

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

Financial Statements for the
Years Ended December 31,
2017, 2016 and 2015, and
Independent Auditors'
Report Dated February 26,
2018



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

**Independent Auditors' Report and Financial
Statements for 2017, 2016 and 2015**

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

Opinion

We have audited the financial statements of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and Subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2017, 2016 and 2015, and the related consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Institution were prepared in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission of Mexico (the "Commission") in the "General Provisions Applicable to Credit Institutions" (the "Accounting Criteria").

Basis for opinion

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

Other matter

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

a) Processing of accounting-financial information

The processing of the accounting-financial information is a key audit matter due to the fact that there are significant manual processes. However, in order to assure the completeness, accuracy, cutoff and presentation of the financial information, management has implemented several manual and/or semiautomatic controls.

Our audit procedures addressing this key audit matter included the following:

1. Obtain an understanding the manual processes applied by management for the processing of the accounting-financial information.
2. We identified the controls implemented by management to assure the completeness, accuracy, cutoff and presentation of the financial information as well as evaluated the design, implementation and operating effectiveness.
3. In particular, we reviewed management's controls related to the authorization and recording of journal entries.
4. In order to increase our level of assurance, for the areas where we identify a major vulnerability about accounting recognition, we carry out detail-level substantial review procedures.
5. Based on the risk assessment, we carry out substantive tests on the manual journal entries recorded by the management.
6. We reviewed the operating reconciliation between the accounting and operating systems prepared by the management at the end of the year do not have significant differences and / or that they are reasonable and that they are adequately supported and explained by management.

We did not identify any exceptions in our tests of controls and substantive tests.

b) Management of securities transactions

The process in place for managing the investment in securities is a key audit matter because a significant part of the management processes are performed manually. Management has implemented several of manual and/or semiautomatic controls in order to assure the completeness, accuracy, cutoff and presentation of the financial information. The main processes affected are the valuation of investments securities, the interest calculation for the securities transactions and repurchase agreements, and the determination of the gain or loss on the sales of securities. The financial statement items that are directly related to such processes are: a) investment in securities, b) receivables from repurchase agreements, c) payables from repurchase agreements, d) collateral delivered and received in repurchase agreements and collateral sold or pledged in repurchase agreements, e) valuation of securities transactions, f) interest receivable on securities transactions, g) interest receivable on repurchase agreements, h) result from sales transactions involving securities and repurchase agreements.

The Institution's accounting policies are established in Note 3 of the financial statements.



Our audit procedures addressing this key audit matter included the following:

1. To ascertain the flow of operations from origination until its recording in the accounting records, we inquired with the personnel involved in each of the processes through which the operations pass and obtained evidence of the flow of the transactions.
2. We identified the manual procedures in the determination and recording of the valuation, interest and the gain or loss on sale.
3. For the key controls implemented by management in each stage of the investment in securities operation, we carry out an evaluation of its design, implementation and operating effectiveness.
4. We validated that the security position in the accountant records matched with the position reported in the operating system and that it was reconciled with the depositary institution Indeval, S.A. (Indeval) as of December 31, 2017.
5. We recalculated the investment in securities valuation validated in the preceding point using the market price reported by the price supplier Valuación Operativa y Referencias del Mercado, S.A. de C.V. (Valmer) as of December 31, 2017.
6. We checked that the collateral delivered and received in repurchase agreements presented in the financial statement matched with the information in the operating system as of December 31, 2017. Also, we confirmed that securities delivered as collateral were restricted within investments in securities.
7. We validated that as of December 31, 2017, receivables and payables from repurchase agreements recorded in the accounting records matched the purchases and sales from repurchase agreements in the operating system. On a test basis, we reviewed the settlement on the date of maturity.
8. On a test basis, we recalculated the interest that was accrued in securities transactions and repurchase agreements maintained by the Institution during the month.
9. On a test basis, we validated that the result from sales transactions involving securities matched with the differential between cash flow received less the sum of the cost and its accrued interest.
10. The detailed procedures performed for each type of revenue are illustrated below:

Interest income -

- i. For interest on securities transactions and repurchase agreements, on a test basis, we noted that the information provided matches that recorded in books on an accrual basis.

Based on a selection of days, we recalculated the interest on securities transactions and repurchase agreements and compared it with that determined and recorded in the same period by management.

Income from valuation -

- ii. We recalculated the valuation of the securities position based on the market price reported by the price supplier Valmer as of December 31, 2017.

Income from gains on sale -

- iii. On a test basis, we noted that the result on sales transactions involving securities and repurchase agreements matched with the differential between cash flow received less the sum of the cost and its accrued interest.

We did not identify any exceptions in our tests of controls and substantive tests.



c) Corporate restructuring of the international business segment

As discussed in Note 1, on December 13, 2017, a Stockholders' Special Meeting formalized the divestment of the international business segment in which the Institution participated through its subsidiary Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios). The purpose of the divestment was to reduce or mitigate the Institution's risk outside Mexico and simplify the management of its operations.

The divestment was performed by breaking up the Institution, in which it acted as the spinnor company while a new company was created named MBA Escindida, S.A. de C.V. (MBA E) as the spinee company. Pursuant to this breakup, the Institution contributed to MBA E its participation in the stockholders' equity and the net assets of Monex Negocios.

We consider the divestment of the international segment as a key audit matter because it is an unusual transaction for management and was subject to the approval by different government agencies.

Our procedures to cover this key audit matter included:

1. Review the official notice No. 312-3/17016/2017 issued by the Comission on November 27, 2017 authorizing the Institution to divest its international segment as described above.
2. Review official notice UBVA/DGABV/887/2017 issued by the Mexican Tax Administration Service (SAT) on November 5, 2017, issued by the Mexican Tax Administration Service (SAT) authorizing the Institution to divest its international segment as described above and permitting the Institution to not treat such reorganization as a sale of shares. On July 6, 2017, official notice 09-08-Q3 2017-34 issued by the General Administration of Large Taxpayers of the SAT, authorized the sale to MNI Holding (spinoff company) of the shares of Monex Europe Limited and Tempus Consulting, Inc. at their tax cost, for which reason the breakup transaction did not generate a taxable gain for the payment of tax.
3. Verify that as of December 1, 2017, the Institution ceased consolidating in its financial statements the financial position of Monex Negocios Internacionales, S.A. de C.V. and its subsidiaries (Monex Negocios).
4. Review that in accordance with Financial Reporting Standard NIF C-15 "Impairment in the value of long-lived assets and their disposal" (NIFC-15), the Institution presents in its statement of income the revenues and expenses generated by Monex Negocios as a discontinued operation.

We did not identify any exceptions in our tests of controls and substantive tests.

Responsibilities of Management and Those Charged with Governance of the Institution in Relation to the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Institution'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 Institution or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 ISA's, 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 override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution'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 Institution'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 Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Institution to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated 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 the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



C.P.A. Jorge Adrián Ramírez Soriano
Mexico City, Mexico

February 26, 2018



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

Balance Sheets

As of December 2017, 2016 and 2015
(In millions of Mexican pesos)

Assets	2017	2016	2015
Funds available	\$ 16,390	\$ 15,825	\$ 15,607
Margin accounts	333	722	379
Investment in securities:			
Trading securities	28,964	21,377	16,804
Securities available for sale	1,631	4,326	1,503
Securities held to maturity	<u>2,595</u>	<u>73</u>	<u>-</u>
	33,190	25,776	18,307
Repurchase agreements	1,296	8,767	3,728
Derivatives:			
Trading purposes	2,393	3,813	1,400
Hedging purposes	<u>133</u>	<u>143</u>	<u>-</u>
	2,526	3,956	1,400
Performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	16,704	15,877	10,898
Loans to financial entities	2,806	2,155	1,456
Loans to government entities	<u>1,001</u>	<u>-</u>	<u>-</u>
	20,511	18,032	12,354
Housing loans -			
Loans acquired from INFONAVIT	626	180	9
Total performing loan portfolio	<u>21,137</u>	<u>18,212</u>	<u>12,363</u>
Non-performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	196	67	96
Housing loans -			
Loans acquired from INFONAVIT	<u>4</u>	<u>6</u>	<u>12</u>
Total non-performing portfolio	<u>200</u>	<u>73</u>	<u>108</u>
Total loan portfolio	<u>21,337</u>	<u>18,285</u>	<u>12,471</u>
Allowance for loan losses	<u>(356)</u>	<u>(298)</u>	<u>(176)</u>
Loan portfolio (net)	20,981	17,987	12,295
Other receivables (net)	17,378	17,227	13,580
Foreclosed assets (net)	-	1	1
Furniture and fixtures (net)	84	94	83
Investments in shares of associates	7	5	5
Deferred taxes and profit sharing (asset)	464	615	224
Other assets:			
Goodwill	-	1,103	986
Deferred charges, advance payments and intangibles (net)	<u>471</u>	<u>1,465</u>	<u>1,213</u>
Short and long-term other assets	<u>5</u>	<u>12</u>	<u>11</u>
	<u>476</u>	<u>2,580</u>	<u>2,210</u>
Total assets	\$ <u>93,125</u>	\$ <u>93,555</u>	\$ <u>67,819</u>

Liabilities

	2017	2016	2015
Deposits:			
Demand deposits	\$ 18,946	\$ 15,384	\$ 8,495
Time deposits-			
General public	18,816	10,733	4,984
Money market	1,795	434	4,182
Debt securities	1,332	1,440	1,084
Global account for inactive deposits	<u>3</u>	<u>3</u>	<u>3</u>
	40,892	27,994	18,748
Bank and other loans:			
Demand loans	-	344	-
Short-term loans	<u>1,085</u>	<u>1,078</u>	<u>880</u>
	1,085	1,422	880
Liabilities arising from sale and repurchase agreements	17,500	21,754	15,577
Collateral sold or pledged in guarantee:			
Repurchase agreements	-	436	440
Derivatives:			
Trading purposes	2,194	2,682	1,055
Hedging purposes	<u>23</u>	<u>9</u>	<u>-</u>
	2,217	2,691	1,055
Other payables:			
Income taxes payable	-	193	134
Employee profit sharing payable	205	187	89
Obligations arising from settlement of transactions	22,528	25,746	20,982
Liabilities arising from cash collateral received	1,619	2,815	1,550
Sundry creditors and other payables	<u>1,275</u>	<u>2,244</u>	<u>1,443</u>
	25,627	31,185	24,198
Deferred taxes and profit sharing (liability)	-	135	112
Deferred charges and income received in advance	<u>142</u>	<u>189</u>	<u>112</u>
Total liabilities	87,463	85,806	61,122
Stockholders' equity			
Capital contributed:			
Capital stock	2,741	2,741	2,125
Additional paid-in capital	<u>500</u>	<u>-</u>	<u>616</u>
	3,241	2,741	2,741
Earned capital:			
Capital reserves	561	469	413
Retained earnings	1,011	2,041	1,691
Result from valuation of securities available for sale, net	(83)	(170)	(13)
Result from hedging instruments at fair value	99	130	-
Translation effects of foreign subsidiaries	-	525	354
Remeasurement of defined employee benefits	(54)	(23)	-
Net income attributable to controlling interest	<u>887</u>	<u>931</u>	<u>562</u>
Earned capital attributable to controlling interest	2,421	3,903	3,007
Non-controlling interest	-	1,105	949
Total stockholders' equity	<u>5,662</u>	<u>7,749</u>	<u>6,697</u>
Total liabilities and stockholders' equity	\$ <u>93,125</u>	\$ <u>93,555</u>	\$ <u>67,819</u>



Memorandum accounts (See Note 27)

	2017	2016	2015
Loan commitments	\$ 10,045	\$ 10,471	\$ 8,361
Contingent assets and liabilities	82	81	-
Goods in trust or mandate -			
Held in trusts	115,795	88,933	78,600
Collateral received by the Institution -			
Government debt	1,100	10,229	5,787
Banking debt	227	1,430	521
Other debt securities	1,210	872	1,353
Collateral received and sold or pledged as guarantee by the Institution -			
Government debt	1,004	2,615	2,501
Banking debt	7	1,079	521
Other debt securities	234	599	1,353
Uncollected interest earned on non-performing loan portfolio	38	19	6
Other record accounts	<u>139,903</u>	<u>3,660</u>	<u>3,106</u>
	<u>\$ 269,645</u>	<u>\$ 119,988</u>	<u>\$ 102,109</u>

The accompanying notes are part of these financial statements.



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

Statements of Income

For the years ended December 31, 2017, 2016 and 2015

(In millions of Mexican pesos)

	2017	2016	2015
Interest income	\$ 4,644	\$ 2,334	\$ 1,370
Interest expense	<u>(3,124)</u>	<u>(1,548)</u>	<u>(757)</u>
Financial margin	1,520	786	613
Provision for loan losses	<u>(170)</u>	<u>(146)</u>	<u>(61)</u>
Financial margin after provision for loan losses	1,350	640	552
Commission and fee income	259	222	200
Commission and fee expense	(148)	(112)	(122)
Gains/losses on financial assets and liabilities (net)	2,739	3,147	2,516
Other operating income (expenses)	190	151	130
Administrative and promotional expenses	<u>(3,294)</u>	<u>(3,098)</u>	<u>(2,682)</u>
Result of operations	1,096	950	594
Equity in income of unconsolidated associates	<u>-</u>	<u>-</u>	<u>-</u>
Income before income taxes	1,096	950	594
Current income taxes	(248)	(459)	(280)
Deferred income taxes (net)	<u>(102)</u>	<u>285</u>	<u>104</u>
Result before discontinued operations	<u>746</u>	<u>776</u>	<u>418</u>
Discontinued operations	<u>274</u>	<u>300</u>	<u>252</u>
Net income	1,020	1,076	670
Non-controlling interest	<u>133</u>	<u>145</u>	<u>108</u>
Controlling interest	<u>\$ 887</u>	<u>\$ 931</u>	<u>\$ 562</u>

The accompanying notes are part of these financial statements.



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

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2017, 2016 and 2015
(In millions of Mexican pesos)

	Capital contributed		Earned capital									Total stockholders' equity
	Capital Stock	Additional paid-in capital	Capital reserves	Retained earnings	Result from valuation of securities available for sale	Translation effects of foreign subsidiaries	Net income attributable to controlling interest	Result from hedging instruments at fair value	Remeasurement of defined employee benefits	Non-controlling interest		
Balances as of December 31, 2014	\$ 1,525	\$ 200	\$ 367	\$ 1,677	\$ -	\$ 173	\$ 460	\$ -	\$ -	\$ 717	\$ 5,119	
Entries approved by stockholders -												
Capital reserve	-	-	46	(46)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	460	-	-	(460)	-	-	-	-	
Dividends paid	-	-	-	(400)	-	-	-	-	-	-	(400)	
Additional paid-in capital	-	616	-	-	-	-	-	-	-	-	616	
Subscription of shares	600	(200)	-	-	-	-	-	-	-	-	400	
Reduction of non-controlling interest in Monex Europe through capital reduction	-	-	-	-	-	-	-	-	-	(122)	(122)	
Sale of non-controlling interest in Tempus	-	-	-	-	-	-	-	-	-	121	121	
Total entries approved by stockholders	600	416	46	14	-	-	(460)	-	-	(1)	615	
Comprehensive income -												
Net income	-	-	-	-	-	-	562	-	-	109	671	
Result from valuation of securities available for sale, net	-	-	-	-	(13)	-	-	-	-	-	(13)	
Translation effects of foreign subsidiaries	-	-	-	-	-	181	-	-	-	124	305	
Total comprehensive income	-	-	-	-	(13)	181	562	-	-	233	963	
Balances as of December 31, 2015	2,125	616	413	1,691	(13)	354	562	-	-	949	6,697	
Entries approved by stockholders -												
Subscription of shares	616	(616)	-	-	-	-	-	-	-	-	-	
Capital reserve	-	-	56	(56)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	562	-	-	(562)	-	-	-	-	
Dividends paid	-	-	-	(156)	-	-	-	-	-	-	(156)	
Reduction of non-controlling interest in Monex Europe through capital reduction	-	-	-	-	-	-	-	-	-	(26)	(26)	
Total entries approved by stockholders	616	(616)	56	350	-	-	(562)	-	-	(26)	(182)	
Comprehensive income -												
Net income	-	-	-	-	-	-	931	-	-	145	1,076	
Result from valuation of securities available for sale, net	-	-	-	-	(157)	-	-	-	-	-	(157)	
Result from hedging instruments at fair value	-	-	-	-	-	-	-	130	-	-	130	
Remeasurement of defined employee benefits	-	-	-	-	-	-	-	-	(23)	-	(23)	
Translation effects of foreign subsidiaries	-	-	-	-	-	171	-	-	-	37	208	
Total comprehensive income	-	-	-	-	(157)	171	931	130	(23)	182	1,234	
Balances as of December 31, 2016	2,741	-	469	2,041	(170)	525	931	130	(23)	1,105	7,749	
Entries approved by stockholders -												
Subscription of shares	-	500	-	-	-	-	-	-	-	-	500	
Capital reserve	-	-	93	(93)	-	-	-	-	-	-	-	
Transfer of prior year results	-	-	-	931	-	-	(931)	-	-	-	-	
Dividends paid	-	-	-	(350)	-	-	-	-	-	-	(350)	
Spinoff of Monex Europe through capital reduction	-	-	(1)	(1,518)	-	(426)	-	-	-	(1,164)	(3,109)	
Total entries approved by stockholders	-	500	92	(1,030)	-	(426)	(931)	-	-	(1,164)	(2,959)	
Comprehensive income -												
Net income	-	-	-	-	-	-	887	-	-	133	1,020	
Result from valuation of securities available for sale, net	-	-	-	-	87	-	-	-	-	-	87	
Result from hedging instruments at fair value	-	-	-	-	-	-	-	(31)	-	-	(31)	
Remeasurement of defined employee benefits	-	-	-	-	-	-	-	-	(31)	-	(31)	
Translation effects of foreign subsidiaries	-	-	-	-	-	(99)	-	-	-	(74)	(173)	
Total comprehensive income	-	-	-	-	87	(99)	887	(31)	(31)	59	872	
Balances as of December 31, 2017	\$ 2,741	\$ 500	\$ 561	\$ 1,011	\$ (83)	\$ -	\$ 887	\$ 99	\$ (54)	\$ -	\$ 5,662	

The accompanying notes are part of these financial statements.



