibility of a separate operational risk unit which manages market risk and credit risk, as well as audit units and compliance.

Aware of the importance of considering all aspects associated with operating risk, the bank has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms, without overlooking the objectivity of the systems utilized for this purpose.

Operational risk is defined as such credit or market risk not subject to characterization which is originated in the probability of human errors, inadequate or defective internal processes, failures in the systems, as well as external events that could represent a loss for the Bank, which are grouped in the following risk classes: process errors, internal and external fraud, technological failures, human resources, commercial practices, disasters and losses caused by suppliers. This definition includes legal risk and excludes both the strategic and/or business risk, and the reputational risk.

The Internal Comptroller's Office is responsible for the operational risk measurement and control; such office is independent from the market risk and credit risk units, as well as from the audit and regulatory compliance units.

The Bank has established robust internal processes for detection and grouping of the operational risk events that allow us to be timely aware of their materialization. Losses arising from the operational risk recorded in 2018 were of \$1,130 million, mainly due to fraud or operational errors.

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The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Bank's processes through a continuous improvement circuit:

- Identification. Consists of determining which risk factors (circumstances which can become operational risk events) reside in the processes of each business/support unit. This is the most important part of the cycle because it determines the existence of all other parts.
- Quantification. The cost that can be generated by a risk factor is quantified by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.
- Mitigation. After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or modifying the processes which reduce the frequency or impact of an event. Mitigation decisions are made by the Operational Risk Committee created by each business/support unit.
- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operational risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operational risk indicators, while also analyzing the evolution of operational risk losses recorded in a database.

In the specific case of technological risks, aside from the general operational risk methodology, a technological Risk Committee has also been created to ensure that identified risks and mitigation plans are standardized throughout the Bank and are compliant with logical security, business continuity, data processing efficiency and technological evolution standards. Likewise, this Committee ensures the adequate management of the technological infrastructure of the Bank.

Operational risk management is integrated into the Bank's comprehensive risk management structure, based on an internal control structured methodology. This methodology allows risk identification in the organization areas, the generation of analyses prioritizing the risks according to an estimated residual (after incorporating the effect of controls), linkage of risks to the processes and establishment of a target level for each risk which, in comparison to their residual risk, identifies weaknesses that must be managed until their mitigation.

The framework of operational risk management defined by the Bank includes a governance structure based on three lines of defense with: clear demarcation of the responsibilities, policies and procedures common to the entire Bank, systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital.

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- Framework of operational risk management: Three lines of defense
- Business units-  
  
They manage the operational risk of their respective areas, coordinated by the GRO Business in the areas, and by the process owners and controls
- Internal Controllershship, GRO Paris and Internal Control Specialists  
  
The Internal Controllershship function and GRO Country (Operational Risk Management Country) are responsible for designing, maintaining and updating the framework of operational risk and Internal Control in the Bank and confirming that it is correctly applied in the field of the business and support areas.
- They define procedures, systems and tools.
- Reporting to Senior Management.  
  
The Internal Control Specialists assess the effectiveness of the documented controls and assure the permanent updating of the internal control system, in adherence to the Internal Control objectives and guidelines defined by the Controllershship and authorized by the Board of Directors at the behest of the Audit Committee.
- Internal Audit:  
  
The Internal Audit area is responsible for verifying compliance of the Institution's operational risk management, evaluating the performance of the first and second defense line, through independent revisions and tests to controls, processes and systems.

Operational risk management at the Bank is designed at the internal Comptroller's Office, aligned with the Institution's corporate criteria. Business or support areas have, in turn, Internal Control officers (ICOs) who functionally report the Comptroller's Office, and who are responsible for implementing the model daily at the business areas. Thus, the Bank has a vision in the front of the process, where they identify and characterize operational risk and make decisions on mitigation.

To carry out this task, the Bank has tools in place to cover the qualitative and quantitative aspects of operational risk:

*Operational Risk Management Tool* - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Operational Risk Management Committees of the business and support units, and on the delegated Risk Committees of the Board of Directors held during the year.

*Indicators fixed in the principal operational risks and their controls:* The indicators help measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the Internal Control Specialists.

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SIRO Tool - Operational risk events almost always have a negative impact on the accounts of the Bank. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

**Capitalization for operational risk**

Based on the changes to the Provisions published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Bank requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor "m", which will be 0.035.

The factors to be used by business line are as follows:

<b><u>Business lines</u></b>	<b><u>% Applicable to each business line</u></b>
Corporate finance	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, which must be grouped into three periods of 12 months to determine the annual net revenues.

