

**Monex, S.A.B. de C.V.  
(Formerly Holding Monex,  
S.A.B de C.V.) and Subsidiaries**

Consolidated Financial  
Statements for the Years  
Ended December 31, 2016,  
2015 and 2014, and  
Independent Auditors' Report  
Dated March 17, 2017

**Monex, S.A.B. de C.V.**  
**(Formerly Holding Monex, S.A.B de C.V.)**

# **Independent Auditors' Report and Consolidated Financial Statements for 2016, 2015 and 2014**

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## **Independent Auditors' Report to the Board of Directors and Stockholders of Monex, S.A.B. de C.V. and Subsidiaries**

### ***Opinion***

We have audited the financial statements of Monex, S.A.B. de C.V. (Formerly Holding Monex, S.A.B de C.V.), and Subsidiaries (Monex, S.A.B.), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, 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 Monex, S.A.B. 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 Groups, Credit Institutions, Brokerage Houses, Mutual Funds and Companies that Provide Services Thereto" (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 Monex, S.A.B. 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.

We obtained sufficient and appropriate evidence in relation to the financial information of the entities or business activities within Monex, S.A.B. to express an opinion about the consolidated financial statements. We are responsible for our audit 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.

### **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, management has implemented several manual and/or semiautomatic controls in order to assure the completeness, accuracy, cutoff and presentation of the financial information.

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

1. We identified the manual processes applied by management for the processing of the accounting-financial information.
2. We identified and evaluated the controls implemented by management to assure the completeness, accuracy, cutoff and presentation of the financial information.
3. We performed substantive audit procedures over the most vulnerable areas in order to obtain reasonable assurance about their accounting recognition.
4. We reviewed the Management's controls related to the authorization and recording of journal entries.
5. We reviewed the operating reconciliation between the accounting and operating systems.

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 result in the purchase-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.

Monex, S.A.B.'s accounting policies are established in Note 3 of the financial statements.

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

1. We inquired and obtained evidence about the flow of transactions with the personnel involved in such processes to ascertain the flow of the operation from origination until its recording in the accounting records.
2. We identified the manual procedures in the determination and recording of the valuation, interest and the gain or loss on sale.

3. We reviewed the controls implemented by management in each stage of the investment in securities operation, such as in the confirmation and settlement of the investments. We also obtained evidence about whether the controls were operating over the course of the year.
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, 2016.
5. We checked that the collateral delivered in repurchase agreements presented in the financial statement matched with the information in the operating system. Also, we confirmed that such position was restricted within investments in securities.
6. 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, 2016.
7. On a test basis, we validated that as of December 31, 2016, receivables and payables from repurchase agreements, recorded in the accounting records matched the purchases and sales from repurchase agreements in the operating system. We also confirmed such transactions with Indeval and their settlement on the date of maturity.
8. We reviewed that the interest recorded for one month matched with the interest that was accrued in securities transactions and repurchase agreements.
9. We validated that the result from sales transactions involving securities matched with the differential between cash flow received less their cost and their valuation. We also noted that there were no balances recorded for this item outside the profit and loss account.
10. We reviewed the reconciliation between the daily information prepared by management and what was recorded in the period from January to December.
11. The detailed procedures performed for each type of revenue are illustrated below:

*Interest income -*

- i. For interest on securities transactions and repurchase agreements, 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, 2016.
- iii. Revenues from gains on sale - We noted that the result on sales transactions involving securities and repurchase agreements matched with the differential between cash flow received less their cost and their valuation, and observed that there were no balances recorded for this item outside the profit and loss account.

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

- c) Goodwill of Tempus, Inc.

The impairment analysis which management must apply to the goodwill generated on the acquisition of Tempus in accordance with Bulletin C-15 "Impairment in the value of long-lived assets and their disposal" of Mexican Financial Reporting Standards, is a key audit matter because this estimate generally involves management judgment, and must also comply with methodologies commonly accepted and applied, assumptions of projections, discount rates, selected multiples of comparable companies etc.

Our procedures addressing this key audit matter included the following:

1. We involved internal specialists from our valuation area and conducted a technical analysis of the calculations prepared for the value estimate and those used in the impairment test, as well as the results obtained, including:
  - a. We ascertained the methodologies which use a revenue approach (cash flows) and a market approach (public companies and transactions).
  - b. We confirmed that the assumptions and methodologies were accepted under the standard. For this reason we made adjustments to Monex, S.A.B.'s valuation (in cash flows we eliminated a tax benefit and in transactions we eliminated the nonbinding offer).
  - c. We estimated a discount rate range using a WACC methodology. We have a lower range and the rate calculated by the preparer, because we did not consider a risk premium specific to Monex, S.A.B.
  - d. We recalculated the models to check the arithmetic and asked Monex, S.A.B. to make the respective changes.
  - e. We compared consistency with previous years.
  - f. We analyzed supporting information provided by Monex, S.A.B.
2. If applicable, we conducted a sensitivity exercise on the most relevant valuation projections and/or assumptions which might have a greater impact on the conclusion of the impairment test.

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

## ***Responsibilities of Management and Those Charged with Governance of Monex, S.A.B. in Relation to the Consolidated Financial Statements***

Management is responsible for the preparation of the accompanying 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 Monex, S.A.B.'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 Monex, S.A.B. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Monex, S.A.B.'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 Monex, S.A.B.'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 Monex, S.A.B.'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 Monex, S.A.B. to cease to continue as a going concern.

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

March 17, 2017

**Monex, S.A.B. de C.V. (Formerly Holding Monex, S.A.B de C.V.) and Subsidiaries**

**Consolidated Balance Sheets**

As of December 2016, 2015 and 2014  
(In millions of Mexican pesos)

<b>Assets</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Funds available	\$ 7,120	\$ 5,878	\$ 6,654
Margin accounts	722	380	522
Investment in securities:			
Trading securities	22,352	22,264	14,466
Securities available for sale	4,326	1,503	17
Securities held to maturity	73	-	-
	<u>26,751</u>	<u>23,767</u>	<u>14,483</u>
Repurchase agreements	3,942	2,970	3
Derivatives:			
Trading purposes	3,815	1,401	1,890
Hedging purposes	143	-	-
	<u>3,958</u>	<u>1,401</u>	<u>1,890</u>
Performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	15,877	10,898	6,982
Loans to financial entities	2,155	1,456	888
	<u>18,032</u>	<u>12,354</u>	<u>7,870</u>
Housing loans	180	9	161
Total performing loan portfolio	<u>18,212</u>	<u>12,363</u>	<u>8,031</u>
Non-performing loan portfolio:			
Commercial loans -			
Commercial or corporate activity	76	106	34
Housing loans	6	12	6
Total non-performing portfolio	<u>82</u>	<u>118</u>	<u>40</u>
Total loan portfolio	<u>18,294</u>	<u>12,481</u>	<u>8,071</u>
Allowance for loan losses	(307)	(182)	(112)
Loan portfolio (net)	<u>17,987</u>	<u>12,299</u>	<u>7,959</u>
Other receivables (net)	16,143	13,849	12,298
Foreclosed assets (net)	2	8	1
Property, furniture and fixtures (net)	95	84	88
Investments in shares of associates	25	16	14
Long-lived assets held for sale	-	-	174
Deferred taxes and profit sharing (asset)	716	317	181
Other assets:			
Goodwill	1,103	986	862
Deferred charges, advance payments and intangibles (net)	1,507	1,312	1,136
Other assets	223	176	174
	<u>2,833</u>	<u>2,474</u>	<u>2,127</u>
Total assets	<u>\$ 80,294</u>	<u>\$ 63,443</u>	<u>\$ 46,439</u>