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

Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

(In millions of Mexican pesos)

	2017	2016	2015
Net income	\$ 1,020	\$ 1,076	\$ 670
Adjustment for items that do not require cash flows:			
Depreciation	32	27	25
Amortization	27	37	38
Current and deferred income taxes	350	263	270
Others	-	-	3
	<u>1,429</u>	<u>1,403</u>	<u>1,006</u>
Operating activities:			
Change in margin accounts	389	(343)	142
Change in investments in securities, net	(7,289)	(7,627)	(10,888)
Change in repurchase agreements, net	3,217	1,139	8,538
Change in derivatives, net	129	(787)	164
Change in hedging instruments	(20)	(4)	-
Change in loan portfolio, net	(2,994)	(5,692)	(4,367)
Change in other operating assets, net	(1,885)	(3,982)	(1,848)
Change in deposits	12,898	9,246	4,186
Change in bank and other loans	(337)	542	88
Change in collateral sold or pledged in guarantee	(436)	(5)	440
Change in other operating liabilities	(1,952)	6,421	911
Assets and liabilities spun-off	<u>(2,513)</u>	<u>-</u>	<u>-</u>
Net cash flows from operating activities	636	311	(1,628)
Investing activities:			
Proceeds from sale of furniture and fixtures	12	11	11
Purchase of furniture and fixtures	(57)	(50)	(32)
Proceeds from disposal of long lived assets held for sale	-	-	45
Payments for acquisition of intangible assets	<u>(2)</u>	<u>(81)</u>	<u>(22)</u>
Net cash flows from investing activities	(47)	(120)	2
Financing activities:			
Proceeds from issuance of shares	-	-	400
Dividends paid	(350)	(156)	(400)
Contributions for future capital increases	500	-	616
Proceeds from disposal of non-controlling interest in subsidiary	-	(26)	164
Net cash flows from financing activities	<u>150</u>	<u>(182)</u>	<u>780</u>
Net increase (decrease) in funds available	739	9	(846)
Effects from changes in value of funds available	(174)	209	305
Funds available at the beginning of the year	<u>15,825</u>	<u>15,607</u>	<u>16,148</u>
Funds available at the end of the year	<u>\$ 16,390</u>	<u>\$ 15,825</u>	<u>\$ 15,607</u>

The accompanying notes are part of these financial statements.



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

Notes to Financial Statements

**For the years ended December 31, 2017, 2016 and 2015
(In millions of Mexican pesos)**

1. Activities, regulatory environment and significant events

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

The Treasury Department (SHCP) issued minimum capital requirements for credit institutions, which establish a minimum capital ratio for market, credit and operational risks incurred by financial institutions. Also, financial authorities imposed limits on liabilities, demand deposits in foreign currency as well as charges to paid-in capital and capital reserves. This information is presented in Note 24. As of December 31, 2017, 2016 and 2015, the Institution determined a capital ratio of 16.14%, 15.07% and 16.62%, respectively, which includes the total of market, credit and operational risk, which exceeds the 8% required by the authorities by 8.14%, 7.07% and 8.62%, respectively.

During 2017, the financial uncertainty caused in 2016 by the change in the presidency of the United States of America was reduced and the exchange rate of the peso against the US dollar remained stable. As December 31, 2017 and 2016 the exchange rate was \$19.66 and \$20.61 pesos to one US dollar, respectively.

Significant events in 2017, 2016 and 2015-

a. Breakup of Banco Monex.

On December 13, 2017, a Stockholders' Special Meeting formalized the divestment of the international business section in which the Institution participated through its subsidiary Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios). The purpose of the divestment was to reduce or mitigate the Institution's risk outside Mexico and simplify the management of its operations.

The divestment was carried out by breaking up the Institution, in which the latter was the spinnor company and a new company was created named MBA Escindida, S.A. de C.V. (MBA E) as the spinnee company. Pursuant to the breakup, the Institution contributed to MBA E its participation in the stockholders' equity and the net assets of Monex Negocios.

As a result, the Institution includes in results for the year ended December 31, 2017, its equity in the results of MNI up to November 30, 2017.

This transaction was authorized by the Commission through official notice 312-3/17016/2017 dated November 27, 2017. Furthermore, in official notice UBVA/DGABV/887/2017 issued by the Mexican Tax Administration Service (SAT) on December 5, 2017, the latter allowed the Institution to not treat such reorganization as a sale of shares.



b. *Participation in CLS Group Holdings AG*

Through official notice 310-14444/2017 dated June 1, 2017, the Commission authorized the Institution to acquire the common stock shares of CLS Group Holdings Ag (CLS) (Switzerland). The purpose of such investment for the Institution is to participate in the largest foreign currency clearance system in the world, because CLS acts as a clearinghouse which seeks to increase liquidity and mitigate exchange rate risk for its partners. Currently CLS operates with 18 different currencies.

Based on a private share offering, the Institution undertook to acquire a total of 1,479 new shares issued at a price of £2.1 million, which will be payable on January 12, 2018.

c. *Sale of shares of Tempus -*

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

d. *Issuance of securitization certificates -*

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

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

2. **Basis of presentation**

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

Monetary unit of the financial statements - The financial statements and notes as of December 31, 2017, 2016 and 2015 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power. Cumulative inflation rates over the three-year periods ended December 31, 2017, 2016 and 2015 were 9.87%, 10.52% and 10.18%, respectively; accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying financial statements. Inflation rates for the years ended December 31, 2017, 2016 and 2015 were 6.77%, 3.36% and 2.13%, respectively.

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



Company	Percentage			Activity
	2017	2016	2015	
1. Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios)	-	99.99%	99.99%	Parent Company of Tempus and Monex Europe Holdings LTD.
1.1 Tempus, Inc. (Tempus)	-	83.00%	83.00%	Indirect subsidiary of the Institution. Entity located in Washington D.C., USA, whose purpose is the purchase and sale of currencies. Its customers are mainly located in the United States.
1.1.1 Tempus Nevada, Inc.	-	83.00%	83.00%	Entity founded in 2010 in the state of Delaware in the United States. Currently without operations.
1.1.2 Monex Canada, Inc.	-	83.00%	83.00%	Entity founded in Toronto, Canada. Currently without operations.
1.2 Monex Europe Holdings Limited (Monex Europe LTD)	-	50.10%	50.10%	Parent company of Monex Europe and Schneider Fx, entities located in the United Kingdom.
1.2.1 Monex Europe Limited (Monex Europe)	-	50.10%	50.10%	Indirect subsidiary of the Institution. Entity is dedicated to purchase and sales of currencies in the European market.
1.2.1.1 Monex Europe Markets Limited	-	50.10%	50.10%	Indirect subsidiary of the Institution. Entity is dedicated to purchase and sales of currencies in the European market.
1.2.2 Schneider Foreign Exchange Limited (Schneider FX)	-	50.10%	50.10%	Indirect subsidiary of the Institution. Entity without operations.

Significant intercompany balances and transactions have been eliminated.

With the corporate restructuring of the international business section, described in Note 1, the Institution recognized up to November 30, 2017, in results for the period, the revenues and expenses applicable to Monex Negocios and its subsidiaries.

Translation of financial statements of foreign subsidiaries - To consolidate financial statements of foreign subsidiaries as of December 31, 2016 and 2015, the accounting policies of the foreign entity were converted to accounting criteria of the Commission. As the recording and functional currency was the same, the financial statements were subsequently translated to Mexican pesos using the following methodology:

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



At December 31, 2016 and 2015, the exchange rates used in the different translation processes were as follows:

Company	Currency	Exchange rate to translate Mexican pesos		
		2017	2016	2015
Tempus, Inc. (Consolidated)	U.S. dollar	N/A	20.6194	17.2487
Monex Europe LTD. (Consolidated)	Pound sterling	N/A	25.4814	25.4366

At December 31, 2017, 2016 and 2015, the Institution's functional currency is the Mexican peso. As of December 31, 2016 and 2015, investments in foreign subsidiaries, whose functional currencies were other than the Mexican peso, which resulted in exposure to foreign currency translation risk. In addition, the Institution has monetary assets and liabilities denominated in foreign currencies, mainly in U.S. dollars, Pounds sterling and Euros, resulting in exposure to foreign exchange risks arising from transactions entered into over the normal course of business. (Refer to discussion of comprehensive risk management in Note 31 for further details).

Comprehensive result - The amount of comprehensive income presented in the statement of changes in stockholders equity is the effect of transactions other than those carried out with the shareholders of the Institution during the period and is represented by the result from the valuation of available securities for sale, the cumulative translation adjustment, result from valuation of hedging instruments, remeasurements for defined benefits to employees and the net result.

Discontinued operations - As a result of the divestment of the international business section described in Note 1, and in accordance with the Mexican Financial Reporting Standard NIF C-15 "Impairment in the value of long-lived assets and their disposal" (NIF C-15), the Institution presents the results of the discontinued operations for the period from January 1 to November 30, 2017 (restructuring date), and the results of discontinued operations for 2016 and 2016, net of ISR and PTU, under "Discontinued operations" in the statement of income.

3. Summary of significant accounting policies

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

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

Changes in accounting policies -

Modification of accounting criteria issued by the Commission

During the year 2017 the Commission made the following amendments to the Provisions:



- a. The requirements that the guarantees related to property and other similar instruments must fulfill in order to be classified by credit institutions for purposes of determining the capital requirement for credit risk and the classification of the commercial credit portfolio and consumer portfolio, include that of institutions obtaining evidence of having consulted the Sole Registry of Personal Guarantees referred to in the Code, and the Sole Registry of Certificates, Warehouses and Goods referred to in the General Law on Credit Organizations and Ancillary Activities, so as to determine whether the goods are free from liens.
- b. Clarifications were made to the definition of the term "capital" in order to determine the resources held by credit institutions to meet the credit risks they incur.
- c. Clarifications were made for the estimate of loss severity in the calculation of the allowance for loan losses in order to reduce the amount of such allowances derived from the portfolio classification of loans secured by personal collateral.
- d. The accounting criteria were adjusted for the classification of investments in securities held to maturity, extending the term during which such securities may be sold or reclassified before maturity without affecting the capacity to use such category.
- e. The requirements of isolated events which are beyond the control of credit institutions and securities firms were clarified so that when they occur and the credit institutions or brokerage houses sell or reclassify held to maturity securities, they can continue to classify them in this category.
- f. As a result of the systemic situation arising from the effects of the earthquakes of September 7 and 19, 2017, and the hurricanes "Lidia" and "Katia", the Commission, through official notice 320-1/14057/2017 dated October 17, 2017, authorized banks to temporarily apply special accounting criteria which are outlined below regarding consumer loans, housing loans and commercial loans for those customers who have their domicile or loans in which the source of payment is located in the affected zones indicated in the official notice, and which were classified for accounting purposes as performing at the date of the events in question:
 1. Those loans with a single payment of principal at maturity and periodic payments of interest, as well as loans with a single payment of principal and interest at maturity, which are renewed or restructured, will not be considered as non-performing portfolio in accordance with paragraph 79 of B-6 "Credit portfolio" (B-6) of the Provisions. In this regard, any new maturity date granted to small and medium companies must not exceed six months as of the date on which the respective loan became past-due.

The above applies provided that the loan are recorded as performing portfolio at the date of the event in accordance with paragraph 12 of Criterion B-6 and the respective renewal or restructuring procedures are concluded at the latest within 120 calendar days after the date of the incidents in question.
 2. Periodic loan payments of principal and interest subject to restructuring or renewal may be treated as current when such payments occur, and do not need to fulfill the requirements established in paragraphs 82 and 84 of Criterion B-6, as the case may be, which are as follows:
 - a) At least 80% of the original term of the loan must not have elapsed when the borrower has paid:
 1. All of the accrued interest, and
 2. The principal of the original loan amount, which was required to have been paid at the date of renewal or restructuring.



- b) During the course of the final 20% of the original loan term, when the borrower has:
1. Settled all accrued interest;
 2. Covered the entire original amount of the loan that was required to have been covered by the renewal or restructuring date, and
 3. Covered 60% of the original loan amount.
3. Loans that from the beginning are stipulated as revolving, restructured or renewed within 120 calendar days following the date of the loss, shall not be considered as non-performing loans in terms of the provisions of paragraph 80 of the Criterion B-6, said benefit may not exceed three months from the date on which they expired, with the exception of loans granted to small and medium-sized companies, whose new term shall not be greater than 6 months from the date in which it has granted.

The foregoing applies to loans that are classified as performing portfolio in accordance with the provisions of paragraph 12 of Criterion B-6 on the date of loss.

4. In relation to the loans mentioned in items 1, 2 and 3 above, these will be considered restructured in accordance with paragraph 40 of Criterion B-6.

Credit institutions must disclose the effects derived from the application of the special accounting criteria described above in the note to their annual 2017 and 2018 financial statements.

Accounting changes resulting from changes or improvements in the NIF

NIF D-3, Employee benefits – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the time value of money. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market.

As of December 31, 2017, management decided to change the discount rate used for the determination of the present value of long-term labor liabilities from market rate of government bonds to the market rate of high-quality corporate bonds. The effects generated by the change in criteria amounted to \$38, which was recognized in the results of the year.

Improvements to NIF 2017 - The following improvements do not generate accounting changes, but rather consist of clarifying the scope and definition of these NIF to clearly indicate the appropriate application and accounting treatment:

NIF C-3, Accounts receivable

Bulletin C-15, Impairment in the value of long-lived assets and their disposal.

At the date of issuance of these financial statements, the adoption of these improvements did not have a material effect on the Institution's financial information.

The significant accounting policies of the Institution are as follows:

Reclassifications - Certain amounts in the financial statements as of and for the years ended as of December 31, 2016 and 2015 have been reclassified to conform to the presentation of the 2017 financial statements.



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

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

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

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

In accordance with the Provisions, a net negative balance resulting from the offsetting balance of foreign currencies to be received with the foreign currencies to be delivered, or from any item within funds available must be presented under "Sundry creditors and other payables".

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

Security deposits are used to ensure compliance with the obligations related to the derivatives executed in recognized markets and refer to the initial margin, and subsequent contributions and withdrawals made during the term of the respective contracts. Yields and commissions that affect margin accounts, other than fluctuations in the prices of derivatives, should be recognized in the income statement for the period.

As of December 31, 2017, 2016 and 2015, the Institution held standardized and futures derivatives operations for which deposits of financial assets were recognized (cash margin calls) intended to ensure compliance with the obligations derived from the transactions performed in recognized markets so as to better mitigate the risk of default.

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

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

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

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

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



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

The accounting criteria of the Commission allow for certain reclassifications from trading securities to securities available for sale and securities held to maturity classification, conditional upon the prior express authorization of the Commission.

As of December 31, 2017, 2016 and 2015, no reclassifications were made.

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

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

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

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

The accounting criteria of the Commission allow the transfer securities from available for sale to held to maturity, with the prior express authorization of the Commission. At the time of the reclassification the valuation result relative to the transfer date will continue to be reported in stockholders' equity, and should be amortized based on the remaining life of such instrument.

During the year ended December 31, 2017, the Institution carried out reclassifications from the category of "Securities available for sale" to "Securities held to maturity", which are described in Note 6. During the years ended December 31, 2016 and 2015, no reclassifications were made.

Securities held to maturity - Securities held to maturity are those instruments whose payments are fixed or determinable and with a fixed maturity, which the Institution has both the intention and the ability to hold to maturity; these instruments are recorded initially at fair value, plus transaction costs from the acquisition (which includes, as the case may be, the discount or markup). Subsequently they are valued at amortized cost. Accrued interest is recorded in the statement of income using the imputed interest method or the effective interest method under the heading "Interest income".