Monthly average of the losses arising from the operational risk recorded in the fourth quarter of 2018 were of \$107, mainly due to fraud or operational errors.



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**(35) Financial indicators (unaudited)-**

As of December 31, 2018 and 2017, according to article 182 of the Provisions, the Group's financial indicators are as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Delinquency ratio	2.3%	2.10%
Hedge ratio of portfolio of non-performing loans	129.70%	139.18%
Operating efficiency	2.80%	2.85%
ROE (Return on Equity)	22.90%	22.82%
ROA (Return on Assets)	2.14%	2.10%
Capitalization ratio credit and market risk	15.27%	14.30%
Basic capital 1 on credit, market and operational risk	12.44%	12.23%
Liquidity	84.5%	81.95%
Net adjusted interest margin (MIN) /Average Productive Assets	4.81%	4.66%

**(36) Ratings-**

At December 31, 2018, the ratings assigned to main subsidiaries of the Group are as follows:

<b><u>Ratings Agency</u></b>	<b><u>Global Scale ME</u></b>		<b><u>National Scale</u></b>		
	<b><u>Long Term</u></b>	<b><u>Short Term</u></b>	<b><u>Long Term</u></b>	<b><u>Short term</u></b>	<b><u>Perspective</u></b>
<i>The Bank</i>					
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Stable
Moody's	A3	P-2	Aaa.mx	MX-1	Stable
Fitch	A-	F1	AAA (mex)	F1+ (mex)	Negative
<i>Broker dealer</i>					
BBVA Bancomer	Baa2	P-2	Aa2.mx	MX-1	Stable
Moody's	N/A	N/A	AAA( mex)	F1+(mex)	Stable
Fitch					
<i>Seguros BBVA</i>					
Bancomer	N/A	N/A	AAA(mex)	N/A	Stable
Fitch					
<i>Pensiones BBVA</i>					
Bancomer	N/A	N/A	AAA(mex)	N/A	Stable
Fitch					
<i>Seguros Salud</i>					
Fitch	N/A	N/A	AAA(mex)	N/A	Stable

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**(37) Commitments and contingent liabilities-**

**(a) Leases-**

The Bank rents buildings and premises occupied by some retail branches, according to lease agreements with different terms. For years ended at December 31, 2018 and 2017, the total expense for leases amounted to \$5,286 and \$4,991, respectively and is included in the heading "Administrative and promotion expenses" in the consolidated statement of income.

**(b) Contingencies-**

At December 31, 2018 and 2017, there are claims against the Group in ordinary civil and commercial actions, as well as assessments by the tax authorities; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Group's financial condition. For such purposes, at December 31, 2018 and 2017, the Group has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of \$469 and \$401, respectively.

	<b>Beginning balance <u>2017</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	401	326	(258)	469

	<b>Beginning balance <u>2016</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2017</u></b>
\$	311	279	(189)	401

At December 31, 2018 and 2017, there are claims against the Group in labor actions; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Group's financial condition. For such purposes, at December 31, 2018 and 2017, the Group has weighted the impacts of each claim and has recorded a reserve for these labor matters of \$719 and \$428, respectively, are as follows:

	<b>Beginning balance <u>2017</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	428	383	(92)	719

	<b>Beginning balance <u>2016</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2017</u></b>
\$	281	228	(81)	428

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**(38) Regulatory pronouncements recently issued-**

**a) *Accounting Criteria***

On December 27, 2017, the Commission announced, through the Official Gazette of the Federation (DOF for its Spanish acronym), in the Fourth Transitory article of the 105 amendment resolution, the incorporation to the accounting criterion A-2 "Application of Particular Rules" of Annex 5 of the Provisions and the Financial Reporting Standards (NIF) mentioned below issued by the Mexican Council of Financial Information Standards, AC (CINIF), and that its application and entry into force for credit institutions It was planned from the 1st January 15, 2019, however, on November 15, 2018, the Commission announced, through the DOF, the amendment to the Fourth Transitory article contained in the aforementioned amending resolution where the term for application and entry is extended in force of mentioned NIF from the 1st. January 2020:

***NIF B-17 "Fair value measurement"*** - Defines fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. It is mentioned that fair value is a determination based on the market and not on a specific value of an asset or a liability and that when determining fair value, the entity must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date, including assumptions about the risk. As a result, the entity's intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

In the event that the provisions contained in this NIF cause changes in the valuation or disclosure of any element of the financial statements, the Group must comply with the regulatory provisions of each NIF in particular that corresponds prospectively.