<b>Liabilities</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Deposits:			
Demand deposits	\$ 15,209	\$ 8,366	\$ 7,852
Time deposits -			
General public	10,733	4,984	5,483
Money market	434	4,182	936
Debt securities	440	81	156
Global account for inactive deposits	3	3	-
	<u>26,819</u>	<u>17,616</u>	<u>14,427</u>
Securitization certificates	2,001	2,007	1,970
Bank and other loans:			
Demand loans	344	-	200
Short-term loans	1,078	880	592
	<u>1,422</u>	<u>880</u>	<u>792</u>
Liabilities arising from sale and repurchase agreements	14,848	17,069	8,239
Collaterals sold or pledged in guarantee:			
Repurchase	3,058	2,101	22
Derivatives	-	42	14
Securities lending	412	9	234
	<u>3,470</u>	<u>2,152</u>	<u>270</u>
Derivatives:			
Trading purposes	2,675	1,050	1,352
Hedging purposes	9	-	-
	<u>2,684</u>	<u>1,050</u>	<u>1,352</u>
Other payables:			
Income taxes payable	214	145	45
Employee profit sharing payable	227	119	73
Obligation arising from settlement of transactions	15,139	12,829	10,897
Liabilities arising from cash collateral received	2,815	1,550	1,288
Sundry creditors and other payables	2,996	1,470	1,236
	<u>21,391</u>	<u>16,113</u>	<u>13,539</u>
Deferred taxes and profit sharing (liability)	136	113	76
Deferred charges and income received in advance	217	132	86
Total liabilities	<u>72,988</u>	<u>57,132</u>	<u>40,751</u>
<b>Stockholders' equity</b>			
Capital contributed:			
Capital stock	2,055	2,055	683
Additional paid-in capital	763	763	823
	<u>2,818</u>	<u>2,818</u>	<u>1,506</u>
Earned capital:			
Capital reserves	408	377	392
Retained earnings	2,318	1,974	2,970
Results from valuation of securities available for sale, net	(170)	(13)	-
Translation effects of foreign subsidiaries	750	530	216
Result from hedging instruments at fair value	130	-	-
Remeasurement of defined employee benefits	(19)	-	-
Net income	1,071	625	604
	<u>4,488</u>	<u>3,493</u>	<u>4,182</u>
Total stockholders' equity	<u>7,306</u>	<u>6,311</u>	<u>5,688</u>
Total liabilities and stockholders' equity	<u>\$ 80,294</u>	<u>\$ 63,443</u>	<u>\$ 46,439</u>

# Memorandum accounts

## Transactions on behalf of third parties

	2016	2015	2014
Customer current accounts-			
Client banks	\$ 10	\$ 22	\$ 61
Client securities-			
Client securities in custody	53,162	47,045	49,911
Values received from clients abroad	<u>8,723</u>	<u>7,121</u>	<u>6,002</u>
	61,885	54,166	55,913
Transactions on behalf of clients-			
Client repurchase agreements	32,528	22,872	17,942
Client securities lending securities transactions	243	235	313
Client collateral received in guarantee	12,072	9,447	8,466
Collateral pledged as guarantee by client	394	291	-
Derivatives purchase transactions:			
Client futures and advance contracts (notional amount)	379	301	704
Derivatives sale transactions:			
Sale transactions of futures and advance contracts (notional amount)	11,341	10,363	11,408
Client options	<u>74</u>	<u>74</u>	<u>147</u>
	57,031	43,583	38,980
Total	<u>\$ 118,926</u>	<u>\$ 97,771</u>	<u>\$ 94,954</u>

## Transactions on own behalf

	2016	2015	2014
Contingent assets and liabilities	\$ 152	\$ 73	\$ 5
Goods in trust or mandate:			
Held in trusts	88,933	78,600	68,528
Custody and management assets	7,879	2,879	2,626
Loan commitments	<u>10,471</u>	<u>8,361</u>	<u>3,407</u>
	107,435	89,913	74,566
Collateral received by Monex, S.A.B.	44,695	29,306	16,873
Collateral received and sold or pledged as guarantee by Monex, S.A.B.	<u>36,477</u>	<u>26,020</u>	<u>13,546</u>
	81,142	55,326	30,419
Uncollected interest earned on non-performing loan portfolio	19	6	1
Other record accounts	<u>3,660</u>	<u>3,106</u>	<u>2,707</u>
Total	<u>\$ 192,256</u>	<u>\$ 148,351</u>	<u>\$ 107,693</u>

The accompanying notes are part of these consolidated financial statements.

**Monex, S.A.B. de C.V.**  
**(Formerly Holding Monex, S.A.B. de C.V.) and Subsidiaries**

**Consolidated Statements of Income**

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

	2016	2015	2014
Gain/losses on financial assets and liabilities, net:			
Foreign exchange	\$ 2,462	\$ 3,373	\$ 2,877
Derivative instruments	2,530	594	179
Debt securities	218	(118)	296
Equity instruments	<u>7</u>	<u>21</u>	<u>10</u>
Intermediation income	5,217	3,870	3,362
Interest income	2,441	1,710	1,279
Interest expense	<u>(1,615)</u>	<u>(1,050)</u>	<u>(848)</u>
	826	660	431
Financial margin	6,043	4,530	3,793
Provision for loan losses	<u>(150)</u>	<u>(76)</u>	<u>(48)</u>
Financial margin after provision for loan losses	5,893	4,454	3,745
Commission and fee income	594	528	561
Commission and fee expense	<u>(171)</u>	<u>(174)</u>	<u>(196)</u>
Total operating revenues	6,316	4,808	4,110
Other operating income (expenses)	82	159	169
Administrative and promotional expenses	<u>(5,008)</u>	<u>(4,026)</u>	<u>(3,437)</u>
Income before income taxes	1,390	941	842
Equity in income of unconsolidated associates	-	8	22
Current income taxes	(614)	(400)	(263)
Deferred income taxes (net)	<u>295</u>	<u>76</u>	<u>3</u>
	<u>(319)</u>	<u>(324)</u>	<u>(260)</u>
Consolidated net income	<u>\$ 1,071</u>	<u>\$ 625</u>	<u>\$ 604</u>

The accompanying notes are part of these consolidated financial statements.

**Monex, S.A.B. de C.V. (Formerly Holding Monex, S.A.B. de C.V.) and Subsidiaries**

**Consolidated Statements of Changes in Stockholders' Equity**

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

	Capital contributed				Earned capital					
	Capital stock	Additional paid-in capital	Capital reserves	Retained earnings	Result from valuation of securities available for sale, net	Translation effects of foreign subsidiaries	Result from hedging instruments at fair value	Remeasurement of defined employee benefits	Net income	Total stockholders' equity
Balances as of December 31, 2013	\$ 683	\$ 823	\$ 805	\$ 823	\$ (2)	\$ 33	\$ -	\$ -	\$ 1,771	\$ 4,936
Entries approved by stockholders -										
Transfer of prior year results	-	-	-	1,771	-	-	-	-	(1,771)	-
Repurchase of own shares	-	-	(13)	-	-	-	-	-	-	(13)
Release of fund for repurchase of own shares	-	-	(400)	400	-	-	-	-	-	-
Total entries approved by stockholders	-	-	(413)	2,171	-	-	-	-	(1,171)	(13)
Comprehensive income -										
Net income	-	-	-	-	-	-	-	-	604	604
Translation effects of foreign subsidiaries	-	-	-	-	-	183	-	-	-	183
Result from valuation of securities available for sale, net	-	-	-	-	2	-	-	-	-	2
Other	-	-	-	(24)	-	-	-	-	-	(24)
Total comprehensive income	-	-	-	(24)	2	183	-	-	604	765
Balances as of December 31, 2014	683	823	392	2,970	-	216	-	-	604	5,688
Entries approved by stockholders-										
Transfer of prior year results	-	-	-	604	-	-	-	-	(604)	-
Subscription of shares	549	763	-	-	-	-	-	-	-	1,312
Dividends declared	-	-	-	(1,600)	-	-	-	-	-	(1,600)
Capitalization accounts	823	(823)	-	-	-	-	-	-	-	-
Repurchase of own shares	-	-	(15)	-	-	-	-	-	-	(15)
Total entries approved by stockholders	1,372	(60)	(15)	(996)	-	-	-	-	(604)	(303)
Comprehensive income -										
Net income	-	-	-	-	-	-	-	-	625	625
Translation effects of foreign subsidiaries	-	-	-	-	-	314	-	-	-	314
Result from valuation of securities available for sale, net	-	-	-	-	(13)	-	-	-	-	(13)
Total comprehensive income	-	-	-	-	(13)	314	-	-	625	926
Balances as of December 31, 2015	2,055	763	377	1,974	(13)	530	-	-	625	6,311
Entries approved by stockholders-										
Transfer of prior year results	-	-	-	625	-	-	-	-	(625)	-
Capital reserve	-	-	31	(31)	-	-	-	-	-	-
Dividends paid	-	-	-	(250)	-	-	-	-	-	(250)
Total entries approved by stockholders	-	-	31	344	-	-	-	-	(625)	(250)
Comprehensive income -										
Net income	-	-	-	-	-	-	-	-	1,071	1,071
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	-	-	-	-	-	-	-	(19)	-	(19)
Translation effects of foreign subsidiaries	-	-	-	-	-	220	-	-	-	220
Total comprehensive income	-	-	-	-	(157)	220	130	(19)	1,071	1,245
Balances as of December 31, 2016	\$ 2,055	\$ 763	\$ 408	\$ 2,318	\$ (170)	\$ 750	\$ 130	\$ (19)	\$ 1,071	\$ 7,306