The Accounting Criteria issued by the Commission allow for the transfer of securities classified as held to maturity to the category of securities available for sale, provided that there is no intention or capacity to hold them to maturity, as well as reclassifications to the category of securities held to maturity in extraordinary circumstances (for example: a lack of liquidity in the market, no active market for them, among others), which should be evaluated and, if applicable, validated with the specific authorization of the Commission.

During the years ended December 31, 2017, 2016 and 2015, no reclassifications were made.



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

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

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

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

Management has not identified objective evidence of impairment of a credit instrument held as of December 31, 2017.

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

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

The repurchase transactions are recorded as indicated below:

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

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



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

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

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

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

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

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

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

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

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

Derivative instrument transactions- The Institution has two types of transactions with derivative financial instruments:

- Hedging purposes - Its objective is to mitigate the risk of an open risk position through operations with financial derivative instruments.
- Trading purposes - Its objective is different from that of covering open risk positions by assuming risk positions as a participant in the derivatives market.



The Institution initially recognizes all of its derivatives (including those that are part of a hedging relationship) as assets or liabilities (depending on the related rights and/or obligations) in the balance sheet at fair value, which is presumed to be equal to the price agreed in the transaction.

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

Subsequently, all derivatives are valued at fair value without deducting any transactions costs incurred during the sale or any other type of disposal, recognizing the valuation effect in results for the period under "Gains/losses on financial assets and liabilities (net)", except when the derivative financial instrument forms part of a cash flow hedge relationship.

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

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

Derivatives are presented in a specific heading of assets or liabilities, depending on whether their fair value (as a result of the rights and/or obligations established) refers to a debit balance or credit balance, respectively. Such debit or credit balances may be offset as long as they comply with the respective offsetting rules.

The Institution presents this item under the caption "Derivatives" (debit or credit balance) on the balance sheet by segregating derivatives for trading purposes from derivatives for hedging purposes.

Derivatives held for trading

Forward and future contracts for trading:

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

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

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

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

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

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



Option contracts:

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

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

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

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

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

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

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

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

Swaps:

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

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

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

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

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

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

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



Hedging derivatives

Management enters into transactions with derivatives for hedging purposes using swaps.

Financial assets and liabilities which are designated and fulfill the requirements to be designated as hedged items, as well as financial derivatives which form part of a hedging relationship, are recognized in conformity with the hedge accounting provisions for the recognition of the gain or loss on the hedging instrument and of the hedged item in conformity with that established in Accounting Criterion B-5, Derivatives and hedging transactions, issued by the Commission.

A hedge relationship qualifies for designation as such when all of the following conditions are fulfilled:

- Formal designation and sufficient documentation of the hedging relationship.
- The hedge should be highly effective in achieving the offsetting of the changes in fair value or in the cash flows attributable to the risk covered.
- For cash flow hedges, the forecast transaction proposed for hedging should be very likely to occur.
- The hedge should be reliably measurable.
- The hedge should be valued continuously (at least quarterly).

All the derivatives for hedging purposes are recognized as assets or liabilities (depending on the rights and/or obligations they contain) on the balance sheet, initially at fair value, which is the price agreed in the transaction.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged and forms part of the caption "Derivatives" on the balance sheet and the interest accrued is recorded in the statement of income under the caption "Interest income" or "Interest expense".

Derivatives transactions for hedging purposes are valued at market price and the effect is recognized depending on the type of accounting hedge, as follows:

- a. Fair value hedges - Represents a hedge against exposure to changes in the fair value of recognized assets or liabilities or of firm commitments not recognized, or a portion of both, which is attributable to a specific risk and which may affect the results for the period.

The primary position of the risk hedged and the derivative hedge instrument are valued at market price, with the net effect recorded in the results of the period in the heading "Gains/losses on financial assets and liabilities (net)".

In fair value hedges, the adjustment to the book value for the valuation of the hedged item is presented in a separate caption on the balance sheet.

- b. Cash flow hedges – Represents a hedge against exposure to variations in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect the result of the period. The hedged derivative instrument is valued at market price. The effective portion of the gain or loss on the hedge instrument is recorded in the comprehensive profit and loss account as part of stockholders' equity and the ineffective portion is recorded in the results for the year as part of the "Gain/loss on financial assets and liabilities".

The effective hedge component recognized in stockholders' equity associated with the hedged item, is adjusted to equal the lower (in absolute terms) of the accumulated gain or loss on the financial hedge derivative since its inception, and the accumulated change in the present value of the future cash flows expected from the hedged item since the inception of the hedge.

Any residual gain or loss on the hedge instrument is recognized in the results for the period.



The Institution suspends hedge accounting when the derivative has matured, when is canceled or exercised, when the derivative is not sufficiently effective to offset the changes in the fair value or cash flows from the hedged item, when it is established that the forecast transaction will not occur, or when it is decided that the hedged designation will be canceled.

When fair value hedge accounting is no longer applied prospectively, any adjustment to the book value for the valuation of the hedged item attributable to the hedged risk, is amortized in the results for the period. The amortization is performed by the straight-line method over the remaining life of the item originally hedged.

When a cash flow hedge accounting is suspended, the accumulated gain or loss related to the effective portion of the hedge derivative that was recognized in stockholders' equity as part of comprehensive income during the period of time that the hedge was effective, remains in stockholders' equity until the effects of the forecast transaction affect results. If it is no longer probable that the forecast transaction will occur, the gain or loss that was recognized in the comprehensive income account is recorded immediately in the results. When the coverage of a forecast transaction is demonstrated to be effective on a prospective basis and subsequently is not highly effective, the accumulated gain or loss for the effective portion of the hedge derivative that was recognized in stockholders' equity as part of comprehensive income during the period that the hedge was effective, is reclassified proportionally to results, when the forecast transaction is affected in the results.

Derivatives packages listed on recognized markets as a single instrument are recognized and valued collectively (i.e., without disaggregating each financial derivative individually). Derivatives packages not listed on a recognized markets are recognized and valued on a disaggregated basis for each derivative that comprises such packages.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged, as part of the heading "Derivatives" on the balance sheet.

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

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

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

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

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

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



There is no established valuation of the embedded derivatives denominated in foreign currency contained in contracts when such contracts require payments in a currency commonly used to purchase or sell nonfinancial items in the economic environment in which the transaction is carried out (for example, a stable and liquid currency commonly used in local transactions, or in foreign trade).

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

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

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

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

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

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

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

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

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

- Loans that are current in the payments of both principal and interest.
- Loans with extension of the loan payment, as well as those loans with payment of principal and overdue interest which had no classified as non performing portfolio, and
- Restructured or renewed loans, which were previously classified as non-performing loan portfolio, which have evidence of sustained payment.

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

1. If the borrowers are declared bankrupt, except for those loans:
 - i. For which the Institution continues to receive payment under the terms of section VIII of Article 43 of the Bankruptcy Law, or
 - ii. That are granted under Article 75 in relation to Sections II and III of Article 224 of the above mentioned Law.



2. Loans with outstanding principal, interest or both, with the following characteristics:
 - a) Loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the date of maturity.
 - b) Loans with a single payment of principal at maturity and with periodic interest payments are classified as non-performing 90 calendar days after interest is due or 30 calendar days after principal is due.
 - c) Loans, including housing loans, whose principal and interest payments have been agreed in periodic installments are classified as non-performing 90 calendar days after they become due.
 - d) Revolving loans for which the borrower has failed to render payment on two monthly billing periods, or, if the billing period is different from monthly, are 60 or more calendar days overdue.
 - e) Immediate collection documents referenced in accounting criteria B-1 "Funds available" will be reported in the non-performing portfolio at the date of the overdraft.
3. Repayments that were not fully settled under the terms originally agreed and present 90 or more days in arrears:
 - a) Payments for loans acquired from INFONAVIT, based on the respective payment modality (REA or ROA), as well as
 - b) Loans made to individuals intended for remodeling or improvement of the home for non-profit-making purposes which are backed by the savings from the housing subaccount of the borrower.

The transfer to non-performing portfolio of the loans referred to in numeral 3 will be subject to the exceptional deadline of 180 or more days in arrears from the date that:

- a. The loan resources are used for the purpose for which they were granted;
- b. The borrower begins a new employment relationship for which they have a new employer, or
- c. The Institution has received the partial payment of the respective payment. The exception contained in this subsection will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represent at least 5% of the payment agreed.

These exceptions will not be mutually exclusive.

In the case of loan portfolio acquisitions, to determine the days in arrears and the respective transfer to non-performing portfolio, any defaults which the borrower has presented since the start must be taken into account.

Classification of loan portfolio and allowance for loan losses - In accordance with the Provisions, the Institution has classified its loan portfolio as follows:

- c. Commercial: Direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency, investment units ("UDIS") or multiples of the minimum wage ("VSM"), together with any accrued interest, which are granted to corporations or individuals with business activities and are used in connection with commercial or corporate activity; includes loans granted to financial entities (other than interbank loans with maturities of less than 3 business days), loans arising from financial factoring, discounts and the assignment of credit rights and leasing transactions executed with such corporations or individuals; loans granted to trustees who act under the protection of trusts, and the credit schemes commonly known as "structured". Also, are included loans granted to states, municipalities and their decentralized agencies when are subject to qualification in accordance with the applicable provisions.



- d. Housing loans: Direct loans denominated in Mexican pesos, foreign currency, UDIS or in VSM, and the interest they generate, granted to individuals and intended for acquisition or construction, remodeling or improvement of homes for non-profit-making purposes; they also include cash loans guaranteed by the home of the borrower and loans granted for such purposes to former employees of the Institution.

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

Commercial loan portfolio:

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

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

Where:

- R_i = Amount of reserves to be created for the nth loan.
 PI_i = Probability of default of the nth loan.
 SP_i = Severity of loss of the nth loan.
 EI_i = Exposure to default of the nth loan.

Default Exposure (EI) is the balance of revocable credit lines plus the unused portion of irrevocable credit lines. The Probability of Default (PI) is the probability of customer default, which considers quantitative and qualitative information, the Institution classifies the commercial loan portfolio in groups to calculate the PI. The Loss Severity (SP) is the percentage of the EI that would be lost in the event of loan default and depending on the loan enhancements and portfolio type.

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

a) *The probability of default*

The probability of default of each loan (PI_i), is calculated using the following formula:

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

For purposes of the above:

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

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

Where:

Quantitative Credit Score i = is the score obtained for the nth borrower when evaluating the risk factors.

Qualitative Credit Score i = is the score obtained for the nth borrower when evaluating the risk factors.

α = is the relative weight of the quantitative credit score.

b) *Loss Severity*

The Loss Severity (SP_i) for commercial loan portfolio and which lack actual or personal guarantees and those derived from the loan itself will be:



- a. 45% to loans which lack actual or personal guarantees and those derived from the loan.
- b. 75% to syndicated loans. In those contractually subordinated to those of other creditors for payment prioritization purposes.
- c. 100% for loans with payments that are 18 months or more past-due based on the settlement terms under the originally agreed terms.

The Institution may recognize mortgage collateral, personal guarantees, and credit derivatives in the estimation of the Severity of the Loss on the loans, for the purpose of decreasing the loan reserves originated by the loan portfolio rating. In any case, it may elect to not recognize the guarantees if they result in larger loan reserves. For such purpose, the Provisions established by the Commission are applied.

c. *Default exposure -*

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

- i) Uncommitted credit lines that can be unconditionally canceled or automatically canceled at any time without the Institution giving prior notice.

$$EI_i = Si$$

- ii) For the other lines of credit:

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

Where:

Si : The unpaid balance of the n 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 debt reductions, forgiveness, rebates and discounts granted.

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

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

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

Loans granted under the terms of the Bankruptcy Law

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

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

In which:

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



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

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

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

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

In which:

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

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

Housing loan portfolio:

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

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

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

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

Payment made- Includes total payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the loan or group of loans are not considered as payments. If the billing is semi-monthly or weekly, the two semi-monthly payments or four weekly of a month, respectively, must be added up so that the payment made reflects one full monthly billing period. The variable "payment made" must be greater than or equal to zero.

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

Days in arrears- Number of arrears observed at the calculation date of reserves.

Times: Number of times that the borrower pays the original amount of the loan. This number will be the coefficient resulting from dividing the sum of all the scheduled payments at the time of origination, by the original amount of the loan.



If the loan payments consider a variable component, the Institution's best estimate will be used to determine the value of the sum of all the scheduled payments that the borrower has to make. The value of such sum cannot be less than or equal to the original amount of the loan.

The total amount of the allowance for loan losses to be established by the Institution will be equal to the allowance for loan losses on each loan, as follows:

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

Where:

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

PI_i = Probability of default on the nth loan.

SP_i = Severity of the loss on the nth loan.

EI_i = Exposure to default on the nth loan.

Evidence of sustained payment:

If loans are recorded in non-performing loan portfolio, the Institution holds them in this classification until there is evidence of sustained payment, as follows:

1. Payment compliance by the borrower without arrears for the total due and payable amount of principal and interest, of at least three consecutive repayments under the loan payment scheme, or in the case of loans with repayments which cover periods longer than 60 calendar days, the settlement of one payment.

In the case of loans which the Institution has acquired from the INFONAVIT, where the terms that the aforementioned agencies contracted with borrowers must be respected, sustained payment of the loan is deemed to exist when the borrower has covered without any arrears, the total due and payable amount of principal and interest, of at least one repayment of the loans under the Ordinary Repayment Regime (ROA) and three repayments for loans under the Special Repayment Regime (REA).

2. For loan restructurings with periodic payments of principal and interest whose repayments are lower than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered. For loans which remain under a single payment scheme for principal at maturity, which are established in numeral 4 below will be applied.
3. In the case of consolidated loans, where two or more loans originated the transfer to non-performing loan portfolio, to determine the required repayments, the original loan payment scheme whose repayments are equal to the longest period in question must be applied.

In any case, there must be evidence that the borrower has the capacity to pay at the time the restructuring or renewal is performed in order to fulfill the new credit conditions. The factors which must be considered include all of the following: the probability of intrinsic default by the creditor, the collateral established for the restructured or renewed loan, the payment priority in relation to other creditors and the liquidity of the borrower in light of the new financial structure of the loan.

4. In the case of loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, sustained payment of the loan is deemed to exist when either of the following assumptions is fulfilled:
 - a. The borrower has covered at least 20% of the original amount of the loan at the time of the restructuring or renewal, or,
 - b. The amount of accrued interest was covered in accordance with the restructuring or renewal payment scheme for a period of 90 days.



The advance payment of the repayments of restructured or renewed loans, other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered evidence of sustained payment. Such is the case with repayments of restructured or renewed loans which are paid without the calendar days equivalent to the required periods having elapsed pursuant to numeral 1 above.

Distressed portfolio:

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

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

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

A renewal occurs when the loan balance is settled partially or totally, through an increase in the original amount of the loan, or with the product derived from another loan contracted with the same entity, to which the same borrower is party, a joint obligor of such borrower or another person who due to his property links assumes common risks.

Notwithstanding the above, a loan will not be considered as renewed for the dispositions made during the effective term of a pre-established credit line, as long as the borrower has settled the total amount of the payments which are due and payable under the original conditions of the loan.

The specific standards related to the recognition of restructurings and renewals are as follows:

1. Non-performing loans which are restructured or renewed will remain in the non-performing loan portfolio until there is evidence of sustained payment.
2. Loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, which are restructured during their term or renewed at any time, will be considered as non-performing portfolio until there is evidence of sustained payment.
3. Loans granted under a line of credit, whether revolving or not, which are restructured or renewed at any time, may be kept in the performing portfolio provided that there were elements to justify the payment capacity of the borrower. Additionally, the borrower must have:
 - a. Settled the total due and payable interest, and
 - b. Total payments required under the terms of the contract at the date of the restructuring or renewal, are covered.



4. In the case of dispositions made under a line of credit, when they are restructured or renewed independently from the credit line supporting them, they must be evaluated in accordance with the provisions based on the characteristics and conditions applicable to the restructured or renewed dispositions. When as a result of such analysis it is concluded that one or more of the dispositions made under a credit line should be transferred to non-performing loan portfolio due to the effect of their restructuring or renewal, and whether individually or collectively, represent at least 25% of the total balance exercised of the line of credit at the date of the restructuring or renewal, such balance, as well as subsequent dispositions, must be transferred to non-performing loan portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing loan portfolio. Also, the total dispositions made under the line of credit have complied with the due and payable obligations at the date of the transfer to performing loan portfolio.
5. Performing loans with characteristics different from those included in numerals 2 through 4 before, those which are restructured or renewed, without at least 80% of the original loan term, will still be considered as performing, only when:
 - a. The borrower has settled the total amount of the accrued interest at the date of the renewal or restructuring, and
 - b. The borrower has settled the principal of the original amount of the loan, which should have been settled at the date of the renewal or restructuring.

Absent compliance with all the conditions described in the preceding numeral, loans will be considered as non-performing loan portfolio since the time they are restructured or renewed until there is evidence of sustained payment, as the case may be.