***NIF C-3 "Accounts receivable"*** - The main characteristics issued for this NIF, are shown below:

- It cancels Bulletin C-3 "Accounts receivable".
- Specifies that accounts receivable that are based on a contract represent a financial instrument, while some of the other accounts receivable generated by a legal or fiscal provision may have certain characteristics of a financial instrument, such as generating interest, but they are not financial instruments in themselves.
- It establishes that the allowance for uncollectibility for trade accounts receivable is recognized from the moment in which the income accrues, based on the expected credit losses.
- It establishes that, since the initial recognition, the value of money over time should be considered, so if the effect of the present value of the account receivable is important in consideration of its term, it should be adjusted based on said present value. The effect of the present value is material when the collection of the account receivable is agreed, totally or partially, for a term greater than one year, since in these cases there is a financing operation.

The accounting changes that arise should be recognized retrospectively, however, the valuation effects can be recognized prospectively.

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**NIF C-9 "Provisions, contingencies and commitments"** - It cancels Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", its scope is reduced by relocating the topic related to the accounting treatment of financial liabilities in the NIF C-19 "Financial instruments payable" and the definition of liability is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable". The application for the first time of this NIF will not generate accounting changes in the financial statements.

**NIF C-16 "Impairment of financial instruments receivable"** - It states that in order to determine the recognition of the expected loss of financial instruments receivable, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows should be considered.

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that a part of the future cash flows of the financial instruments receivable will not be recovered. The accounting changes that arise should be recognized retrospectively.

**NIF C-19 "Financial instruments payable" -**

The main characteristics issued for this NIF, are shown below:

- It is established the possibility of valuing certain financial liabilities at their fair value, once certain conditions are met, subsequent to their initial recognition.
- Value long-term liabilities at their present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to settle the same, the costs and commissions paid in this process will affect the amount of the liability and be amortized over a modified effective interest rate, instead of affecting directly the net profit or loss.
- It incorporates the provisions of IFRIC 19 "Extinction of Financial Liabilities", a topic that was not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the statement of comprehensive income.
- Introduces the concepts of amortized cost to value the financial liabilities and the effective interest method, based on the effective interest rate.

The accounting changes that arise should be recognized retrospectively.

**NIF C-20 "Financial instruments to collect principal and interest"** - The main characteristics issued for this NIF, are shown below:

The way to classify the financial instruments in assets is modified, since the concept of intention of acquisition and possession of these is discarded to determine their classification, instead the concept of business model of the administration is adopted.

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- This classification groups financial instruments whose objective is to collect the contractual cash flows and obtain a gain for the contractual interest they generate, having a loan characteristic.
- They include financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

The accounting changes that arise should be recognized retrospectively.

**NIF D-1 "Revenue from contracts with customers"** - The main characteristics issued for this NIF are shown below:

- The transfer of control, basis for the opportunity of revenue recognition.
- The identification of the obligations to fulfill in a contract.
- The allocation of the transaction price between the obligations to be fulfilled based on the independent sale prices.
- The introduction of the concept of conditioned account receivable.
- The recognition of collection rights.
- The valuation of income.

The initial application date is the beginning of the period in which the Group applied this rule for the first time.

**NIF D-2 "Revenue from contracts with customers"** - The main change in this standard is the separation of the regulations regarding the recognition of revenues from contracts with customers of the regulations corresponding to the recognition of costs for contracts with customers.

The initial application date is the beginning of the period in which the Group applies this rule for the first time.

**NIF D-5 "Leases"** - It comes into force for the exercises that start from the 1st. January 2019. Early application is permitted for those who use NIF D-1 "Revenue from contracts with customers" and NIF D-2 "Costs from contracts with customers", before the date of initial application of this NIF. Disregards Bulletin D-5 "Leases". The application for the first time of this NIF generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are the following:

- Eliminates the classification of leases as operative or capitalizable for a lessee, and the latter must recognize a lease liability to the present value of the payments and an asset for the right of use for that same amount, of all the leases with a duration greater than 12 months, unless the underlying asset is of low value.
- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.
- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flows from the financing activities.

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- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.
- the accounting recognition by the lessor does not change in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

**b) *Improvements to NIF 2019***

In December 2018 the CINIF issued the document called "Improvements to NIF 2019", which contains specific amendments to some existing NIFs. The improvements made to the NIFs do not generate accounting changes in the annual financial statements.

The Management of the Group is performing an evaluation process to determine the effects of adopting the accounting criteria and the new NIFs and the improvements to NIF in financial statements.

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