The accompanying notes are part of these consolidated financial statements.

**Monex, S.A.B. de C.V.**  
**(Formerly Holding Monex, S.A.B. de C.V.) and Subsidiaries**  
**Consolidated Statements of Cash Flows**

For the years ended December 31, 2016, 2015 and 2014

(In millions of Mexican pesos)

	2016	2015	2014
Net income	\$ 1,071	\$ 625	\$ 604
Depreciation	28	26	25
Amortization	37	38	45
Current and deferred income taxes	319	324	260
Equity in income of unconsolidated associate companies	-	(8)	(22)
Others	1	5	68
Adjustment for items that do not require cash flows	1,456	1,010	980
Operating activities:			
Change in margin account	(342)	142	156
Change in investments in securities	(3,142)	(9,303)	(1,775)
Change in repurchase agreements, net	(3,193)	5,863	(530)
Change in derivatives, net	(789)	187	(624)
Change in hedging instruments	(4)	-	-
Change in loan portfolio, net	(5,688)	(4,340)	(3,658)
Change in assigned assets	6	(7)	(1)
Change in other operating assets	(2,609)	(1,799)	(2,302)
Change in deposits	9,203	3,189	4,121
Change in bank and other loans	542	88	319
Change in collateral sold or pledged in guarantee	1,318	1,882	(74)
Change in other operating liabilities	4,576	2,211	(547)
Net cash flows from operating activities	59	(1,887)	(4,915)
Investing activities:			
Payments for acquisition of property, furniture and fixtures	(52)	(33)	(43)
Proceeds from sale of furniture and fixtures	13	11	12
Payments for acquisition of intangible assets	(81)	(22)	(31)
Proceeds from disposal of subsidiaries and associate companies	-	246	-
Dividends received	-	16	3
Purchase of investment in shares	(9)	-	-
Additional paid in acquisition of subsidiary	-	(35)	-
Net cash flows from investing activities	(129)	183	(59)
Financing activities:			
Debt payment	-	(1,000)	-
Issuance of securitization certificates	-	1,000	1,000
Subscription of shares	-	1,312	-
Repurchase of own shares	-	(15)	(13)
Dividends paid	(250)	(1,600)	-
Interest paid	(114)	(93)	(68)
Net cash flows from financing activities	(364)	(396)	919
Net increase (decrease) in funds available	1,022	(1,090)	(3,075)
Effects from changes in value of funds available	220	314	183
Funds available at the beginning of the year	5,878	6,654	9,546
Funds available at the end of the year	\$ 7,120	\$ 5,878	\$ 6,654

The accompanying notes are part of these consolidated financial statements.

# Monex, S.A.B. de C.V. (Formerly Holding Monex, S.A.B. de C.V.) and Subsidiaries

## Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014  
(In millions of Mexican pesos)

### 1. Activities, regulatory environment and significant events

Monex, S.A.B. de C.V. (Formerly Holding Monex, S.A.B. de C.V.) and subsidiaries, hereinafter with its subsidiaries as Monex, S.A.B., was established on July 10, 2007. Its purpose is to operate as a holding company and promote, establish, acquire, arrange, and manage operating any kind of commercial or civil companies.

Monex, S.A.B.'s subsidiaries operate mainly within the financial services industry offering a full line of banking services and brokerage services.

During 2016, the financial uncertainty caused by, among other factors, the change in the presidency of the United States of America, had a negative effect on the exchange rate, resulting in a strong depreciation of the Mexican peso against the US dollar of 16% during 2016. The exchange rate went from \$17.24 pesos to one US dollar at December 2015 to \$20.61 at December 31, 2016.

#### *Significant events in 2016, 2015 and 2014-*

##### *a. Sale of shares of Tempus-*

On October 30, 2015, through a share purchase-sale contract, Monex, S.A.B. acquired 17% of the total shares of Tempus Inc. ("Tempus") (a related party of the Banco Monex, S.A.) (the Bank). The transaction was carried out at market prices based on a study prepared by an independent consultant. This transaction was authorized by the Commission through Document No. 312-3/14049/2015.

##### *b. Issuance of securitization certificates (See Note 17) -*

Monex, S.A.B. through the Bank made a 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.

Likewise, on November 7, 2014, Monex, S.A.B. issued 10,000,000 securitization certificates by public offering through Document celebrated the same day, for the amount of \$1,000. Net proceeds from the securitization certificates issued will be destined for corporate purposes of Monex, S.A.B.

##### *c. Sale of subsidiary Monex Servicios and Pagos Intermex.-*

On October 15, 2014, Monex, S.A.B. signed a share purchase and transfer contract to sell 100% of the shares held in Monex Servicios, S.A. de C.V. and Pagos Intermex, S.A. de C.V. to Gentera, S.A.B. de C.V., which was subject to the regulatory authorization as of December 31, 2014. This transaction was authorized by the Commission through Document No. 312-3/13774/2015 dated as of March 27, 2015, on which date the sale became effective for legal, accounting and tax purposes. The transaction generated a gain for \$78 and was presented under "Other operating income and expenses" in the statement of income.

### 2. Basis of presentation

**Explanation for translation into English** - The accompanying consolidated financial statements has been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting criteria prescribed by the Commission. Certain accounting practices applied by Monex, S.A.B. 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, 2016, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

**Consolidation of financial statements** - The consolidated financial statements include the financial statements of Monex, S.A.B. and those of its subsidiaries over which it exercises control.

The shareholding percentage in their capital stock of such entities is shown below:

Company	Shareholding			Activity
	2016	2015	2014	
1. Pagos Intermex, S.A. de C.V. (Intermex)	-	-	100%	Previously provided services of payment remittances sent to individuals in Mexico by their friends and family residing in the United States of America. Payments are mainly accomplished through branches and agents in the country.
2. AdmiMonex, S.A. de C.V. (AdmiMonex)	100%	100%	100%	Direct subsidiary of Monex, S.A.B. It aims to promote, build, organize, develop, acquire and participate in the capital stock or assets of all types of business corporations and partnerships, associations or companies, whether commercial, service or otherwise, both domestic and foreign and participate in the management or liquidation.
3. Monex Grupo Financiero, S.A. de C.V. (Grupo Financiero)	100%	100%	100%	Direct subsidiary of Monex, S.A.B. established on May 23, 2003. It is authorized by the Treasury Department of Mexico (SHCP) to operate as a financial group under the form and terms established by the Financial Groups Law (the Law). Per legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.
3.1 Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero (el Banco)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. The Bank is authorized to perform full-service banking operations including, among others, granting loans, performing securities transactions, receiving deposits, accepting loans, performing currency purchase-sale transactions and executing trust contracts.
3.1.1 Monex Servicios, S.A. de C.V. (Monex Servicios)	-	-	100%	Previously provided supplemental and ancillary services to the Bank as per Article 88 of the Law for Credit Institutions.
3.1.2 Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Parent company of Tempus and Monex Europe LTD.
3.1.2.1 Tempus, Inc. (Tempus)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity located in Washington, D.C., U.S.A., whose purpose is the purchase and sale of currencies. Its customers are mainly located in the United States.
3.1.2.1.1 Tempus Nevada, Inc.	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity founded in 2010 in the state of Delaware in the United States. Currently without operations.
3.1.2.1.2 Monex Canadá, Inc.	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity founded in Toronto, Canada. Currently without operations.
3.1.2.2 Monex Europe Holdings Limited (Monex Europe LTD)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Parent Company of Monex Europe and Schneider, FX, entities located in the United Kingdom (Monex, S.A.B. directly owns 49.9% of the shares)
3.1.2.2.1 Schneider Foreign Exchange Limited (Schneider FX)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity without operations.
3.1.2.2.2 Monex Europe Limited (Monex Europe)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity located in London. Its activity is purchase and sales of currencies in the European market.
3.1.2.2.3 Monex Europe Markets Limited	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Entity is dedicated to purchase and sales of currencies in the European Market.
3.2 Monex Casa de Bolsa, S.A. de C.V., Monex Grupo Financiero (la Casa de Bolsa)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. The Brokerage House acts as a financial intermediary for transactions involving securities and derivative financial instruments authorized under the Stock Market Law (LMV) and the general provisions issued by the Commission.
3.2.1 Monex Securities, Inc. (Monex Securities)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Acts as a stock market intermediary in the U.S. market.
3.2.2 Monex Assets Management, Inc. (Monex Assets)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Acts as an investment advisor in the U.S. market.
3.3 Monex Operadora de Fondos, S.A. de C.V., Monex Grupo Financiero, Sociedad Operadora de Sociedades de Inversión (la Operadora)	100%	100%	100%	Indirect subsidiary of Monex, S.A.B. Its main activity is to manage mutual funds and to promote its shares.
4. Servicios Complementarios Monex, S.A. de C.V. (Servicios Complementarios)	100%	100%	100%	Direct subsidiary of Monex, S.A.B. Currently without operations.

Significant intercompany balances and transactions have been eliminated.

Pursuant to the event discussed in Note 1, subsection c), as of November 2014, Monex, S.A.B. recognizes its interest in Pagos Intermex and Monex Servicios based on the equity method. The investment is classified in the balance sheet under long-lived assets available for sale.

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

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

At December 31, 2016, 2015 and 2014 the exchange rates used in the different translation processes are as follows:

Company	Currency	Exchange rate to translate from functional currency to Mexican pesos		
		2016	2015	2014
Monex Europe Ltd. (Consolidated)	Pound sterling	25.4814	25.4366	22.9847
Monex Europe	Pound sterling	25.4814	25.4366	22.9847
Schneider FX	Pound sterling	25.4814	25.4366	22.9847
Monex Europe Markets LTD.	Pound sterling	25.4814	25.4366	22.9847
Tempus, Inc. (Consolidated)	U.S. dollar	20.6194	17.2487	14.7414
Monex Canada, Inc.	U.S. dollar	20.6194	17.2487	14.7414
Monex Securities	U.S. dollar	20.6194	17.2487	14.7414
Monex Assets Management	U.S. dollar	20.6194	17.2487	14.7414

At December 31, 2016, 2015 and 2014 Monex, S.A.B.'s functional currency is the Mexican peso. Investments in foreign subsidiaries, whose functional currencies are other than the Mexican peso, expose Monex, S.A.B. to foreign currency translation risk. In addition, Monex, S.A.B. 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 34 for further details).

### 3. Summary of significant accounting policies

The significant accounting policies applied by Monex, S.A.B. comply with the accounting criteria established by the Commission in the "General Provisions Applicable to Groups, Credit Institutions, Brokerage Houses, Mutual Funds and Companies that Provide Services Thereto" (the "Provisions"), 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 consolidated financial statements and their related disclosures; however, actual results may differ from such estimates. Monex, S.A.B.'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, Monex, S.A.B. is required to apply Mexican Financial Reporting Standards ("MFRS" or "NIF's") promulgated by the Mexican Board of Financial Reporting Standards (CINIF), except with regard to topics for which the Commission has issued specific accounting guidance on the basis that the entities subject to its regulations and carry out specialized operations.

### *Changes in accounting policies-*

#### *Modification of accounting criteria issued by the Commission*

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

The most significant changes are detailed below:

- a. The net asset derived from defined employee benefits must be presented in the balance sheet under the "Other assets" heading.
- b. Applicable regulations established by the Central Bank must be followed in the classification as "Funds available" for currency purchases that are not considered to be derivative instruments.
- c. If offsetting receivable and deliverable currencies results in a negative balance, this item must be presented under the heading of "Other payables".
- d. If an item of restricted quick assets indicates a negative balance, it must be presented under the heading "Other payables". The presentation of the negative balance of restricted quick assets was not previously required.

#### *Loan portfolio*

- e. The definition of the term "Renewal" has been modified in Accounting Criterion B-6, Loan Portfolio, such that it is now considered as a transaction in which the credit balance is partially or totally settled, through the increase of the original loan amount or based on the proceeds generated by another loan contracted with the same entity, in which the same borrower, the joint obligor of that borrower or another individual or entity with equity links constitute common risks.
- f. "Housing loans" are classified as those utilized for housing remodeling or improvement and which are backed by the savings deposited in the borrower's housing subaccount, as well as those with a warranty granted by a development bank or a public trust constituted by the Federal Government for economic development purposes.
- g. Loans derived from transactions involving financial factoring, discounts and the assignment of credit rights have now been included within the definition of "Commercial Loans".
- h. A loan is not considered to have been renewed based on the provisions that take effect during the period of a pre-established credit line, as long as the borrower has settled all due payments according to the original credit conditions.
- i. When utilized amounts are restructured or renewed independently of the underlying credit line, the characteristics and conditions applicable to the restructured or renewed amount or amounts must be evaluated.

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

- j. In the case of loans acquired from the INFONAVIT in which the terms contracted by the latter with borrowers must be respected, sustained loan payment is deemed to exist when the borrower has settled without delay the total due amount of principal and interest based on a single payment in the case of loans contracted under the Ordinary Payment Regime (ROA) and three payments in the case of loans contracted under the Special Payment Regime (REA).
- k. The restructuring of loans with principal and interest payments that must be settled in periods equal to or less than 60 days and for which the payment frequency is reduced to shorter periods, must consider the number of payments equal to three consecutive payments under the original loan payment scheme.
- l. Assumptions have been established for determining the sustained payment of loans with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity. These assumptions are as follows:
  - i. The borrower has settled at least 20% of the original loan amount when the restructuring or renewal takes place, or
  - ii. The interest accrued according to the 90-day restructuring or renewal payment scheme has been settled.
- m. In the case of consolidated loans, if two or more loans have resulted in the transfer of the total consolidated loan balance the non-performing portfolio, the number of payments required for sustained payment purposes must be based on the original loan payment scheme in which payments must be made over a longer period. The total balance of the restructuring or renewal was previously subject to the treatment applied to the worst of the loans.
- n. The advance settlement of restructured or renewed loan payments other than those with a single principal payment at maturity are not considered as sustained payment, regardless of whether interest is paid periodically or at maturity. This is the case of restructured or renewed loan payments that are made before the equivalent number of calendar days of loans with payments covering periods of more than 60 calendar days has elapsed.
- o. The extension of the loan payment period has been included as a restructuring situation.
- p. Recognition and valuation standards have been included for transactions involving financial factoring, discounts and the assignment of credit rights.
- q. Commissions and tariffs other than those collected for loan granting purposes must be recognized in results on the date when they are incurred. If a commission or tariff payment is partially or totally received prior to the accrual of the respective income, this advance must be recognized as a liability.
- r. The requirement whereby customer checking account overdrafts must be reported as non-performing portfolio has been eliminated.
- s. The non-performing portfolio will include payments that have not been fully settled according to the original agreed terms and have been outstanding for 90 or more days and when the respective loans involve those granted by the INFONAVIT under the REA or ROA modalities. It will also include loans granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.
- t. The transferred loans referred to in the preceding point to the non-performing portfolio will be subject to an exceptional default period of 180 or more days as of the date on which:
  - i. Loan resources are available for the purpose for which they were granted,
  - ii. The borrower has a new labor relationship and therefore has a new employer, or
  - iii. The partial settlement of a given payment has been received. The exception contained in this numeral will be applicable to loans contracted under the ROA scheme, as long as the payments made during this period represent at least 5% of the agreed payment.