6. Performing loans with characteristics different from those established in numerals 2 through 4 which are restructured or renewed during the course of the final 20% of the original loan term, will be considered as performing only when the borrower has:
 - a. Settled the total interest accrued as of the date of the renewal or restructuring;
 - b. Settled the principal of the original amount of the loan, which should have been settled as of the date of the renewal or restructuring, and
 - c. Settled the 60% of the original amount of the loan.

Absent compliance with all the conditions described in the preceding numeral, they will be considered as non-performing loan portfolio from the moment they are restructured until there is evidence of sustained payment.

The requirements referred to the numerals 5 and 6 of subsection) above, will be considered as fulfilled when, after the interest accrued as of the last cutoff date has been settled, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half the payment period in question or 90 days.

Performing loans with partial periodic payments of principal and interest restructured or renewed on more than one time, may remain in performing loan portfolio if, in addition to the conditions established in numerals 5 or 6 above, as the case may be, the Institution has elements to substantiate the payment capacity of the borrower. Elements must be clearly documented and included in the loan file in the case of commercial loans.

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



The foregoing shall not be applicable to those restructurings which at the transaction date submit payment for the total amount of the principal and interests and only modify one or more of the following original loan conditions:

- Guarantees: only when they involve the extension or substitution of guarantees by others of better quality
- Interest rate: when the interest rate to the borrower is improved.
- Currency or unit of account: Provided that the Exchange rate corresponding to the new currency or unit of account is applied.
- Payment date: Only in the case that the exchange rate does not imply to exceed or modify the periodicity of the payments. In no case shall the change of the payment date must allow the omission of payment in any period.

Other receivables and payable accounts, net - These items primarily represent receivable or payable amounts derived from the purchase-sale of currency in which immediate settlement was not agreed (value date exchange transactions). These transactions are recorded on the day they are agreed and settled within a period of 24, 48, 72 or 96 hours.

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

The income is recorded on an accrual basis and the accumulation of accrued income is maintained at the moment in which the debit for the current 90 or more calendar days of non-payment.

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

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

Other assets - Until November 30, 2017, other assets were mainly represented by software, advance payments, operational deposit and intangible assets identified in the acquisition of Tempus and Monex Europe.

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

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

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

For the purposes of presentation in the financial statements, if the investment in securities acquired to cover the pension plan and seniority premium exceed the liability recognized, such excess will be presented under the heading of "Other assets". If assets are less than related obligations, such balance is included in the heading "Sundry creditors and other payables". As of December 31, 2017, 2016 and 2015, the balance applicable to the Institution is presented by decreasing the heading of "Sundry creditors and other payables".



Goodwill - Goodwill was mainly attributable to the excess of the purchase price paid over the fair value of the net assets of Tempus and Monex Europe as of their acquisition date (November 23, 2010 and July 2, 2012, respectively), which was not amortized but was subject to impairment tests at least once a year. The Institution recorded the goodwill of the non-controlling interest. On November 30, 2017, goodwill was eliminated in the corporate restructuring mentioned in Note 1.

Impairment of long-lived assets in use - The Institution reviews the book value of long-lived assets in use for impairment when there are indicators that the net carrying amounts of the assets may not be recoverable. The impairment is recorded to the extent that the book value of the asset exceeds the recoverable amount, which is defined as the higher of the present value of net future cash flows or the estimated sales price. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period which, if combined with a history or projection of losses, depreciation and amortization charged to results as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors. As of December 31, 2017 and 2016, the management of the Institution has not identified impairment of long-lived assets.

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

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

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

Interest is recognized in results when accrued.

The global account for inactive deposits includes the principal and interest on deposit instruments which do not have a date of maturity, or which, if they do, are renewed automatically, as well as transfers or investments which are overdue or unclaimed, as referred to in article 61 of the Credit Institutions Law.

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

Obligations arising from settlement of transactions - Represent amounts payable for currency purchase-sale transactions in which no immediate settlement is agreed, (foreign exchange trading value date). They are recorded on the day they are negotiated and settled within 24, 48, 72 or 96 hours.

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

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

- i. **Direct employee benefits** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly commissions, bonus and other incentives.
- ii. **Post-employment benefits** - Liabilities for seniority premiums, pensions and severance for voluntary or involuntary termination benefits are recorded as accrued, and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates.



- iii. **Employee benefit from termination** - The benefits for termination of the employment relationship which do not generate assumed obligations are recorded at the time that: a) the Institution no longer has any real alternative other than to fulfill the payments of such benefits or cannot withdraw an offer or b) the Institution fulfills the conditions established for a restructuring.
- iv. **Statutory employee profit sharing (PTU)** - PTU is recorded in the results of the year in which it is incurred. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

As of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of the Income Tax Law.

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

Transactions in foreign currencies - Transactions in foreign currencies are recorded at the exchange rate in effect at the date of completion. Monetary assets and liabilities in foreign currencies are valued in Mexican pesos at the FIX exchange rate published by the Central Bank at the financial statements date. Exchange differences are recorded in results.

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

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

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

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

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

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

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



Expenses - Expenses are recognized as they accrue.

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

The cash flow statement together with the rest of the financial statements provides information that allows:

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

Memorandum accounts -

- *Loan commitments:*

This item represents the amounts of letters of credit granted by the Institution, which are considered irrevocable commercial credits. It includes the unused lines granted to clients.

Items under this account are subject to qualification.

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

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

- *Collateral received:*

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

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

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

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

Represents the uncollected accrued interest of non-performing loan portfolio, as well as the uncollected accrued financial revenues.

- *Other record accounts (Unaudited):*

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



4. Funds available

As of December 31, 2017, 2016 and 2015, funds available were as follows:

Funds available	2017			2016	2015
	Mexican pesos	Foreign currency	Total	Total	Total
Cash	\$ 8	\$ 62	\$ 70	\$ 82	\$ 39
Deposits in banks	4,414	3,928	8,342	6,715	5,620
Immediate collection documents	4	10	14	8	4
Remittance	-	3	3	2	6
Foreign currency sale from 24 to 96 hours (1)	-	(23,188)	(23,188)	(14,698)	(11,154)
	4,426	(19,185)	(14,759)	(7,891)	(5,485)
Restricted funds available:					
Foreign currency purchase from 24 to 96 hours (1)	-	30,881	30,881	23,487	20,863
Interbank loans	-	39	39	-	-
Regulatory monetary deposits (2)	229	-	229	229	229
	229	30,920	31,149	23,716	21,092
Total net	\$ 4,655	\$ 11,735	\$ 16,390	\$ 15,825	\$ 15,607

- (1) This item refers to currency purchase-sale transactions to be settled in 24 to 96 hours and which are considered as restricted until their settlement date. At December 31, 2017, 2016 and 2015, balances denominated in foreign currency and the equivalent amounts in Mexican pesos are comprised as follows:

	2017				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 30,130	\$ 628	\$ 98	\$ 25	\$ 30,881
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(22,554)	(454)	(129)	(51)	(23,188)
Total in funds available (Mexican pesos)	\$ 7,576	\$ 174	\$ (31)	\$ (26)	\$ 7,693

The exchange rate as of December 31, 2017 was \$19.6629, \$23.6063 and \$26.6049 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2016				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 23,292	\$ 152	\$ 18	\$ 25	\$ 23,487
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(14,388)	(196)	(83)	(31)	(14,698)
Total in funds available (Mexican pesos)	\$ 8,904	\$ (44)	\$ (65)	\$ (6)	\$ 8,739



The exchange rate as of December 31, 2016 was \$20.6194, \$21.7534 and \$25.4814 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

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

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

- (2) In accordance with the monetary policy established by the Central Bank and in order to regulate its money market liquidity, the Institution must maintain minimum deposits for indefinite periods, which accrue interest at the average bank rate. At December 31, 2017, 2016 and 2015, these deposits amounted to \$229 in the three years. Interest income from these deposits is payable every 28 days by applying the rate established by the Central Bank's regulations.

5. Margin accounts

As of December 31, 2017, 2016 and 2015, the margin account is as follows:

	2017	2016	2015
Collaterals delivered as security	\$ 333	\$ 541	\$ 382
Valuation of futures	-	181	(3)
	\$ 333	\$ 722	\$ 379

As of December 31, 2017, 2016 and 2015, margin accounts for cash collateral submitted in organized operating markets are remained as follows:

	2017	2016	2015
Scotiabank Inverlat, S.A.	\$ 236	\$ 477	\$ 324
Banco Santander México, S.A.	44	51	27
ISDA Societe Generale	15	-	-
RJO Brien	38	13	31
	\$ 333	\$ 541	\$ 382

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



6. Investment in securities

Trading securities - As of December 31, 2017, 2016 and 2015, trading securities were as follows:

	2017				2016	2015
	Acquisition cost	Interest accrued	Increase (decrease) due to valuation	Total	Total	Total
Debt instruments:						
Government securities						
Federal Government Development Bonds (BONDS)	\$ 116	\$ -	\$ -	\$ 116	\$ 97	\$ 1,493
Treasury bills (CETES)	1,060	-	1	1,061	59	45
Bonds M, M0 and M7	256	-	(2)	254	165	994
Federal Government Development Bonds in Udis (UDIBONDS)	78	-	-	78	144	382
Saving Protection Bonds (BPAT's)	4,398	57	(51)	4,404	10,896	6,760
United Mexican States Bonds (UMS)	4,518	-	1	4,519	12	259
International government securities- Debits bonds (NOTES)	-	-	-	-	24	20
Private securities-						
Marketable certificates	5,019	31	(10)	5,040	3,538	4,865
Commercial Paper	4,891	10	(5)	4,896	-	175
Foreign Station Titles	-	-	-	-	3,153	50
Private bank issued securities -						
Promissory Note With Yield Payable at Maturity (PRLV)	22	-	-	22	21	398
Marketable Certificates	3,183	35	(28)	3,190	1,701	1,231
Certificates of Deposit (CEDES)	6,566	6	(11)	6,561	1,527	1,597
Capital market instruments-						
Mutual funds	-	-	-	-	40	37
Value date transactions-						
Government securities -						
Federal Government Development Bonds (BONDS)	-	-	-	-	-	2
Treasury bills (CETES)	674	-	-	674	-	6
Bonds M, M0 and M7	(1,846)	-	(5)	(1,851)	-	(1,417)
Federal Government Development Bonds in Udis (UDIBONDS)	-	-	-	-	-	(90)
Private bank issued securities -						
Traded Bank Certificates	-	-	-	-	-	(3)
	<u>\$ 28,935</u>	<u>\$ 139</u>	<u>\$ (110)</u>	<u>\$ 28,964</u>	<u>\$ 21,377</u>	<u>\$ 16,804</u>

Restricted trading securities -

At December 31, 2017, 2016 and 2015, the securities under repurchase agreement are as follows:

	2017	2016	2015
Government securities -			
Treasury bills (CETES)	\$ 1,040	\$ 59	\$ 45
Federal Government Development Bonds (BONDS)	101	97	1,378
Bonds M, M0 and M7	254	165	859
Federal Government Development Bonds in Udis (UDIBONDS)	78	144	324
Saving Protection Bonds (BPAT's)	4,230	10,433	6,222
United Mexican States Bonds (UMS)	-	12	259
Subtotal	<u>5,703</u>	<u>10,910</u>	<u>9,087</u>
Private securities-			
Marketable Certificates	4,754	3,179	3,831
Commercial Paper	168	-	175
Subtotal	<u>4,922</u>	<u>3,179</u>	<u>4,006</u>
Private bank issued securities-			
Marketable Certificates	2,804	1,701	868
Certificates of Deposit (CEDES)	-	1,283	1,597
Subtotal	<u>2,804</u>	<u>2,984</u>	<u>2,465</u>
Total	<u>\$ 13,429</u>	<u>\$ 17,073</u>	<u>\$ 15,558</u>



This position is considered restricted within trading securities.

As of December 31, 2017, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

Issuer	2017		
	Maturity date	% rate	Restated value
SGMEX	143	2.11%	\$ 1,477
TFOVICB	9,994	4.44%	1,059
CABEI	652	5.30%	381
CFE	226	7.77%	300
FEFA	1,699	8.10%	717
NAFR	1,112	7.62%	460
PEMEX	1,480	9.27%	1,318
TFOVIS	9,586	4.43%	1,467
BACOMER	1,188	8.01%	508
BNPPPF	1,013	8.03%	1,006
FUNO	1,800	8.47%	352
INCARSO	1,425	8.11%	376
BINBUR	2,423	8.60%	386
NAFF	2,746	8.01%	908
BANOB	1,698	7.95%	727
BANOBRA	8	1.14%	3,345
NAFI208	5	0.22%	493
NAFI213	38	0.22%	492
NAFI412	4	0.17%	394
NAFI420	1	0.25%	983
NAFI499	66	0.33%	988
NAFI693	35	0.00%	494
NAFI913	5	0.17%	394
NAFIN45	5	0.17%	394
BANSAN	318	1.71%	2,558
Total			\$ 21,977

Securities available for sale- As of December 31, 2017, 2016 and 2015, the securities available for sale are as follows:

	2017				2016	2015
	Acquisition Cost	Interest accrued	Increase (decrease) due to decrease	Total	Total	Total
Debt instruments:						
Private securities-						
Marketable Certificates						
PEMEX 13-2 95	\$ 422	\$ 10	\$ (3)	\$ 429	\$ 557	\$ 40
PEMEX3 210121 D2	102	2	3	107	110	-
CEDEVIS 12U 95	-	-	-	-	4	4
CEDEVIS 13U 95	-	-	-	-	211	219
TFOVIS 14U 95	-	-	-	-	614	632
TFOVIS 14-3U 95	-	-	-	-	567	608
UMS22F2 2022F D1	204	2	-	206	210	-
CDVITOT9515U	-	-	-	-	42	-
FACILSA9116	-	-	-	-	40	-
PEMEX9510-2	533	15	-	548	272	-
PEMEX9511-3	339	2	-	341	575	-
TFOVICB9515-2U	-	-	-	-	996	-
TFOVIS9514 2U	-	-	-	-	128	-
	<u>\$ 1,600</u>	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ 1,631</u>	<u>\$ 4,326</u>	<u>\$ 1,503</u>



As of December 31, 2017, 2016 and 2015, there were not indicators of impairment in relation to securities available for sale.

Restricted securities available for sale

As of December 31, 2017, 2016 and 2015, the restricted securities available for sale are as follows:

	2017	2016	2015
Private securities -			
PEMEX 13-2 95	\$ 406	\$ 557	\$ 40
CEDEVIS 12U 95	-	4	4
CEDEVIS 13U 95	-	211	219
TFOVIS 14U 95	-	614	632
TFOVIS 14-3U 95	-	567	608
UMS22F2 2022F D1	206	210	-
CDVITOT9515U	-	42	-
FACILSA9116	-	40	-
PEMEX9510-2	548	272	-
PEMEX9511-3	341	575	-
TFOVICB9515-2U	-	996	-
TFOVIS9514 2U	-	128	-
Total	<u>\$ 1,501</u>	<u>\$ 4,216</u>	<u>\$ 1,503</u>

This position is considered restricted within the securities available for sale.

Securities held to maturity -

As of December 31, 2017, 2016 and 2015, the securities held to maturity are as follows:

	2017	2016	2015
Private securities -			
CDVITOT9515-2U	\$ 35	\$ -	\$ -
TFOVICB9515-2U	936	73	-
TFOVICB9515U	97	-	-
CEDEVIS9512U	761	-	-
CEDEVIS9513U	4	-	-
TFOVIS9514-2U	114	-	-
TFOVIS9514-3U	120	-	-
	<u>528</u>	<u>-</u>	<u>-</u>
Subtotal	<u>\$ 2,595</u>	<u>\$ 73</u>	<u>\$ -</u>

This position is considered restricted within the securities held at maturity.

Reclassifications between categories-

Given that during November 2016 the instruments referenced to the investment unit presented a historical impairment in their interest rates, the Commission authorized the Institution, through official notice 113-1/14100/2017, dated June 6, 2017, to reclassify the following securities from the category "Available for sale" to "Held to maturity":



Issuer	Securities	% Weighted average rate	Fair Value of December 31, 2017
95TFOVICB15-2U	1,789,640	3.44%	\$ 863
95TFOVIS14U	1,445,037	2.85%	573
95TFOVIS14-3U	1,299,717	3.00%	528
95TFOVIS14-2U	292,369	3.34%	120
95CEDEVIS13U	434,499	3.27%	114
95TCEDEVIS12U	12,526	3.16%	4
Total			<u>\$ 2,202</u>

This reclassification was performed on June 30, 2017. In accordance with the Commission's Provisions, the fair value of the securities at the reclassification date was \$2,239 (unaudited), which is presented in stockholders' equity and is amortized over the remaining life of the instruments.