- u. Loans with a single principal payment at maturity, regardless of whether interest is paid periodically or at maturity, will be considered as non-performing portfolio until such time as evidence of sustained payment is obtained.
- v. Loans granted under the terms of a credit line, whether revolving or otherwise, and which are restructured or renewed at any time can be maintained in the performing portfolio as long as elements justifying the borrower's payment capacity are obtained. Furthermore, the borrower must have:
  - i. Settled all payable interest;
  - ii. Settled all amounts payable under the terms of the contract at the restructuring or renewal date.
- w. The amounts utilized under the terms of a credit line that are restructured or renewed independently of the underlying credit line, must be evaluated based on the characteristics and conditions applicable to the restructured or renewed amounts.

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

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

- bb. Disclosure standards include new requirements, as follows:
- i. Breakdown of the performing restricted and unrestricted portfolio for the medium-income and residential housing, low-income housing, remodeling or improvement with a guarantee from the housing subaccount and loans acquired from the INFONAVIT, which in turn are divided into the ordinary portfolio and extended portfolio.
  - ii. The total amount and number of loans acquired from the INFONAVIT and transferred to the non-performing portfolio, as well as the total amount of loans that were not transferred to the non-performing portfolio, divided into loans that the entity has acquired from the INFONAVIT under the REA or ROA payment modalities and the loans granted to individuals for housing remodeling or improvement, but not for commercial speculation, and which are backed by the borrower's savings deposited in the housing subaccount.
  - iii. The main characteristics of the loans acquired from the INFONAVIT, describing at least those related to their classification as extended portfolio, ROA and REA, and those related to the assignment of these loans.
  - iv. A description of the obligations and rights maintained by the INFONAVIT as regards the portfolio acquired by the entity.
  - v. The identification by loan type for the medium-income and residential housing, low-income housing portfolio, remodeling or improvement with a guarantee based on the housing subaccount and loans acquired from the INFONAVIT, of the non-performing portfolio balance as of the date on which it was classified as such for the following periods: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to 2 years and more than two years past due.
  - vi. The total amount of housing loans backed by the housing subaccount divided into the performing and non-performing loan portfolio, while specifying the percentage represented by these loans as regards to total housing loans.
  - vii. The total accrued restructured or renewed amount by loan type, distinguishing between the amounts derived from the application of consolidated loans which, as the proceeds of a restructuring or renewal, were transferred to the non-performing portfolio of the restructured loans that were not subject to non-performing loan portfolio transfer criteria.
- cc. Different modifications have been made to the balance sheet presentation to incorporate performing and non-performing housing in the loan portfolio in the following segments: medium-income and residential housing, low-income housing, loans acquired from the INFONAVIT, and home remodeling or improvement with a warranty granted by a development bank or public trusts.
- dd. Related parties are now considered as the individuals or entities which, directly or indirectly, through one or more intermediaries have significant influence over, are significantly influenced by or are subject to the significant joint influence of the entity, as well as the joint control agreements in which the entity participates.
- ee. As a modification to Accounting Criteria C-4, Information by segments, the purchase-sale of currencies is included within the Treasury and investment banking transactions segment.
- ff. The balance sheet must present the following items as a liability under the heading of "Global account for inactive deposits": the principal and interest of deposit instruments without maturity dates or, when having a maturity date are automatically renewed, together with transfers or the expired, unclaimed investments referred to by article 61 of the Law on Credit Institutions. At December 31, 2016 and 2015, Monex, S.A.B. presents in its balance sheet the balance corresponding to this account.
- gg. As part of earned capital presented in the Consolidated Statements of Changes in Stockholders' Equity, a heading denominated "Remeasurement of defined employee benefits" has been added as part of the implementation of NIF D-3, *Employee Benefits*. At December 31, 2016, Monex, S.A.B. presents in its balance sheet the balance corresponding to this account.

hh. The heading "Provided guarantors" has been added to memorandum accounts at the end of the balance sheet.

*NIF issued by the CINIF and applicable to Monex, S.A.B.*

As of January 1, 2016, Monex, S.A.B. adopted the following improvements to NIF D-3, *Employee Benefits* which could have an effect on Monex, S.A.B.'s financial statements:

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

The main modifications resulting from the application of this new NIF D-3 on the financial information of Monex, S.A.B. are as follows:

- Liability discount rate - Defined-Benefit Obligation (OBD)
  - The discount rate used to calculate the OBD must be determined by using the market rate of high quality corporate bonds, as long as there is a deep market for them. The market rate of federal government bonds must otherwise be utilized.
- Recognition of actuarial gains and losses
  - The use of a corridor to defer actuarial gains and losses has been eliminated.
  - The accrued balance of accrued gains and losses at December 31, 2016 will be recognized within stockholders' equity and the liability at January 1, 2016.
  - The actuarial gains and losses generated as of January 1, 2016 will be treated as the remeasurement of defined employee benefits, which will be recognized in stockholders' equity and the liability.
- Amortization of actuarial gains and losses
  - The actuarial gains and losses recognized within stockholders' equity must be recycled to results during the Remaining Labor Life of the Plan.
- Return expected from plan assets
  - The return expected from plan assets must be estimated by utilizing the liability discount rate instead of the return rate expected for the fund.

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

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

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

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

Institutions that decide to exercise this option must notify the Commission no later than January 31, 2016. Monex, S.A.B. applied this option and reported to the Commission within the time limit set.

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

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

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

Furthermore, the accrued balance of unrecognized actuarial losses at December 31, 2016 will be recycled to results during the period of the Remaining Labor Life of the Plan, which fluctuates between 10 and 20 years depending on the benefit in question.

The actuarial determination is made by a discount rate of corporate bonds and is pending the probable existence of deep market.

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

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

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

The financial effects for the adoption of NIF D-3 are those mentioned above. The improvements to NIF C-19 and NIF C-20 did not have significant effects on their financial information.

#### ***Changes to accounting estimates applicable in 2015***

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

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

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

The significant accounting policies of Monex, S.A.B. are as follows:

**Reclassifications** - Certain amounts in the consolidated financial statements as of and for the years ended as of December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidated financial statements.

**Recognition of the effects of inflation** - Cumulative inflation rates over the three-year periods ended December 31, 2016, 2015 and 2014 were 9.57%, 10.18% and 11.62%, respectively. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2016, 2015 and 2014 were 3.36%, 2.13% and 4.08%, respectively.

Beginning on January 1, 2008, Monex, S.A.B. suspended the recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

**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.

**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.

**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 Monex, S.A.B., 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, 2016, 2015 and 2014, 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 Monex, S.A.B. 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 Monex, S.A.B. 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.

Monex, S.A.B. determines the increase or decrease in the fair value using prices provided by the price vendor, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security and is recognized in the consolidated statement of income under "Interest income". Unrealized gains or losses from changes in fair value as reported by pricing vendors are recorded in other comprehensive income under 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.

***Securities held to maturity*** - Securities held to maturity are those instruments whose payments are fixed or determinable and with a fixed maturity, which Monex, S.A.B. 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 consolidated 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.

At December 31, 2016, 2015 and 2014, no reclassifications were made in this regard.

**Impairment in the value of a credit instrument** – Monex, S.A.B. 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, 2016.