7. Repurchase agreements

As of December 31, 2017, 2016 and 2015, repurchase agreements were as follows:

When the Institution acts as purchaser:

	2017		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Treasury bills (CETES)	\$ 4	\$ (4)	\$ -
Federal Government Development Bonds (BONDES)	284	(284)	-
Bonds M, M0 and M7	599	(518)	81
Federal Government Development Bonds in Udis (UDIBONDS)	1	-	1
Saving Protection Bonds (BPAT's)	<u>215</u>	<u>(199)</u>	<u>16</u>
Subtotal	1,103	(1,005)	98
Private bank issued securities-			
Marketable Bank Certificates	224	(4)	220
Certificate of Deposits (CEDES)	<u>3</u>	<u>(3)</u>	<u>-</u>
Subtotal	227	(7)	220
Private securities-			
Marketable Certificates	339	(33)	306
Commercial Paper	<u>873</u>	<u>(201)</u>	<u>672</u>
Subtotal	1,212	(234)	978
Total	<u>\$ 2,542</u>	<u>\$ (1,246)</u>	<u>\$ 1,296</u>



2016			
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 2,025	\$ (897)	\$ 1,128
Bonds M, M0 and M7	560	-	560
Federal Government Development Bonds in Udis (UDIBONDS)	1	-	1
Saving Protection Bonds (BPAT's)	<u>7,644</u>	<u>(1,287)</u>	<u>6,357</u>
Subtotal	10,230	(2,184)	8,046
Private bank issued securities-			
Certificates of Deposit (CEDES)	615	(615)	-
Marketable Certificates	<u>874</u>	<u>(521)</u>	<u>353</u>
Subtotal	1,489	(1,136)	353
Private securities-			
Marketable Certificates	<u>907</u>	<u>(539)</u>	<u>368</u>
Subtotal	907	(539)	368
Total	<u>\$ 12,626</u>	<u>\$ (3,859)</u>	<u>\$ 8,767</u>
2015			
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 1,801	\$ 985	\$ 816
Bonds M, M0 and M7	513	104	409
Federal Government Development Bonds in Udis (UDIBONDS)	29	-	29
Saving Protection Bonds (BPAT's)	<u>3,441</u>	<u>1,000</u>	<u>2,441</u>
Subtotal	5,784	2,089	3,695
Private bank issued securities-			
Certificates of Deposit (CEDES)	457	455	2
Promissory Note With Yield Payable at Maturity (PRLV)	<u>57</u>	<u>57</u>	<u>-</u>
Subtotal	514	512	2
Private securities-			
Marketable Certificates	<u>1,361</u>	<u>1,330</u>	<u>31</u>
Subtotal	1,361	1,330	31
Total	<u>\$ 7,659</u>	<u>\$ 3,931</u>	<u>\$ 3,728</u>

As of December 31, 2017, 2016 and 2015 repurchase transactions entered into by the Institution in which the Institution acts as purchaser carried terms ranging from 4 to 49 days in 2017, 3 to 27 days in 2016 and 2 to 20 days in 2015.



When the Institution acts as seller:

	2017	2016	2015
	Cash to be delivered	Cash to be delivered	Cash to be delivered
Government securities-			
Treasury bills (CETES)	\$ 1,040	\$ 59	\$ 45
Federal Government Development Bonds (BONDS)	100	97	1,377
Bonds M, M0 and M7	256	165	858
Federal Government Development Bonds in UDIS (UDIBONDS)	78	144	325
Saving Protection Bonds (BPAT's)	4,230	10,432	6,223
United Mexican States Bonds (UMS)	207	221	260
Subtotal	5,911	11,118	9,088
Private securities-			
Marketable Certificates	8,624	7,537	3,861
Commercial Paper	168	-	178
Subtotal	8,792	7,537	4,039
Private bank issued securities-			
Certificates of Deposit (CEDES)	-	1,351	1,580
Marketable Bank Certificates	2,797	1,748	870
Subtotal	2,797	3,099	2,450
Total	\$ 17,500	\$ 21,754	\$ 15,577

For the years ended December 31, 2017, 2016 and 2015, accrued interest on sale agreements are \$1,311, \$525 and \$209, respectively and the accrued interest expenses on purchase agreements are \$2,203, \$893 and \$350, respectively.

As of December 31, 2017, 2016 and 2015, the repurchase transactions performed by the Institution, acting as seller, were agreed at terms ranging between 4 to 28 days, 3 to 117 days and 4 to 106 days, respectively.

8. Derivative financial instrument transactions

As of December 31, 2017, 2016 and 2015, the position for transactions with financial derivatives is as follows:

	2017		2016		2015	
	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net
Futures-						
Foreign currency futures	\$ 2,890	\$ 24	\$ 10,554	\$ -	\$ 5,686	\$ -
Futures indexes	-	-	-	-	3	-
Forwards-						
Foreign currency forwards	17,934	799	17,855	2,112	8,993	932



	2017		2016		2015	
	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net	Nominal amount of the purchase	Asset position net
Options-						
Foreign currency options	77	94	38	73	15	79
Rates options	63	185	42	91	43	94
Options indexes	-	-	1	1	-	-
Swaps-						
Foreign currency swaps	2,228	192	-	-	-	-
Rates swaps	9,800	1,099	12,261	1,536	6,921	295
Total trading derivatives	32,992	2,393	40,751	3,813	21,661	1,400
Hedging derivatives						
Swaps						
Rates swaps	887	133	838	143	-	-
Total hedging derivatives	887	133	838	143	-	-
Total derivatives	\$ 33,879	\$ 2,526	\$ 41,589	\$ 3,956	\$ 21,661	\$ 1,400

	2017		2016		2015	
	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net
Futures-						
Foreign currency futures	\$ 1,373	\$ 23	\$ 4	\$ -	\$ 56	\$ -
Forwards-						
Foreign currency forwards	29,191	415	32,764	786	25,431	447
Options-						
Foreign currency options	37	93	47	119	14	31
Rates options	292	332	138	179	72	101
Swaps-						
Foreign currency swaps	2,372	336	-	-	-	-
Rates swaps	9,697	995	12,323	1,598	7,102	476
Total trading derivatives	42,962	2,194	45,276	2,682	32,675	1,055
Held for trading						
Swaps-						
Rates swaps	777	23	704	9	-	-
Total hedging derivatives	777	23	704	9	-	-
Total derivatives	\$ 43,739	\$ 2,217	\$ 45,980	\$ 2,691	\$ 32,675	\$ 1,055



For the years ended December 31, 2017, 2016 and 2015, the valuation effect of the trading derivative instruments is reflected in the statements of income under "Gains/losses on financial assets and liabilities (net)" (See Note 29).

Fair value hedging

The Institution has financial derivatives which are used to hedge variances in the market value of its debt instruments issued by Pemex, due to movements in the interest rate, and holds hedge instruments intended to cover the interest rates related to two of the most relevant loans.

Following is a list of the hedge transactions held by the Institution as of December 31, 2017:

Hedged position	Designated financial instrument	Market value
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day TIIE, plus a spread (2.0414%).	23
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day TIIE plus a spread (1.35%).	16
95PEMEX13-2	Interest rate swap which pays fixed rate (7.19%) and receives 28 day TIIE plus a spread (1.01%).	49
95PEMEX10-2	Interest rate swap which pays fixed rate (9.1%) and receives 28 day TIIE plus a spread (1.4%).	(6)
AUDI 1	Interest rate swap which pays fixed rate (6.135%) and receives 28 day TIIE.	24
AUDI 2	Interest rate swap which pays fixed rate (6.155%) and receives 28 day TIIE.	8
CODESA	Interest rate swap which pays fixed rate (5.355%) and receives 28 day TIIE	14
PEMEX10-2	Interest rate swap which pays fixed rate (9.1%) and receives 28 day TIIE plus a spread (1.15%).	(8)

In all cases, the derivative instrument seeks to compensate losses in the market value of the hedged position caused by movements in interest rates. In this way, Management provides stability in the result of these positions and limits the risk of abrupt movements in market rates. As result, if fluctuations in exchange rates can cause a loss, the swap covers the amount lost; and vice versa, when additional are generated in the primary position, these are delivered in the hedging swap and are recognized accordingly (with impact on equity and incomes)

Derivatives and the underlying assets during 2017 are as follows (unaudited):

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



The guarantees and/or collateral received and delivered for the derivative financing transactions as of December 31, 2017, 2016 and 2015, are comprised as follows:

Received					
Heading	Type of collateral	Market	2017	2016	2015
Sundry creditors and other accounts payable	Cash	OTC	\$ 1,619	\$ 2,815	\$ 1,550
Delivered					
Heading	Type of collateral	Market	2017	2016	2015
Margin accounts	Cash	Recognized markets	\$ 333	\$ 541	\$ 382
Other receivables	Securities	OTC	\$ 99	\$ 184	\$ 530

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

As of December 31, 2017, 2016 and 2015, there are no restricted securities delivered as security for derivative transactions.

Management of derivative financial instrument usage policies

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes.

The main objectives of these products are covering risks and maximizing profitability.

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

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

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

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

Authorization levels and processes

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



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

Independent reviews

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

Generic description of valuation techniques

1. For trading purposes:

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

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

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

2. Reference variables:

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

3. Valuation frequency:

Derivative financial instruments for trading purposes are valued daily.

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

Resources are obtained through the Treasury and the mainly financing resources are:

- Deposits
- Debt securities
- Bank loans
- Cash collateral received
- Stockholders

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

In relation to financial instruments held for trading at December 31, 2017, 2016 and 2015, management is not aware of any situations or events, such as changes in the value of the underlying asset or reference variables which imply that the use of derivative instruments differ from those that were originally conceived, that could require the Institution to assume new obligations, commitments or changes in cash flow affecting liquidity (margin calls), or contingencies affecting current or future periods.



The amount of margin calls made during 2017, 2016 and 2015 was necessary to cover contributions in both the organized and the required collateral contracts markets.

At December 31, 2017, 2016 and 2015, except as mentioned in the previous paragraph, there is no evidence of deterioration in credit risk (counterparty) that requires modifying the carrying amount of derivative financial instruments.

Impairment of financial derivatives -

At December 31, 2017, 2016 and 2015, there is no indication of impairment in credit risk (counterparty) that requires modifying the carrying amount of financial assets from the rights in derivative financial instruments.

Sensitivity analysis -

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

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

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

The following chart shows the total sensitivity consumption as of December 31, 2017 (unaudited):

Sensitivity analysis	Sensitivity (all factors) (in thousands of pesos)
Stage one 1%	(585)
Stage two 2%	(1,035)

Stress test -

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

As of December 31, 2017 the results for these scenarios are as follows and show the impact on results if they occurred (unaudited):

Risk profile	Stress test (all factors) (in thousands of pesos)
Stage one	\$ (8,536)
Stage two	\$ (10,347)



9. Loan portfolio

As of December 31, 2017, 2016 and 2015, the performing portfolio and non-performing loan portfolio granted by type of currency are as follows:

2017			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	\$ 9,447	\$ 120	\$ 9,567
Loans to financial institutions	1,691	-	1,691
Loans to government entities	1,001	-	1,001
Housing loans-			
Loans acquired from INFONAVIT	626	4	630
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	7,257	76	7,333
Loans to financial institutions	1,115	-	1,115
Total	<u>\$ 21,137</u>	<u>\$ 200</u>	<u>\$ 21,337</u>
2016			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	\$ 8,078	\$ 46	\$ 8,124
Loans to financial institutions	1,435	-	1,435
Housing loans-			
Loans acquired from INFONAVIT	180	6	186
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	7,799	21	7,820
Loans to financial institutions	720	-	720
Total	<u>\$ 18,212</u>	<u>\$ 73</u>	<u>\$ 18,285</u>
2015			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	\$ 4,646	\$ 45	\$ 4,691
Loans to financial institutions	984	-	984
Housing loans-			
Loans acquired from INFONAVIT	9	12	21
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial or corporate activity	6,252	51	6,303
Loans to financial institutions	472	-	472
Total	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 12,471</u>



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

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

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

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

At December 31, 2017, 2016 and 2015, the portfolio with third participation administered by the Institution. Balances denominated in foreign currency are as follows:

	2017	2016	2015
Short-term	\$ 19	\$ 19	\$ 198
Medium-term	<u>1</u>	<u>3</u>	<u>8</u>
	<u>\$ 20</u>	<u>\$ 22</u>	<u>\$ 206</u>

Housing Loans

Below we show the loans acquired from INFONAVIT through the "Mejoravit" program:

2017				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 625	33,089	\$ 3	221
REA	<u>1</u>	<u>24</u>	<u>1</u>	<u>5</u>
Total	<u>\$ 626</u>		<u>\$ 4</u>	
2016				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 180	6,454	\$ 5	459
REA	<u>-</u>		<u>1</u>	<u>21</u>
Total	<u>\$ 180</u>		<u>\$ 6</u>	
2015				
	Performing	Number of loans	Non- performing	Number of loans
Housing loans				
ROA	\$ 9	790	\$ 11	1,085
REA	<u>-</u>		<u>1</u>	<u>68</u>
Total	<u>\$ 9</u>		<u>\$ 12</u>	



The National Workers' Housing Fund Institute (INFONAVIT) developed the "Mejoravit Loan Program" which enables certain banks to take part in granting loans known as "Mejoravit" intended for the improvement, remodeling and extension of homes of workers affiliated to this Institute. The involvement of the INFONAVIT in this program focuses on the origination, administration and collection of the loans.

In accordance with the rules established, the INFONAVIT reviews and approves the financial conditions of the loans and the Institution provides the economic resources to the borrower.

The Mejoravit loans are guaranteed by the balance of the housing subaccount of the certified stakeholders with an irrevocable guarantee trust managed by "Nacional Financiera S.N.C." as trustee of the Trust.

As of December 31, 2017, 2016 and 2015, the non-performing housing portfolio is classified as follows:

Terms	2017	2016	2015
From 181 to 365 days	\$ -	\$ 2	\$ 8
From 366 to 2 years	<u>4</u>	<u>4</u>	<u>4</u>
Total	<u>\$ 4</u>	<u>\$ 6</u>	<u>\$ 12</u>

Restructurings- During the year ended December 31, 2017, the Institution restructured a commercial loan in the amount of \$719. During the years ended December 31, 2016 and 2015 the Institution did not carry out any restructurings.

Risk diversification –

At December 31, 2017, the Institution maintains the following credit risk operations in conformity with the general diversification rules established for active and passive transactions by the Provisions, as follows:

- The Institution has granted eight loans to borrowers or groups of individuals or entities with a common risk, the individual amount of which exceeds 10% of its basic capital. The joint commitment of these loans in the quarter before is equal to \$5,791, 121% of the Institution's basic capital.
- The total of the loans granted to the Institution's three main borrowers is \$2,678 and represents 55.76% of its basic capital.

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

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

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

- The sum of the financing granted to the Institution's three main borrowers must not exceed 100% of its basic capital.



- Financing granted to full-service banking institutions is subject to maximum financing limits, but is nonetheless subject to the maximum limit of 100% of the basic capital of the lending Institution. In the case of foreign institutions in which foreign financial entities hold equity, the aforementioned limit is applicable to the holding company and its subsidiary institutions taken as a whole.
- The financing granted to the state-owned entities and departments of the Federal Public Administration, including public trusts and the productive entities pertaining to the State, must be subject to the maximum limit of 100% of the basic capital of the lending Institution.

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

The Commission may reduce the above limits whenever it considers that an institution's comprehensive risk management is inadequate or its internal control system has certain weaknesses.

Loans to related parties - As of December 31, 2017 the loan amounts delivered to related parties in accordance with Article 73 of the Law on Credit Institutions is \$392, at December 31, 2016 and 2015 are \$207 and \$22 respectively, which were approved by the Board of Directors.

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

The Institution performs the classification of distressed commercial loans, reporting a total of \$223 which represents 1% of the total commercial portfolio as of December 31, 2017.

	2017		
	Performing	Non- performing	Total
Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	\$ 27	\$ 120	\$ 147
Dollars valued in Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	-	76	76
Total	\$ 27	\$ 196	\$ 223

Policy and methods used to identify distressed commercial loans - Concentration risk constitutes an essential element in risk management. The Institution has policies in place to avoid significant concentrations of credit risks in borrowers or business groups, as well as industries and types of loans.

Furthermore, constant follow-up is provided at the individual level and at the level of loan portfolios to avoid concentrations.

Credit lines unused by customers - As of December 31, 2017, 2016 and 2015, unused credit lines authorized to customers for \$8,874, \$8,912 and \$6,908, respectively.



As of December 31, 2017, 2016 and 2015, aging of non-performing portfolio is as follows:

	2017	2016	2015
From 90 to 179 days	\$ 25	\$ 1	\$ 98
From 180 to 365 days	170	2	10
Over 365	<u>5</u>	<u>70</u>	<u>-</u>
	<u>\$ 200</u>	<u>\$ 73</u>	<u>\$ 108</u>

10. Allowance for loan losses

As of December 31, 2017, 2016 and 2015, the allowance for loan losses was \$356, \$298 and \$176, respectively, and is assigned as follows:

2017	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial or corporate activity	\$ 16,704	\$ 196	\$ 331
Loans to financial institutions	2,806	-	17
Loans to government entities	1,001	-	5
Housing loans-			
Loans acquired from INFONAVIT	<u>626</u>	<u>4</u>	<u>3</u>
Total portfolio	<u>\$ 21,137</u>	<u>\$ 200</u>	<u>\$ 356</u>
2016	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial or corporate activity	\$ 15,877	\$ 67	\$ 278
Loans to financial institutions	2,155	-	18
Housing loans-			
Loans acquired from INFONAVIT	<u>180</u>	<u>6</u>	<u>2</u>
Total portfolio	<u>\$ 18,212</u>	<u>\$ 73</u>	<u>\$ 176</u>
2015	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial or corporate activity	\$ 10,898	\$ 96	\$ 165
Loans to financial institutions	1,456	-	8
Housing loans-			
Loans acquired from INFONAVIT	<u>9</u>	<u>12</u>	<u>3</u>
Total portfolio	<u>\$ 12,363</u>	<u>\$ 108</u>	<u>\$ 176</u>

As of December 31, 2017, 2016 and 2015, the Institution maintained an allowance for loan losses equivalent to 179%, 408% and 163%, of the non-performing portfolio, respectively.