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

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

The repurchase transactions are recorded as indicated below:

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

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

buying party the interest calculated based on the agreed rate of the repurchase agreement. Also, the buying party obtains yields on its investment, which is secured by the collateral.

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

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

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

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

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

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

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

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

***Securities lending*** - Securities lending is a transaction in which the transfer of securities from the lender to the borrower is agreed, with the obligation to return such securities or other substantially similar on a certain date or at request of the lender, receiving as a consideration a premium. In this operation a collateral or guarantee by the lender to the borrower, other than cash is request and those allowed by current regulations.

The securities lending transactions for legal effects are considered as a sale, where an agreement is set to return the securities object of the operation on a fixed date. However, the economic substance of the securities lending transactions consists in that the borrower can temporarily access to certain types of securities where the collateral served to mitigate the exposure to risk which the borrower faced respect to the lender.

The securities lending transactions are recorder as follows:

On the contracting date of the securities lending, when the Financial Group acts as lender, the entry of the securities object of the loan transferred to the borrower as restricted is recognized in accordance to the valuation, presentation and disclosure accounting criterion.

The premium is initially recorded as a deferred charge, recognizing the receivable account or the cash entry. The amount of the accrued premium is recognized in results of the year through the effective interest method over the effective term of the transaction.

When Monex, S.A.B. acts as the borrower on the contracting date of the securities loan, Monex, S.A.B. records the security subject matter of the loan received in memorandum accounts, following the valuation standards applicable to custody transactions in the accountant Criterion B-9 issued by the Commission.

The premium is initially recorded as a deferred charge, recognizing the account receivable or the cash income. The premium earned is accrued in the results along the life of the transaction through the imputed interest method or the effective interest rate method.

The security subject matter of the transaction, as well as the collateral pledged are presented as restricted, based on the type of financial assets in question.

The security subject matter received, as well as the collateral received are presented in memorandum account under the heading of "Collateral received".

**Derivative instrument transactions-** Monex, S.A.B. 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.

Monex, S.A.B. 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.

Monex, S.A.B. presents this item under the caption "Derivatives" (debit or credit balance) on the consolidated balance sheet by segregating derivatives for trading purposes from derivatives for hedging purposes.

### ***Derivatives held for trading***

#### ***Forward and future contracts:***

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 Monex, S.A.B. as assets and liabilities in the consolidated balance sheets at the exchange rate established in the related underlying asset purchase-sale contract, to recognize the right and the obligation to receive and/or deliver the underlying asset, and the right and the obligation to receive and/or deliver cash equivalent to the underlying asset specified in the contract.

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

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

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

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

For financial statement classification purposes, with respect to derivative instruments that incorporate both rights and obligations, such as futures, forwards and swaps, such rights and obligations are offset 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.

Monex, S.A.B. records the premium paid/received for the option on the transaction date as an asset or liability. Any fluctuations in the fair value are recognized in the consolidated statements of income under 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.

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

Monex, S.A.B. 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 consolidated 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 consolidated balance sheet and the interest accrued is recorded in the consolidated 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 consolidated 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.

Monex, S.A.B. 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 consolidated 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.

**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** – Monex, S.A.B. 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** - Monex, S.A.B. 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 Monex, S.A.B. 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. Monex, S.A.B. 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, Monex, S.A.B. has classified its loan portfolio as follows:

- a. **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" in which the affected assets to enable individual assessment of the risk associated with the scheme. Also, are included loans granted to states, municipalities and their decentralized agencies, as well as those in charge of the Federal Government with a guaranty established by the Federation, included in the SHCP and the Central Bank.
- b. **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 of homes for non-profit-making purposes which have a mortgage guarantee on the home of the borrower. Home loans are also deemed to include those intended for the remodeling or improvement of homes which are backed by the savings from the housing subaccount of the borrower, or which have a guarantee granted by a development bank institution or a public trust established by the Federal Government for economic development. They also include loans granted for such purposes to former employees of the entities and those cash loans guaranteed by the home of the borrower.

Monex, S.A.B. 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 allowance for loan losses 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, Monex, S.A.B. 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:

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

For purposes of the above:

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

$$\text{Total CreditScore}_i = \alpha \times (\text{QuantitativeCreditScore}) + (1 - \alpha) \times (\text{Qualitative CreditScore}_i)$$

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.

$\alpha$  = 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.

Monex, S.A.B. 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 Monex, S.A.B. 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 nth 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.

*Si* = 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:

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

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.

*Si* = 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, Monex, S.A.B. 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, Monex, S.A.B. 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, Monex, S.A.B.'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 Monex, S.A.B. 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 allowance for loan losses 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, Monex, S.A.B. 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 Monex, S.A.B. 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, Monex, S.A.B. 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, Monex, S.A.B. 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 currencies and securities 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.

Monex, S.A.B. 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.

**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 Monex, S.A.B. in entities where it has neither control, nor joint control, nor significant influence, are initially recorded at acquisition cost. Any dividends received are recognized in current earnings, except when they are taken from earnings of periods prior to the acquisition, in which case, they are deducted from the permanent investment.

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

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

Furthermore, the heading "Other assets" includes financial instruments of the pension and retirement fund held in a trust administrated by Monex, S.A.B. 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, 2016, 2015 and 2014, the balance applicable to Monex, S.A.B. is presented by increasing the heading of "Sundry creditors and other payables".

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

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

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

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

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

Interest is recognized in results when accrued.

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.

***Issuance of notes payable*** - Include debt securities issued through a public offering by Monex, S.A.B. and the Bank. Interest is recognized in results when incurred.

***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.

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

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

- i. ***Direct employee benefits*** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly commissions, bonus and other incentives.
- ii. ***Employee benefits from termination, retirement and other*** - The liability for seniority premium, pensions and severance for termination of the employment relationship is recorded as accrued, which is calculated by independent actuaries based on the projected unit credit method using nominal interest rates.
- iii. ***Statutory employee profit sharing (PTU)*** - PTU is recorded in the results of the year in which it is incurred. As result of the 2014 Tax Reform, as of December 31, 2016, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 9 of the Income Tax Law. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

PTU and deferred PTU is presented in the consolidated statement of income under "Administrative and promotional expenses".

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

Deferred tax is recorded on results or stockholders' equity depending on the item giving rise to prepaid tax (deferred).

In accordance with NIF D-4 "Taxes on income", for purposes of presentation on the balance sheet, Monex, S.A.B. offsets the deferred tax liabilities and assets only when it has the right to offset the balances with the same tax authority.

**Financial margin** - The financial margin of Monex, S.A.B. 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 Monex, S.A.B., 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 tariffs generated by transactions performed with customers' securities are recorded when the transaction is agreed. The results derived from the purchase-sale of securities are recorded when each transaction is performed.

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

**Comprehensive income** - Comprehensive income presented in the accompanying statements of changes in stockholders' equity is the result of transactions other than those carried out by Monex, S.A.B.'s stockholders during the period and consists of the effect from the valuation of securities available for sale, the cumulative effects from conversion and the net income.

**Earnings (losses) per share** - Basic earnings (losses) per share are calculated by dividing the consolidated net income (loss) by the weighted average number of ordinary shares outstanding during the year.

**Expenses** - Expenses are recognized as they accrue.

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

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 Monex, S.A.B. 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 -***

- *Customer banks and securities held in custody, guarantee and administration:*

Customer's cash and securities held in custody, guarantee and administration by Monex, S.A.B. are recognized at their fair value in memoranda accounts and represent the maximum amount for which Monex, S.A.B. is liable as regards its customers based on future events.

- Cash is deposited with Credit Institutions in checking accounts other than those registered in the name of Monex, S.A.B. The checking accounts are destined only to manage the cash of the costumers of Monex, S.A.B.
- Securities held in custody and administration are deposited with S.D. Indeval, S.A. de C.V. (S.D. Indeval).

Monex, S.A.B. records transactions performed in customers' names when each transaction is agreed, regardless of its settlement date.