The allowance for loan losses resulting from the loan portfolio classification with responsibilities as of December 31, 2017, 2016 and 2015, reported by the Institution, is as follows:

Degree of risk	2017		2016		2015	
	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded
A-1	\$ 11,837	\$ 51	\$ 9,134	\$ 45	\$ 6,397	\$ 32
A-2	6,518	76	7,911	96	4,483	55
B-1	1,535	27	838	15	2,046	34
B-2	537	12	717	16	269	7
B-3	523	15	602	18	353	12
C-1	833	59	32	2	91	7
C-2	50	7	109	15	6	1
D	223	101	106	46	72	28
E	8	8	45	45	-	-
Base rating portfolio	22,064	\$ 356	19,494	\$ 298	13,717	\$ 176
Less - Letter of credit	(727)		(1,209)		(1,246)	
Loan portfolio, net	\$ 21,337		\$ 18,285		\$ 12,471	

Below is the activity of the allowances for loan losses for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Opening balances	\$ 298	\$ 176	\$ 112
Provisions (applications) with debit (credit) to:			
Additions charged to results	170	146	60
Cancellation of allowances (1)	(49)	(41)	-
Exchange result	(4)	19	11
Applications	(59)	(2)	(7)
Closing balances	\$ 356	\$ 298	\$ 176

- (1) Related to payments on loans granted during 2017, loans which had had allowances recorded during previous years and this year has recorded in "other revenues".

Write-offs – During the year ended December 31, 2017, the Institution wrote off four commercial loans in the amount of \$59 against the allowance for loan losses. During the year ended December 31, 2016 the Institution did not perform write-offs of non-performing portfolio.



Application of specific accounting criterion - As of December 31, 2017, management applied to one commercial loan the special accounting criterion outlined in paragraph f of the section entitled "Change in accounting policies" of Note 3. The effects of applying this special criterion are described below:

	Balance as of December 31, 2017 of loans subject to special accounting criteria	Balance as of December 31, 2017 of the same loans considering the failure to apply the special accounting criteria
Balance Sheet-		
Value of the commercial credits to which the special criterion is applied	\$ 4	\$ 4
Allowance for loan losses	-	-
	\$ 4	\$ 4
Income Statement		
Allowance for loan losses	\$ -	\$ 2

11. Other receivables, net

As of December 31, 2017, 2016 and 2015, the other receivables, are as follows:

	2017	2016	2015
Receivables from liquidation of money market transactions	\$ 1,856	\$ -	\$ 1,612
Receivables from 24 to 96 hours on foreign exchange transactions	14,093	16,892	11,176
Receivables from transactions	1,380	189	297
Intercompany administrative services	-	1	-
Employee loans and other debits	19	20	21
Collateral delivered for the derivative financing transactions	99	184	530
Other receivables	27	9	3
	<u>17,474</u>	<u>17,295</u>	<u>13,639</u>
Allowance for doubtful accounts	<u>(96)</u>	<u>(68)</u>	<u>(59)</u>
Total	<u>\$ 17,378</u>	<u>\$ 17,227</u>	<u>\$ 13,580</u>

12. Furniture and fixtures, net

As of December 31, 2017, 2016 and 2015, furniture and fixtures are as follows:

	2017	2016	2015
Office furniture and equipment	\$ 88	\$ 102	\$ 91
Computers and communications equipment	58	96	71
Vehicles	4	8	8
	<u>150</u>	<u>206</u>	<u>170</u>
Less-			
Accumulated depreciation	<u>(66)</u>	<u>(112)</u>	<u>(87)</u>
Total, furniture and fixtures (net)	<u>\$ 84</u>	<u>\$ 94</u>	<u>\$ 83</u>



The annual depreciation rates were as follows:

	Percentage
Computers and communications equipment	30%
Vehicles	25%
Office furniture and equipment	10%

For the years ended at December 31, 2017, 2016 and 2015, depreciation expense amounted \$23, \$27 and \$25, respectively.

13. Other assets

As of December 31, 2017, 2016 and 2015, goodwill and other assets were as follows:

	2017	2016	2015
Goodwill:			
Tempus	\$ -	\$ 407	\$ 407
Monex Europe LTD.	-	326	326
Conversion effect	-	370	253
	<u>-</u>	<u>1,103</u>	<u>986</u>
Deferred charges, prepayments and intangible:			
Other intangible assets arising from the acquisition of Tempus (1)	-	176	176
Other intangible assets arising in the acquisition of Monex Europe (1)	-	635	635
Conversion effect	-	205	161
Intangible assets	<u>-</u>	<u>1,016</u>	<u>972</u>
Adjustments and improvements	227	276	217
Software	98	99	56
Prepayments	140	190	102
Investment projects	85	24	5
Other deferred charges	47	42	8
	<u>597</u>	<u>1,647</u>	<u>1,360</u>
Less - accumulated amortization	<u>(126)</u>	<u>(182)</u>	<u>(147)</u>
	471	1,465	1,213
Other assets:			
Operational deposit	5	12	11
	<u>5</u>	<u>12</u>	<u>11</u>
	<u>\$ 476</u>	<u>\$ 2,580</u>	<u>\$ 2,210</u>

- (1) As of December 31, 2016 and 2015, the assets intangibles generated in the acquisitions of Tempus and Monex Europe were as follows:

	2016	2015
Licenses	\$ 71	\$ 71
Sales force	109	109
Operating agreements with banks	457	457
Software	13	13
No compete agreements	161	161
Total	<u>811</u>	<u>811</u>
Conversion effect	205	161
Total assets for the period	<u>1,016</u>	<u>972</u>
Amortization	<u>(66)</u>	<u>(63)</u>
Total intangible assets	<u>\$ 950</u>	<u>\$ 909</u>

On November 30, 2017, the goodwill and the other intangibles generated in the acquisitions of Tempus and Monex Europe were eliminated in the corporate restructuring mentioned in Note 1.



14. Foreign currency position

As of December 31, 2017, 2016 and 2015, foreign currency assets and liabilities of the Institution were as follows:

	Millions of US Dollars			Millions of Euros			Millions of Sterling Pounds			Other foreign currencies in millions of U.S. dollars		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Funds available	USD 535	USD 623	USD 718	€ 45	€ 49	€ 23	£ 1	£ 56	£ 53	USD 7	USD 6	USD 7
Margin accounts	5	4	5	-	-	-	-	-	-	-	-	-
Investment in securities	870	251	45	-	-	9	-	-	-	-	-	-
Derivatives	968	-	896	16	-	17	6	71	21	-	-	-
Repurchase agreements	45	-	-	-	-	-	-	-	-	-	-	-
Performing loan portfolio	426	426	388	-	-	-	-	-	-	-	-	-
Other receivables	63	7	35	-	-	-	-	47	18	1	1	-
Furniture and equipment	-	-	-	-	-	-	-	-	-	-	-	-
Permanent investments	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes and deferred taxes	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	49	48	-	-	-	-	48	45	-	-	-
Deposits	(1,059)	(677)	(368)	(29)	(38)	(27)	(1)	(1)	(1)	6	(5)	(7)
Bank and other loans	(13)	(13)	(11)	-	-	-	-	-	-	-	-	-
Liabilities arising from sale and repurchase agreements	(92)	(86)	(8)	-	-	(2)	-	-	-	-	-	-
Derivatives	(1,681)	(4)	(1,581)	(20)	-	(18)	(6)	(8)	-	-	-	-
Collateral	(68)	(37)	(10)	-	-	-	-	(66)	(43)	-	-	-
Sundry creditors and other payables	(11)	(33)	(63)	(5)	(4)	(3)	-	(76)	(27)	-	(2)	-
Deferred credits and prepayments	(2)	(4)	(2)	-	-	-	-	-	-	-	-	-
Collateral sold or pledged in guarantee	-	-	-	-	-	-	-	-	-	-	-	-
Asset (liability) position	USD (14)	USD 506	USD 92	€ 7	€ 7	€ (1)	£ -	£ 71	£ 66	USD 2	USD -	USD -
Mexican peso equivalent	\$ (275)	\$ 10,433	\$ 1,587	\$ 165	\$ 152	\$ (19)	\$ -	\$ 1,809	\$ 1,679	\$ 39	\$ -	\$ -

As of December 31, 2017, 2016 and 2015, the "Fix" (48-hour) exchange rate submitted by the Central Bank and used was \$19.6629, \$20.6194 and \$17.2487 per U.S. dollar, respectively.

As of December 31, 2017, 2016 and 2015, the "Euro" exchange rate submitted by the Central Bank and used was \$23.6063, \$21.7534 and \$18.7493 per Euro, respectively.

On February 23, 2017, the foreign currency position (unaudited) is similar to the position of the end of the year. The foreign exchange "Fix" at this date is \$18.5659 per U.S. dollar and \$22.8463 per Euro.

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

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



15. Deposits

As of December 31, 2017, 2016 and 2015, deposits were as follows:

	2017	2016	2015
Demand deposits	\$ 18,946	\$ 15,384	\$ 8,495
Time deposits-			
General public	18,816	10,733	4,984
Money market:			
Deposit certificates	1,795	434	2,033
Promissory notes with interest payable at maturity (BMONEX)	-	-	2,149
Debt securities			
Debt securities (Bonds) (1)	1,332	1,440	1,084
Global account for inactive deposits	3	3	3
Total deposits	\$ 40,892	\$ 27,994	\$ 18,748

Short-term maturities which generated interest at an average 5.60%, 7.33% and 3.43% rate, in 2017, 2016 and 2015, respectively.

- (1) In 2016, the Institution made its first public offering of securitization certificates under ticker symbol "BMONEX15", which were registered with the National Securities Registry and listed with the Mexican Stock Exchange, the offering securitization was for the amount of \$1,000 according to the program created for long-term revolving securitization certificates for up to the amount of \$8,000. The securitization certificates were issued for a period of 1,092 days, which is equal to three years, and placed at the TIEE 28-day rate + 90 basis points.

16. Bank and other loans

As of December 31, 2017, 2016 and 2015, bank loans were as follows:

	2017			2016	2015
	Mexican pesos	Foreign currency	Rate	Total	Total
Demand deposits-					
"Call Money" received	\$ -	\$ -		\$ 344	\$ -
Total demand deposits	-	-		344	-
Short term-					
FIRA	5	-	7.8790%	5	22
Clusters	824	256	5.7110%	1,080	838
Digital loans	-	-		9	20
Total short term	829	256		1,085	880
Total bank loans and other loans	\$ 829	\$ 256		\$ 1,085	\$ 880

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

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

As December 31, 2017, 2016 and 2015 the Institution has lines of credit that are not disputed by the amount of \$801, \$137 and \$273 respectively, and for \$4,910, \$957 and \$1,126 respectively.



17. Comparative maturities of principal assets and liabilities

The maturities of the significant assets and liabilities held as of December 31, 2017 were as follows:

	6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Assets:					
Funds available (1)	\$ 16,161	\$ -	\$ -	\$ 229	\$ 16,390
Margin accounts	333	-	-	-	333
Investment in securities	17,762	4,883	6,903	3,642	33,190
Repurchase agreements	1,296	-	-	-	1,296
Derivatives	828	327	549	822	2,526
Performing loan portfolio	9,360	475	8,299	3,003	21,137
Other receivables (net)	17,378	-	-	-	17,378
Total assets	63,118	5,685	15,751	7,696	92,250
Liabilities:					
Deposits	39,891	1,001	-	-	40,892
Bank and loans	1,080	-	5	-	1,085
Liabilities arising from sale and repurchase agreements	17,378	-	122	-	17,500
Derivatives	510	225	725	757	2,217
Obligations arising from settlement of transactions	22,528	-	-	-	22,528
Liabilities arising from cash collateral received	1,619	-	-	-	1,619
Other accounts payables	1,102	-	-	173	1,275
Total liabilities	84,108	1,226	852	930	87,116
Assets less liabilities	\$ 20,990	\$ 4,459	\$ 14,899	\$ 6,766	\$ 5,134

- (1) The heading of Funds available includes Monetary Regulation Deposits with Central Bank. Such deposits are \$229 for the three years. This deposit cannot be freely available.

18. Related party transactions and balances

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

The main balances with related parties are as follows:

	2017	2016	2015
Asset-			
Funds available	\$ 12,086	\$ 9,116	\$ 9,710
Repurchase agreements	\$ 2,542	\$ 12,627	\$ -
Other receivables	\$ 12,469	\$ 11,771	\$ 1,758
Loan portfolio	\$ 752	\$ -	\$ -
Derivative	\$ 2	\$ -	\$ -
Other assets	\$ 8	\$ 9	\$ 7
Liability-			
Deposits	\$ 361	\$ 175	\$ 129
Repurchase agreements	\$ 423	\$ 7,307	\$ 1,103
Derivatives	\$ 10	\$ 7	\$ -
Other payables accounts	\$ 1,056	\$ 2,693	\$ 11,454
Collateral sold or pledged as security	\$ 16,649	\$ 16,396	\$ -



As of December 31, 2017, 2016 and 2015, the most significant transactions carried out by the Institution with related and affiliated companies (at face values) were as follows:

	2017	2016	2015
Income from-			
Interest	\$ 676	\$ 376	\$ 178
Corporate services	\$ 10	\$ 8	\$ 7
Expenses for-			
Interest and commissions	\$ 1,489	\$ 702	\$ 285
Corporate services	\$ 92	\$ 85	\$ 66
Gains/losses on financial assets and liabilities (net)	\$ 47	\$ 92	\$ 1,701

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

19. Labor benefits

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

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

As of December 31, 2017, 2016 and 2015, balances and activity reflected in employee benefits, which include, seniority premiums, pensions and severance payments, were as follows:

	2017	2016	2015
Defined benefit obligation	\$ 427	\$ 493	\$ 456
Plan assets	(163)	(150)	(144)
Underfunded status	264	343	312
Unamortized:			
Past service cost	(80)	(107)	(133)
Past services not recognized	(11)	(16)	(21)
Net projected liability	\$ 173	\$ 220	\$ 158

As of December 31, 2017, 2016 and 2015, the net projected liabilities for severance payments at the end of the employment relationship for reasons other than restructuring are \$86, \$64 and \$66, respectively.

As of December 31, 2017, Management decided to adjust the seniority requirement to receive the retirement pension from 15 to 25 years, as well as the reference salary for the pension calculation. The effect of these adjustments represents a gain of \$100, recognized directly in results for the year.

Furthermore, as of December 31, 2017, management decided to change the benchmark discount rate from the market rate of government bonds to the market rate of high quality corporate bonds in order to determine the present value of long-term labor liabilities. The effect generated by the change in criterion was \$38, which was recognized in results for the year.



Net periodic cost for defined benefits consists of the following:

	2017	2016	2015
Service cost for the year / Interest net related to PNBD	\$ (63)	\$ 38	\$ 35
Financial cost and expected return on plan assets	27	23	14
Recycling of remediation	(1)	-	-
Recycling of unrecognized gains or losses	1	1	-
Amortization of transition liability, labor cost of past service and actuarial gain	-	(32)	8
Net cost	(36)	30	57
Change in accounting estimate	(38)	-	-
PNBD remeasurement recorded in comprehensive income	18	5	-
Gradual recognition in retained earnings	27	27	-
Defined benefits cost	<u>\$ (29)</u>	<u>\$ 62</u>	<u>\$ 57</u>

The economic assumptions used were as follows:

	2017	2016	2015
Discount rate	8.50%	8.12%	7.57%
Expected rate of return of assets	8.50%	8.12%	7.57%
Rate of wage increases	4.50%	4.50%	3.50%

The changes in the liability net related to defined benefits were as follows:

	2017	2016	2015
Opening balance (face value)	\$ 220	\$ 158	\$ 101
Payment of benefits and fund contributions	(18)	-	-
Net cost of the period and profit and losses recognition	(29)	62	57
Net projected liability	<u>\$ 173</u>	<u>\$ 220</u>	<u>\$ 158</u>

As of December 31, 2017, 2016 and 2015, the fair value of the assets and their investment structure are integrated as follows:

	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Capital market	\$ 41	25%	\$ 40	27%	\$ 28	20%
Money market	122	75%	98	65%	116	80%
Repurchase market	-	-	12	8%	-	-
Total	<u>\$ 163</u>		<u>\$ 150</u>		<u>\$ 144</u>	



As of December 31, 2017, 2016 and 2015, there is no fund created for severance payments at the end of the employment relationship for reasons other than restructuring.

Changes in the present value of the defined benefits obligation:

	2017	2016	2015
Present value of the defined benefits obligation as of January 1	\$ 493	\$ 456	\$ 375
Actual payment of benefits during the year	(18)	-	(7)
Actuarial (loss) profit in defined benefit obligation	15	(3)	27
Cost of the year	<u>(63)</u>	<u>40</u>	<u>61</u>
Present value of the defined benefits obligation as of December 31, of each year	<u>\$ 427</u>	<u>\$ 493</u>	<u>\$ 456</u>

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

	2017	2016	2015
Deferred PTU asset:			
Provisions	\$ 30	\$ 8	\$ 22
Labor benefits	17	21	15
Gain on derivative financial instrument transaction	<u>3</u>	<u>67</u>	<u>-</u>
Allowance for loan	<u>36</u>	<u>30</u>	<u>17</u>
Others	<u>15</u>	<u>14</u>	<u>9</u>
Total	101	140	63
Deferred PTU liability:			
Loss on derivative financial instrument transaction	-	-	(12)
Advance payments	<u>(6)</u>	<u>(7)</u>	<u>(4)</u>
Total	<u>(6)</u>	<u>(7)</u>	<u>(16)</u>
Total asset	<u>\$ 95</u>	<u>\$ 133</u>	<u>\$ 47</u>

The deferred PTU recorded in the results of the period amounted \$38, \$(85) and \$(31) in 2017, 2016 and 2015, respectively.

20. Obligations arising from settlements of transactions

As of December 31, 2017, 2016 and 2015, obligations arising from settlement of transactions are as follows:

	2017	2016	2015
Creditors from operations by foreign exchange from 24 to 96 hours	\$ 21,771	\$ 25,704	\$ 20,862
Creditors for settlement of transactions of securities loan	684	-	110
Creditors for settlement of transactions of derivatives	<u>73</u>	<u>42</u>	<u>10</u>
Total	<u>\$ 22,528</u>	<u>\$ 25,746</u>	<u>\$ 20,982</u>



21. Sundry creditors and other payables

As of December 31, 2017, 2016 and 2015, sundry creditors and other payables were as follows:

	2017	2016	2015
Employee retirement obligation provision	\$ 336	\$ 370	\$ 302
Funds	<u>(163)</u>	<u>(150)</u>	<u>(144)</u>
	173	220	158
Suppliers	11	57	45
Creditors from operations (1)	430	513	452
Intercompany payables	3	4	3
Payable commissions, bounds and other gratifications	201	515	281
Contingent liabilities	82	81	52
Various taxes and social security contribution	25	119	56
Taxes withheld	53	61	43
Reclassification of negative bank balances	64	103	54
Others	<u>233</u>	<u>571</u>	<u>299</u>
	<u>\$ 1,275</u>	<u>\$ 2,244</u>	<u>\$ 1,443</u>

- (1) Based on the internal accounting policy for the cancellation of unidentified customer deposits, whose aging equals or exceeds three years as of the deposit date, at December 31, 2017, 2016 and 2015 the Institution canceled balances of \$36, \$42 and \$31, respectively.

22. Income taxes

The Institution is subject to ISR. In accordance with ISR Law as of December 31, 2017, 2016 and 2015, the rate was at 30% and will continue at the same percentage thereafter.

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

Tax loss carryforwards - As of December 31, 2017, the Institution does not have ISR tax loss carryforwards.

Deferred taxes - Deferred taxes amounted \$464, \$615 and \$223 as of December 31, 2017, 2016 and 2015, respectively.

At December 31, 2017, 2016 and 2015, deferred taxes are composed as follows:

	2017	2016	2015
Deferred ISR asset:			
Provisions	\$ 91	\$ 24	\$ 65
Labor obligations	51	64	46
Allowance for loan losses	107	89	52
Financial instruments valuation	10	201	-
Others	<u>128</u>	<u>127</u>	<u>60</u>
Total deferred ISR asset	387	505	223



	2017	2016	2015
Deferred ISR liability:			
Prepaid expenses	(18)	(23)	(13)
Valuation of derivative instrument	-	-	(35)
Total deferred ISR liability	(18)	(23)	(48)
Deferred PTU asset	95	133	47
Deferred taxes of subsidiaries	-	(135)	(110)
Net deferred taxes	\$ 464	\$ 480	\$ 112

Management does not record a reserve on deferred tax (asset), since it considers a high probability that it can be recovered in accordance with the financial and tax projections.

The deferred tax is recorded in the statement of income or in the shareholders' equity in accordance with the item that gives origin to it.

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

	2017	2016	2015
Legal rate	30%	30%	30%
Valuation of investment securities	(74)%	6%	6%
Annual adjustment for inflation	(10)%	(1)%	(3)%
Non deductible expenses	1%	-	1%
Others	85%	(17)%	(4)%
Effective tax rate	32%	18%	30%

Other tax issues:

As of December 31, 2017, 2016 and 2015, the Institution, as a standalone entity, has the following balances for significant tax measures:

	2017	2016	2015
Contributed capital account	\$ 3,414	\$ 3,666	\$ 2,931
Net tax income account	\$ 3,447	\$ 3,833	\$ 2,741

23. Stockholders' equity

As of December 31, 2017, 2016 and 2015, capital stock, at par value, was as follows:

	Number of shares			Amount		
	2017	2016	2015	2017	2016	2015
Fixed capital - Series "O"						
Shares	2,740,473	2,740,471	2,124,571	\$ 2,741	\$ 2,741	\$ 2,125
Total	2,740,473	2,740,471	2,740,471	\$ 2,741	\$ 2,741	\$ 2,125



During a Stockholders' Ordinary General Meeting held on April 27, 2017, the transfer of the net result for 2016 for the amount of \$931 to "Results from previous years" was approved. It was decided to increase the equity reserve fund referred to in article 99-A of the Law by the amount of \$93, while dividends were declared for the amount of \$350.

Stockholders' Special Meetings held on June 29 and October 31, 2017 approved an increase in common stock of \$500 through the subscription and payment of 500,000 ordinary, nominative, Series "O" shares. The Institution recorded such increase in the stockholders' equity account "Contribution for future capital increases formalized by the Board of Directors" after obtaining authorization from the Commission to make such increase.

As discussed in Note 1, the breakup of the company, which survived as the spinnor company, and the creation of a new spinnee company in the name of MBA E was approved on December 13, 2017 in a Stockholders' Special Meeting.

As a result of the breakup, the Institution's common stock was reduced by \$1,000 represented by one Series O share at par value of \$1,000, held by Monex Grupo Financiero S.A. de C.V., leaving the sum of \$2,741, subject to authorization by the Commission.

Foreign corporations that exercise function of authority may not participe under any circumstances in the capital of the Institution. National financial entities cannot do either, including those which form part of the Institution, except when they act as institucional investors, pursuants to Article 13 of the Law of Credit Institutions.

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

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

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

According to the Income Tax Law, dividends paid from residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Institution. Nonresidents may apply treatments to avoid double taxation.

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

As of December 31, 2017, 2016 and 2015, in accordance with the capital requirements in effect applicable to full service banks, the Institution presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

	2017	2016	2015
Net capital / required capital	2.02%	1.85%	2.08%
Basic capital / assets subject to credit, market and operational risk	16.14%	14.77%	16.62%
Net capital / assets subject to credit risk	20.65%	19.26%	24.43%
Net capital / assets subject to credit, market and operational risk	16.14%	14.77%	16.62%



The capitalization ratio of the Institution was updated and submitted to the Central Bank on January 22, 2018.

As of December 31, 2017, 2016 and 2015, the net capital used to calculate the capital ratio is as follows:

	2017	2016	2015
Basic capital:			
Stockholder's equity disregarding convertible securities and subordinate debt	\$ 5,661	\$ 5,770	\$ 5,746
Less:			
Organization costs and other intangible	(264)	(328)	(44)
Investment in shares of entities	(4)	(1,375)	(1,254)
	(268)	(1,703)	(1,298)
Complementary capital:			
Allowance for loan losses	352	298	176
Total net capital	\$ 5,393	\$ 4,365	\$ 4,624

	2017		2016		2015	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Market risk:						
Transactions with nominal rate and above par rate in Mexican pesos	\$ 1,166	\$ 93	\$ 1,600	\$ 128	\$ 2,402	\$ 192
Transactions with real rate	1,127	90	1,650	132	1,940	155
Transactions with nominal rate in foreign currency	584	47	800	63	891	71
Transactions with shares and related to shares	13	1	150	12	154	12
Foreign exchange transactions	320	26	376	30	135	11
Transactions in UDIS relating INPC	18	1	11	1	10	1
For impact Gamma	1	-	-	-	137	11
Subtotal	3,229	258	4,587	366	5,669	453
Credit risk:						
Deposits and loans	20,248	1,620	18,275	1,462	11,612	929
From repurchase and derivatives counterparties	521	42	1,350	108	576	46
From issuers of debt securities in position	2,304	184	1,475	119	1,373	110
From long-term investment in shares and other assets	1,019	82	713	57	1,150	92
From guarantees and credit lines and securitization	686	55	837	66	892	71



	2017		2016		2015	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Market risk:						
From collateral issuers and persons received	17	1	12	1	7	1
Transactions with related parties	498	40	-	-	626	50
Due to the credit risk of the counterparty in case of non-compliance with the free delivery mechanisms	114	9	-	-	-	-
Adjustment for credit valuation in derivative transactions	714	57	-	-	-	-
Subtotal	26,121	2,090	22,662	1,813	16,236	1,299
Operational risk:	4,062	325	2,293	183	1,963	157
Total assets at risk	<u>\$ 33,412</u>	<u>\$ 2,673</u>	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>

At December 31, 2017, 2016 and 2015, weighted positions by market risk are as follows:

	2017		2016		2015	
	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement
Market risk	\$ 3,229	\$ 258	\$ 4,587	\$ 366	\$ 5,669	\$ 453
Credit risk	26,121	2,090	22,662	1,813	16,236	1,299
Operational risk	4,062	325	2,293	183	1,963	157
	<u>\$ 33,412</u>	<u>\$ 2,673</u>	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>

See the web page www.monex.com.mx for more information related.

25. Ratings

As of December 31, 2017, the Institution has the following ratings:

	Standard & Poor's	Fitch Ratings
National level-		
Short-term	mxA-1	F1(mex)
Long-term	mxA+	A+(mex)
Financial strength-		
Outlook	Stable	Stable
Released date	September 1, 2017	October 11, 2017

26. Contingencies and commitments

- a) **Lawsuits** - Over the normal course of business, the Institution has been involved in certain lawsuits which are not expected to significantly affect their financial position or future results of operations. Provisions have been recognized for those matters representing probable losses. As of December 31, 2017 and 2016, the Institution has contingency reserves for \$82 and \$81, which are included in "Sundry creditors and other accounts payable". The Institution's management considers the reserve is reasonable in accordance with its internal and external legal counsel opinion. At December 31, 2015 the Institution does not have provisions for contingencies.



- b) **Administered loan portfolio** - As discussed in Note 9, the portfolio administered by the Institution derived from the sales made and equity held under the outline agreement executed with Exim-Bank and Pefco is for the amount of \$20, \$22 and \$206 at December 31, 2017, 2016 and 2015, respectively. In relation to this loan portfolio, the Institution has committed to assume all credit risks in the event of noncompliance with the terms agreed with Exim-Bank regarding the documentation of each loan. However, management considers that the possibility of a refund to Exim-Bank is unlikely.
- c) **Commitment** - As of December 31, 2017, 2016 and 2015 the Institution has service contracts (to receive), related to its operation, for 4%, 3% and 5%, respectively, of expenses, which are part of the Institution's current expenses.

27. Memorandum accounts

Memorandum accounts are not included in the balance sheet and only the memoranda accounts in which transactions directly related to the balance sheet are recorded, such as collateral received in guarantee by the Institution, loan commitments, collateral received and sold or delivered in guarantee and accrued interest not collected of non performing portfolio. Aside from the above memoranda accounts, the Institution also has the following:

a. Trust mandate transactions (unaudited) -

As of December 31, 2017, 2016 and 2015, the Institution administered the following trusts and mandates:

	2017	2016	2015
Trusts under-Administration	\$ 107,979	\$ 82,727	\$ 71,859
Guarantee	5,760	4,517	4,302
Investment	<u>2,056</u>	<u>1,689</u>	<u>2,439</u>
Total transactions under trust or mandate	<u>\$ 115,795</u>	<u>\$ 88,933</u>	<u>\$ 78,600</u>

As of December 31, 2017, 2016 and 2015, the income from the administration of such assets was \$118, \$94 and \$77, respectively.

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

As of December 31, 2017, 2016 and 2015, other record accounts have a balance of \$139,903, \$3,660, and \$3,106, respectively.

28. Financial margin

As of December 31, 2017, 2016 and 2015, the financial margin was as follows:

	2017	2016	2015
Interest income:			
Investment securities, debt and equity	\$ 2,763	\$ 1,295	\$ 780
Bank and other loans	3	3	7
Deposits with financial institutions	94	39	14
Loan portfolio			
Commercial loans	1,437	946	533
Housing loans	57	7	11
Others	<u>290</u>	<u>44</u>	<u>25</u>
	<u>4,644</u>	<u>2,334</u>	<u>1,370</u>



	2017	2016	2015
Interest expenses:			
Interest from repurchase agreements	(2,203)	(893)	(350)
Interest on bank and other loans	(90)	(60)	(42)
Demand deposits	(68)	(54)	(46)
Time deposits	(679)	(536)	(318)
Stock certificates	(80)	-	-
Others	(4)	(5)	(1)
	<u>(3,124)</u>	<u>(1,548)</u>	<u>(757)</u>
Financial margin	<u>\$ 1,520</u>	<u>\$ 786</u>	<u>\$ 616</u>

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

For the years ended December 31, 2017, 2016 and 2015, the main items comprising the gains/losses on financial assets and liabilities (net) are as follows:

	2017	2016	2015
Foreign exchange result:			
Valuation	\$ (9)	\$ 15	\$ (1)
Realized gains or losses	<u>2,472</u>	<u>2,454</u>	<u>2,292</u>
	2,463	2,469	2,291
Derivatives result:			
Valuation	513	(163)	(60)
Realized gains or losses	<u>(296)</u>	<u>681</u>	<u>422</u>
	217	518	362
Trading securities result:			
Valuation	110	(136)	(16)
Realized gains or losses	<u>(51)</u>	<u>292</u>	<u>(122)</u>
	59	156	(138)
Equity result:			
Valuation	<u>-</u>	<u>4</u>	<u>1</u>
	-	4	1
Total	<u>\$ 2,739</u>	<u>\$ 3,147</u>	<u>\$ 2,516</u>

As the years ended December 31, 2017 and 2016, the institution reclassified a valuation equivalent to \$171 and \$71, respectively, of the comprehensive result to the result for the year, corresponding to securities available for sale. For the year 2015, no movements are reported.



30. Segment information

As of December 31, 2017, 2016 and 2015, the Institution identified operating segments within its different business and it considers each as part of its internal structure and with its own profit risks and opportunities. These segments are regularly reviewed in order to assign operating monetary resources and evaluate their performance.