- *Contingent assets and liabilities:*

This heading represents considers the amount of the economic sanctions emitted by the Commission or any another administrative or judicial authority for as long as Monex, S.A.B. does not comply with the payment obligation of such sanctions or has not interposed some resource of appeal.

- *Credit commitments:*

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

Items under this account are subject to qualification.

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

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

- *Collateral received:*

The balance is composed of all collateral received in repurchase transactions in which Monex, S.A.B. is the buying party.

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

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

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

Represents the interests accrued not collected of non-performing loan portfolio, as well as the financial revenues accrued not collected.

- *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, 2016, 2015 and 2014, funds available were as follows:

Funds available	2016			2015	2014
	Mexican pesos	Foreign currency	Total	Total	Total
Cash	\$ 43	\$ 39	\$ 82	\$ 39	\$ 99
Deposits in banks	210	6,589	6,799	5,675	5,651
Immediate collection documents	3	5	8	4	6
Remittance	-	2	2	6	4
Foreign currency sale in 24 to 96 hours (1)	-	(12,059)	(12,059)	(9,720)	(8,733)
	256	(5,424)	(5,168)	(3,996)	(2,973)
Restricted funds available:					
Foreign currency purchase in 24 to 96 hours (1)	-	12,059	12,059	9,645	9,398
Regulatory monetary deposits (2)	229	-	229	229	229
	229	12,059	12,288	9,874	9,627
Total net	\$ 485	\$ 6,635	\$ 7,120	\$ 5,878	\$ 6,654

- (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, 2016, 2015 and 2014, balances denominated in foreign currency and the equivalent amounts in Mexican pesos are comprised as follows:

	2016				
	Dollars	Euros	Pounds sterling	Others	Total
Total funds available					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 11,864	\$ 152	\$ 18	\$ 25	\$ 12,059
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(11,753)	(192)	(83)	(31)	(12,059)
Total included in funds available (Mexican pesos)	\$ 111	\$ (40)	\$ (65)	\$ (6)	\$ -

The exchange rate as of December 31, 2016 was \$20.6194, \$21.7534 and \$25.8414 Mexican pesos per the U.S. dollar, Euro and Pound sterling, respectively.

	2015				
	Dollars	Euros	Pounds sterling	Others	Total
Total funds available					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 9,014	\$ 439	\$ 130	\$ 62	\$ 9,645
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(9,032)	(457)	(140)	(91)	(9,720)
Total included in funds available (Mexican pesos)	\$ (18)	\$ (18)	\$ (10)	\$ (29)	\$ (75)

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

	2014				
	Dollars	Euros	Pounds sterling	Others	Total
Total funds available					
Purchase of foreign exchange receivable in 24 to 96 hours (Mexican pesos)	\$ 8,316	\$ 771	\$ 168	\$ 143	\$ 9,398
Sale of foreign exchange to delivered in 24 to 96 hours (Mexican pesos)	(7,757)	(644)	(176)	(156)	(8,733)
Total included in funds available (Mexican pesos)	\$ 559	\$ 127	\$ (8)	\$ (13)	\$ 665

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

- (2) In accordance with the monetary policy established by the Central Bank and in order to regulate its money market liquidity, Monex, S.A.B. must maintain minimum deposits for indefinite periods, which accrue interest at the average bank rate. At December 31, 2016, 2015 and 2014 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, 2016, 2015 and 2014, the margin account is as follows:

	2016	2015	2014
Collaterals delivered as security	\$ 541	\$ 383	\$ 650
Valuation of futures	181	(3)	(128)
	<u>\$ 722</u>	<u>\$ 380</u>	<u>\$ 522</u>

As of December 31, 2016, 2015 and 2014, margin accounts for collateral submitted in organized operating markets are maintained with the clearing members.

	2016	2015	2014
Scotiabank Inverlat, S.A.	\$ 477	\$ 325	\$ 152
Banco Santander Mexico, S.A.	51	27	84
BBVA Bancomer, S.A.	-	-	410
RJO Brien	13	31	4
	<u>\$ 541</u>	<u>\$ 383</u>	<u>\$ 650</u>

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

##### 6. Investment in securities

*Trading securities* - As of December 31, 2016, 2015 and 2014, trading securities were as follows:

	2016				2015	2014
	Acquisition cost	Interest Accrued	Increase (decrease) due to valuation	Total	Total	Total
<b>Debt instruments:</b>						
Government securities -						
Treasury bills (CETES)	\$ 81	\$ -	\$ -	\$ 81	\$ 87	\$ 282
Federal Government Development Bonds (BONDS)	97	-	-	97	2,908	1,704
Bonds M, M0 and M7	301	1	(1)	301	994	369
Federal Government Development Bonds in Udis (UDIBONDS)	144	-	-	144	382	398
Saving Protection Bonds (BPAT's)	11,339	58	(54)	11,343	6,760	2,624
United Mexican States Bonds (UMS)	12	-	-	12	259	151
Private securities -						
Marketable certificates	3,651	16	(48)	3,619	4,870	5,586
Commercial Paper	-	-	-	-	175	83
Foreign Station Titles	3,156	-	(3)	3,153	50	45
Private bank issued securities -						
Promissory Note with Yield Payable at Maturity (PRLV)	21	-	-	21	1,821	140
Marketable Certificates	1,945	15	(52)	1,908	1,529	1,074
Certificates of Deposit (CEDES)	1,595	4	(72)	1,527	2,459	1,664
International Government Securities- Debt bones (NOTES)	24	-	-	24	20	29

	2016				2015	2014
	Acquisition Cost	Interest Accrued	Increase (decrease) due to valuation	Total	Total	Total
<b>Capital market instruments:</b>						
Shares listed in stock exchange	27	-	-	27	11	49
Investments in mutual funds	91	-	4	95	101	962
Industry Shares Commercial and of Services	-	-	-	-	-	40
<b>Value date transactions:</b>						
Government securities -						
Bonds M, M0 and M7	-	-	-	-	(72)	(547)
Federal Government Development Bonds in Udis (UDIBONDS)	-	-	-	-	(90)	(187)
Total trading securities	<u>\$ 22,484</u>	<u>\$ 94</u>	<u>\$ (226)</u>	<u>\$ 22,352</u>	<u>\$ 22,264</u>	<u>\$ 14,466</u>

***Restricted trading securities***

At December 31, 2016, 2015 and 2014, the securities under repurchase agreement are as follows:

	2016	2015	2014
<b>Debt instruments:</b>			
Government securities -			
Treasury bills (CETES)	\$ 59	\$ 53	\$ 193
Federal Government Development Bonds (BONDS)	97	1,380	1,286
Bonds M, M0 and M7	301	859	134
Federal Government Development Bonds in Udis (UDIBONDS)	144	324	337
Savings Protection Bonds (BPAT'S)	10,433	5,177	1,395
United Mexican States Bonds (UMS)	12	259	151
Subtotal	<u>11,046</u>	<u>8,052</u>	<u>3,496</u>
Privates securities -			
Marketable Certificates	3,255	3,831	5,350
Commercial Paper	-	175	82
Subtotal	<u>3,255</u>	<u>4,006</u>	<u>5,432</u>
Private bank issued securities -			
Promissory Note with Yield Payable at Maturity (PRLV)	-	1,366	134
Marketable Certificates	1,908	1,166	852
Certificate of Deposit (CEDES)	1,283	2,459	1,664
Subtotal	<u>3,191</u>	<u>4,991</u>	<u>2,650</u>
Total	<u>\$ 17,492</u>	<u>\$ 17,049</u>	<u>\$ 11,578</u>

At December 31, 2016, 2015 and 2014, the position in trading securities includes the following securities lending at market value:

	2016	2015	2014
<b>Debt instruments:</b>			
Government securities -			
Federal Government Development Bonds			
(BONDS)	\$ 447	\$ 1,412	\$ -
<b>Capital market instruments:</b>			
Shares listed in stock exchange	-	-	234
<b>Total</b>	<u>\$ 447</u>	<u>\$ 1,412</u>	<u>\$ 234</u>

This position is considered restricted within trading securities.