2017	Foreign exchange	Banking products	Derivative	Loans and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 2,714	\$ 33	\$ 1,494	\$ -	\$ 403	\$ 4,644
Interest expense	(1)	(2,180)	-	(836)	-	(107)	(3,124)
Allowance for loan losses	-	-	-	(170)	-	-	(170)
Commission and fee income	77	1	-	38	118	25	259
Commission and fee expense	(14)	(1)	(10)	(26)	-	(97)	(148)
Gains/losses on financial assets and liabilities (net)	2,472	58	208	-	-	1	2,739
Administration and marketing expenses	(1,840)	(431)	(168)	(399)	(86)	(370)	(3,294)
Other operating income (expenses), net	-	-	-	49	-	141	190
Current income taxes	(138)	(32)	(13)	(30)	(7)	(28)	(248)
Deferred income taxes	(57)	(14)	(5)	(12)	(3)	(11)	(102)
Discontinued activity	-	-	-	-	-	274	274
Equity in income of unconsolidated associate companies	-	-	-	-	-	(133)	(133)
Total	\$ 499	\$ 115	\$ 45	\$ 108	\$ 22	\$ 239	\$ 887

2016	Foreign exchange	Banking products	Discontinued activity	Derivative	Loas and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 1,231	\$ -	\$ 26	\$ 957	\$ -	\$ 120	\$ 2,334
Interest expense	(2)	(822)	-	-	(596)	-	(128)	(1,548)
Allowance for loan losses	-	-	-	-	(146)	-	-	(146)
Commission and fee income	81	1	-	-	32	94	14	222
Commission and fee expense	(12)	-	-	(11)	(3)	-	(86)	(112)
Gains/losses on financial assets and liabilities (net)	2,453	161	-	533	-	-	-	3,147
Administration and marketing expenses	(1,929)	(436)	-	(420)	(216)	(72)	(25)	(3,098)
Other operating income (expenses), net	-	-	-	-	39	-	112	151
Current income taxes	(286)	(65)	-	(62)	(32)	(11)	(3)	(459)
Deferred income taxes	177	40	-	39	19	7	40	285
Discontinued activity	-	-	300	-	-	-	-	300
Equity in income of unconsolidated associate companies	-	-	(145)	-	-	-	-	(145)
Total	\$ 482	\$ 110	\$ 155	\$ 105	\$ 54	\$ 18	\$ 7	\$ 931



2015	Foreign exchange	Banking products	Discontinued activity	Derivative	Loas and deposits	Trust services	Others	Total
Interest income	\$ -	\$ 765	\$ -	\$ 17	\$ 544	\$ -	\$ 44	\$ 1,370
Interest expense	-	(330)	-	-	(387)	-	(40)	(757)
Allowance for loan losses	-	-	-	-	(61)	-	-	(61)
Commission and fee income	76	1	-	-	32	77	14	200
Commission and fee expense	(14)	-	-	(9)	(3)	-	(96)	(122)
Gains/losses on financial assets and liabilities (net)	2,296	(135)	-	358	-	-	(3)	2,516
Administration and marketing expenses	(1,930)	(246)	-	(299)	(102)	(63)	(42)	(2,682)
Other operating income (expenses), net	-	-	-	-	-	-	130	130
Current income taxes	(201)	(26)	-	(32)	(11)	(6)	(4)	(280)
Deferred income taxes	75	9	-	12	4	2	2	104
Discontinued activity	-	-	252	-	-	-	-	252
Equity in income of unconsolidated associate companies	-	-	(108)	-	-	-	-	(108)
Total	\$ 302	\$ 38	\$ 144	\$ 47	\$ 16	\$ 10	\$ 5	\$ 562

31. Spinoff of financial statements of companies under common control

As a result of the corporate restructuring of the international business section described in Note 1, the Institution divested such segment. According to the Institution's internal policy, it was decided not to restate financial statements from previous years and to present the international business segment as a discontinued operation in the statement of income. The balance sheet balances at the restructuring date are shown below:

	As November 30, 2017 (unaudited)
Assets:	
Funds available	\$ 2,513
Derivatives	1,110
Other receivables (net)	1,644
Furniture and fixtures (net)	23
Deferred taxes (net)	5
Other assets	2,168
Total assets	\$ 7,463
Liabilities	
Deposits	\$ -
Derivatives	307
Creditors for liquidation of operations	1,626
Deferred tax assets	31
Creditors for collateral received in cash	1,686
Sundry creditors and another accounts payable	522
Income taxes	154
Deferred tax assets and liabilities	28
Total liabilities	4,354
Stocholders	
Stock Capital	902
Earned capital	
Capital Reserves	26
Surplus brought forward	450
Cumulative translation effect	426
Net results	141
Non-controlling interest	1,164
Total stockholders and liabilities	\$ 7,463



The results generated by the discontinued operation for the period from January 1 to November 30, 2017 and for the year ended December 31, 2016 and 2015 are shown below:

	For the period from January 1 to November 30, 2017 (unaudited)	For the year ended December 31, 2016	For the year ended December 31, 2015
Interest income	\$ 5	\$ 4	\$ 5
Interest expense	-	-	-
Commission and fee income	10	11	9
Commission and fee expense	(33)	(29)	(21)
Other operating income	(10)	(4)	48
Gains/losses on financial assets and liabilities (net)	1,707	1,929	1,281
Administrative and promotional expenses	(1,332)	(1,522)	(975)
Current income taxes	(67)	(86)	(74)
Deferred income taxes	(6)	(3)	(21)
Non-controlling interest	(133)	(145)	(108)
Total	<u>\$ 141</u>	<u>\$ 155</u>	<u>\$ 144</u>

	For the period from January 1 to November 30, 2017 (unaudited))	For the year ended December 31, 2016
Interest income	\$ 5	\$ 4
Interest expense	-	-
Commission and fees	10	11
Commission and fees paid	(33)	(29)
Other operating income	(10)	(4)
Financial intermediation results	1,707	1,929
Administrative and promotional expenses	(1,332)	(1,522)
Current income taxes	(67)	(86)
Deferred income taxes	(6)	(3)
Minority interest	(133)	(145)
Total	<u>\$ 141</u>	<u>\$ 155</u>

In the corporate restructuring of the international business segment, the Financial Group derecognized the minority interest recorded in stockholders' equity as of November 30, 2017, for a value of \$ 133 (unaudited).

32. Comprehensive risk management (unaudited)-

Applicable standards-

This disclosure is supplemental to the obligation to disclose information on adopted risk management policies, procedures and methodologies, together with information on potential losses by risk and market type. Management has policies and procedures manuals which follow the guidelines established by the Commission and Central Bank to prevent and control the risks exposure the Institution is incurs based on the transactions it performs.



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

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

a. *Environment -*

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

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

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

b. *Risk management entities -*

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

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

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

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

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

c. *Market risk -*

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

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



d. ***Liquidity risk -***

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

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

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

Daily, the Treasury Department monitors the liquidity requirement for foreign currency provisions in Circular 3/2015 of the Central Bank.

e. ***Credit risk -***

The Institution's credit risk is managed in each phase of the credit process: promotion, evaluation, approval, implementation, follow-up, control and recovery.

This risk management is carried out by identifying, measuring, supervising and informing the different corporate bodies and business units of the risks to which the credit portfolios and the individual credits are exposed.

Individual risks are managed by means of expert analysis, and by classifying the portfolio of each borrower and each credit.

For credit portfolios the risk is managed through the establishment and follow-up of criteria such as: concentration limits, financing limits, indicators of portfolio quality, analysis of the evolution of risk indicators and trends.

Furthermore, there is a follow-up methodology in place for the entire portfolio, in which policies and parameters are applied to classify the risk level of the borrowers, and criteria are also established to manage borrowers considered as high risk.

The Recovery Unit plays an active role in the process of risk management and portfolio follow-up, with the aim of minimizing the risks for the Institution.

Furthermore, the Institution makes the classification of each customer using the technology established by the Commission, which considers aspects related to financial risk, payment experience and collateral.

As established in the Provisions, the Institution established a maximum credit risk exposure limit equal to 40% of basic capital for an individual or entity or group of entities constituting a joint risk.

f. ***Operating risk -***

The Comprehensive Risk Management Manual (MAIR) and Operating Risk Management Manual (MARO) establish policies and procedures for monitoring and control of operating risks.

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



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

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

Scale	Level
1	Low
2	Medium
3	High

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

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

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

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

g. ***Legal risk -***

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

h. ***Technological risk -***

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

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

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

a) ***Market risk -***

At December 31, 2017, 2016 and 2015, the VaR was \$19, \$30 and \$14, respectively (unaudited) and with a 99% reliance for one day. This value represents the maximum loss expected during one day and is situated within the limits established by the Institution.



At December 31, 2017, 2016 and 2015, portfolio concentration by segment was as follows (unaudited):

	2017	2016	2015
Farming	\$ 660	\$ 596	\$ 406
Foods	859	513	257
Automotive	1,031	1,187	1,026
Commerce	1,498	1,132	740
Housing construction	584	550	150
Specialized construction	1,152	1,076	805
Energy	201	-	-
Pharmacist	13	12	13
Financial	2,806	2,155	1,456
Government	1,001	-	-
Hospitality / Restaurants (tourism)	618	1,290	1,183
Chemistry Industry	727	317	280
Real state	1,936	1,915	1,552
Manufacturing (manufacture of plastic)	313	906	614
Manufacturing (manufacture of electrical and electronic)	17	19	18
Manufacturing (manufacture of concrete products)	1,126	714	636
Manufacturing (other)	1,079	726	497
Mining and metals	779	484	351
Natural person	1,117	680	411
Suppliers (PEMEX)	488	597	902
Services	2,903	2,371	503
Transport and telecommunications	591	666	342
Others	648	379	329
Total	\$ 21,337	\$ 18,285	\$ 12,471

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

Note: As of 31 December 2017 sectoral classification criteria including more industries to identify more accurately the risk are updated. For comparative purposes of this report the information regroups 2016 and 2015.

Market risk statistics

	VaR Minimum	VaR Average	VaR Maximum
Global	15	20	24
Derivatives	4	7	9
Money market	10	16	21
Foreign exchange	-	0.04	0.089

*The average value refers to the daily exposure of the money market, derivatives and foreign-exchange as of December 31, 2017.



b) **Credit risk -**

Corporate bonds portfolio.

The credit VaR of the corporate bonds portfolio of the Money market as of December 31, 2017 in the Institution was (1.62%) relative to an investment of \$11,512, whereas the credit stress of such portfolio was (4.47%) at the same date. The credit VaR was calculated using the Monte Carlo Simulation method with a confidence level of 99% on a one-year horizon; the stress was obtained by considering the following lower classification of each instrument.

	VaR	Expected loss	Expected non loss
Minimum	1.49%	0.32%	1.17%
Maximum	2.62%	0.45%	2.17%
Average	2.05%	0.40%	1.66%

Note: The figures presented are expressed in amounts relative to the value of the corporate bonds portfolio, for the daily exposure of December 31, 2017.

Commercial loan portfolio.

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

Expected loss statistics of commercial loan portfolio.

	Minimum	Maximum	Average
Expected loss	299	357	320
Not expected loss	86	148	110
VaR	384	504	430

- The expected loss statistics refer to the daily exposure of December 31, 2017 for the commercial loan portfolio.

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

c) **Liquidity Risk -**

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

Year	Requirement ≤ 30 days	Requirement >30 days
2017	\$ (25,343)	\$ 20,005

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

Year	Requirement ≤ 30 days	Requirement >30 days
2017	\$ (20,270)	\$ 19,123



Liquidity risk statistical.

GAP total depreciation

Statically	<=1	<=7	<=30	<=90	<=180	<=360	>360	Total
Minimum	(25,107)	(844)	2,479	1,155	878	2,990	1,289	(11,242)
Maximum	(7,091)	9,923	4,760	2,444	2,514	4,364	2,359	8,773
Average	(15,355)	3,285	3,503	1,960	1,685	3,701	1,759	536

GAP maturity total

Statically	<=1	<=7	<=30	<=90	<=180	<=360	>360	Total
Minimum	(32,322)	(4,762)	3,320	1,401	3,714	12,073	(6,978)	(5,338)
Maximum	(9,486)	8,473	8,521	8,806	9,933	25,347	(4,642)	21,331
Average	(20,074)	1,917	5,562	5,234	6,556	16,981	(5,916)	10,260

*It corresponds to the statistics of "GAP Total" of the minimum, average and maximum.

*The statistics of the maturity GAP refer to the position of the money market, credit, derivatives and foreign-exchange portfolios of December 31, 2017.

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

Repos renewal effect	Amount mmp	Var Absolut	Effect of Selling off unusual MD	Amount
Actual Cost	(97)		Value of securities	21,107
Sensitivity 1*	(107)	(10)	Sensitivity 1	(3)
Sensitivity 2	(116)	(19)	Sensitivity 2	(33)
Stress 1	(125)	(29)	Stress 1	(326)
Stress 2	(135)	(39)	Stress 2	(634)
Sensitivity 1 = 10%,			Sensitivity 1 = 1bp,	
Sensitivity 2 = 20%,			Sensitivity 2 = 10bp,	
Stress 1 = 30%,			Stress 1 = 100bp,	
Stress 2 = 40%.			Stress 2 = 200bp.	
Effect of selling unusual Money market	Amount mmp		Interest paid on deposits	Current MTM MTM variation
Securities' value	29,936		Interest paid (actual)	
Sensitivity 1	(206)		Sensitivity 1*	(22)
Sensitivity 2	(2,058)		Sensitivity 2	(28)
Stress 1	(20,115)		Stress 1	(34)
Stress 2	(39,196)		Stress 2	(40)
Sensitivity 1 = 1bp,			Sensitivity 1 = 10%,	(47)
Sensitivity 2 = 10bp,			Sensitivity 2 = 20%,	
Stress 1 = 100bp,			Stress 1 = 30%,	
Stress 2 = 200bp.			Stress 2 = 40%.	



d) **Operational Risk**

At the monthly CR sessions information is presented on the events related to operational risk which arise in the different business units and are reported by the latter. This information indicates the event and date of occurrence.

Controllershship staff prepare a log of these risks used as the basis to begin their quantification, which comprise the database of operational risk events.

Type of operational risk

<i>Materialized Evetn</i>	<i>Frecuency</i>	<i>% Total</i>	<i>2017-4T</i> <i>Average impact</i> <i>(in thousands of</i> <i>pesos))</i>	<i>% Total</i>
Execution, delivery and management of processes, customers, products and business practices	2	2%	193	100%
<i>Events not</i> <i>Materialized</i>	<i>Frecuency</i>	<i>% Total</i>	<i>Average impact</i> <i>(in thousands of</i> <i>pesos)</i>	<i>% Total</i>
Execution, delivery and process management, Incidents in the business and system failures, external events	17	18%	-	0%
	78	80%	-	0%
Total	97	100%	193	100%

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

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

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

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

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

For foreign exchange transactions, credit risk is analyzed through the credit evaluation of the customers. The credit lines proposals are submitted to the credit line Committee, which can approve, deny or modify the proposal. Risk control is performed by monitoring the use of the lines and the corresponding payment behavior.

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

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



33. New accounting principles

As of December 31, 2017, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the financial statements of the Institution.

- a. Changes were made to Accounting Criteria B-6 "Credit Portfolio" and D-2 "Statement of Income" applicable to credit institutions so that they can cancel, in the respective period, any surpluses in the balance of the allowance for loan losses, and also recognize the recovery of loans already written off against the Allowances for loan losses, in order to make them consistent with the international regulations established in International Financial Reporting Standards.

The aforementioned changes go into effect as of January 1, 2019; however, credit institutions may elect to apply such changes as of the day after publication of this change (December 26, 2017), and must provide notice that they exercised such option to the Commission at the latest 10 business days after the date on which they begin to apply early the aforementioned criteria.

- b. Changes were made to Accounting Criteria A-2 "Application of specific provisions", and the following financial reporting standards (NIF) are incorporated: B-17 "Determination of fair value", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments to collect principal and interest", D-1 "Revenues from contracts with customers" and D-2 "Costs of contracts with customers". These standards will go into effect January 1, 2019.

As of December 31, 2017, the CINIF has promulgated the following NIFs and Improvements to the NIF that could have an impact on the Entity's financial statements.

- c. Improvements to NIF 2018 - The following improvements were issued with effect from January 1, 2018, which generate accounting:

NIF B-10, Effects of inflation - It is required to disclose additionally the accumulated inflation percentage of three years, which includes the two previous fiscal years and the period to which the financial statements refer; This percentage will serve as a basis to qualify the economic environment in which the entity will operate in the following fiscal year.

- d. Improvements to NIF 2018 - The following improvements were issued that do not generate accounting changes:
- e. The following NIFs have been issued:

With effect from January 1, 2018:

NIF C-9, Provisions, contingencies and commitments

With effect from January 1, 2019:

NIF D-5, Leases

NIF C-9, *Provisions, Contingencies and Commitments* - The term of probable was adjusted in the definition of liability, eliminating the one of virtually unavoidable. The application for the first time of this NIF does not generate accounting changes in the financial statements of the entities.



NIF D-5, *Leases* - The accounting recognition for the lessor does not change and only disclosure requirements are added. For the lessee, it introduces a single model for the recognition of leases that eliminates the classification of leases as operative or capitalizable, so it must recognize the assets and liabilities of all leases with a duration exceeding 12 months (unless the asset underlying is of low value). Consequently, the most important impact will be an increase in the assets under lease and in the financial liabilities of a lessee when recognizing an asset for the right to use the leased underlying asset and a lease liability that reflects the obligation of lease payments at present value. The following aspects should be considered when applying this NIF: a) a lease is defined as a contract that transfers to the lessee the right to use an asset for a specific period of time in exchange for a consideration, therefore, it must be evaluated, at beginning of the contract, if the right to control the use of an identified asset for a determined period of time is obtained; b) changes the nature of the expenses related to leases, by replacing the operating lease expense in accordance with Bulletin D-5, by an expense for depreciation or amortization of assets for right of use (in operating costs) and an expense for interest on lease liabilities (in the financial margin); c) modifies the presentation in the statement of cash flows by reducing cash outflows from operating activities, with an increase in cash flow outflows from financing activities to reflect payments of lease liabilities; d) modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back to back.

At the date of issuance of these financial statements, the Institution has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

34. Authorization of the Financial Statements

On February 26, 2018 the issuance of the financial statements was authorized by Moisés Tiktin Nickin, Chief Executive Officer of the Institution, Álvaro Alberto Calderón Jiménez, Chief Financial Officer, José Luis Orozco Ruíz, Chief Internal Auditor and José Arturo Álvarez Jiménez, Director of Accounting and Tax and by the Board of Directors, who, in addition to the Commission may modify them.

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