As of December 31, 2016, positions greater than 5% of the Bank and Brokerage House net capital in debt securities with a sole issuer (other than government securities) are as follows:

	2016		
Issuer	Maturity date	% Rate	Restated valued
SGMEX	453	2.59%	\$ 2,052
BINTER	538	6.74%	347
CEDEVIS	8,778	3.29%	240
FEFA	1,692	7.34%	344
TFOVICB	10,371	3.77%	1,474
PEMEX	2,024	9.47%	1,514
TFOVIS	9,962	3.31%	1,603
NAFI265	12	1.14%	3,092
NAFF	2,435	7.68%	281
MULTIVA	1,013	7.41%	301
BACOMER	1,832	6.57%	1,528
CABEID	1,045	4.91%	598
BINTER	353	6.63%	189
BMONEX	559	7.07%	18
CDVITOT	9,760	3.86%	69
<b>Total</b>			<u>\$ 13,650</u>

*Securities available for sale* - As of December 31, 2016, 2015 and 2014, the securities available for sale are as follows:

	2016				2015	2014
	Acquisition cost	Interest accrued	Increase (decrease) due to decrease	Total	Total	Total
<b>Debt instruments:</b>						
Government securities -						
TREASURY NOTES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17
Private securities -						
Marketable Certificates						
PEMEX 13-2	614	13	(70)	557	40	-
PEMEX 210121 D2	107	3	-	110	-	-
CEDEVIS9512U	4	-	-	4	4	-
CEDEVIS9513U	208	3	-	211	219	-
TFOVIS9514U	640	-	(26)	614	632	-
TFOVIS9514-3U	583	-	(16)	567	608	-
UMS22F22022FDI	209	2	(1)	210	-	-
CDVITOT9515U	42	-	-	42	-	-
FACILSA9116	40	-	-	40	-	-
PEMEX9510-2	293	10	(31)	272	-	-
PEMEX9511-3	631	4	(60)	575	-	-
TFOVICB9515-2U	1,033	-	(37)	996	-	-
TFOVIS9514	131	-	(3)	128	-	-
	<u>\$ 4,535</u>	<u>\$ 35</u>	<u>\$ (244)</u>	<u>\$ 4,326</u>	<u>\$ 1,503</u>	<u>\$ 17</u>

As of December 31, 2016, 2015 and 2014 the securities available for sale didn't show signs of impairment.

*Restricted securities available for sale*

As of December 31, 2016, 2015 and 2014, the restricted securities available for sale are as follows:

	2016	2015
Private securities -		
Marketable Certificates		
PEMEX 13-2 95	\$ 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	210	-
CDVITOT9515U	42	-
FACILSA9116	40	-
PEMEX9510-2	272	-
PEMEX9511-3	575	-
TFOVICB9515-2U	996	-
TFOVIS9514	128	-
Total	<u>\$ 4,216</u>	<u>\$ 1,503</u>

At December 31, 2014 were not restricted securities available for sale.

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

**Securities held to maturity -**

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

	2016
Private securities -	
Marketable Certificates:	
TFOVICB9515-2U	\$ 73
Total	\$ 73

As of December 31, 2015 and 2014 there were not securities held to maturity.

This position is considered restricted within the securities held to maturity

**7. Repurchase agreements**

As of December 31, 2016, 2015 and 2014 repurchase agreements were as follows:

Acts as purchaser:

	2016		
	Repurchase agreements	Collateral	Net asset position
Government securities -			
Federal Government Development Bonds (BONDS)	\$ 6,003	\$ (3,983)	\$ 2,020
Saving Protection Bonds (BPAT's)	2,032	(380)	1,922
Subtotal	8,305	(4,363)	3,942
Private securities -			
Marketable Certificates	100	(100)	-
Subtotal	100	(100)	-
Total	\$ 8,405	\$ (4,463)	\$ 3,942
	2015		
	Repurchase agreements	Collateral	Net asset position
Government securities -			
Treasury bills (CETES)	\$ 1	\$ -	\$ 1
Federal Government Development Bonds (BONDS)	816	-	816
Bonds M, M0 and M7	113	(113)	-
Federal Government Development Bonds in UDIS (UDIBONDS)	30	(1)	29
Saving Protection Bonds (BPAT's)	1,938	(1)	1,937
Subtotal	2,898	(115)	2,783
Private securities -			
Marketable Certificates	182	(3)	179
Subtotal	182	(3)	179
Private bank issued securities -			
Promissory Note with Yield Payable at Maturity (PRLV)	57	(57)	-
Certificates of Deposit	9	(2)	7
Marketable Certificates	2	(1)	1
Subtotal	68	(60)	8
Total	\$ 3,148	\$ (178)	\$ 2,970

	2014		
	Repurchase agreements	Collateral	Net asset position
Government securities-			
Federal Government Development Bonds (BONDS)	\$ 4,256	\$ (4,254)	\$ 2
Federal Government Development Bonds in Udis (UDIBONDS)	10	(10)	-
Bonds M, M0 and M7	109	(109)	-
Saving Protection Bonds (BPAT's)	2,968	(2,967)	1
Subtotal	<u>7,343</u>	<u>(7,340)</u>	<u>3</u>
Private securities-			
Marketable Certificates	5,270	(5,270)	-
Subtotal	<u>5,270</u>	<u>(5,270)</u>	<u>-</u>
Private bank issued securities-			
Certificates of Deposit	755	(755)	-
Marketable Certificates	163	(163)	-
Subtotal	<u>918</u>	<u>(918)</u>	<u>-</u>
Total	<u>\$ 13,531</u>	<u>\$ (13,528)</u>	<u>\$ 3</u>

As of December 31, 2016 the repurchase transactions performed by Monex, S.A.B., acting as purchaser, were agreed at terms ranging between 3 to 116 days and between 2 to 20 days for 2015 and 2014.

Acts as seller:

	2016	2015	2014
	Cash to be delivered	Cash to be delivered	Cash to be delivered
Government securities -			
Treasury bills (CETES)	\$ 59	\$ 53	\$ 193
Federal Government Development Bonds (BONDS)	97	1,379	356
Federal Government Development Bonds in Udis (UDIBONDS)	144	324	337
Bonds M, M0 and M7	282	858	134
Saving Protection Bonds (BPAT's)	3,727	5,178	1,123
United Mexican States Bonds (UMS)	221	260	151
Subtotal	<u>4,530</u>	<u>8,052</u>	<u>2,294</u>
Private securities-			
Marketable Certificates	7,366	3,861	3,211
Commercial Paper	-	178	82
	<u>7,366</u>	<u>4,039</u>	<u>3,293</u>
Private bank issued securities-			
Promissory Note with Yield Payable at Maturity (PRLV)	-	1,366	134
Marketable Certificates	1,601	1,169	849
Certificates of Deposit (CEDES)	1,351	2,443	1,669
Subtotal	<u>2,952</u>	<u>4,978</u>	<u>2,652</u>
Total	<u>\$ 14,848</u>	<u>\$ 17,069</u>	<u>\$ 8,239</u>

For the years ended December 31, 2016, 2015 and 2014, accrued interest on sale agreements was \$591, \$458 and \$270, respectively, and the accrued interest expenses on purchase agreements was \$920, \$571 and \$391, respectively.

As of December 31, 2016, 2015 and 2014, the repurchase transactions performed by Monex, S.A.B., acting as seller, were agreed at terms ranging between 3 to 117 days, 4 to 106 days and 2 to 11 days, respectively.

8. Derivative financial instrument transactions

As of December 31, 2016, 2015 and 2014, the position for transactions with financial derivatives is as follows:

	2016		2015		2014	
	Nominal amount of purchases	Asset position net	Nominal amount of purchases	Asset position net	Nominal amount of purchases	Asset position net
Futures-						
Foreign currency futures	\$ 10,554	\$ -	\$ 5,686	\$ -	\$ 7,234	\$ -
Futures securities	-	-	-	-	50	-
Futures indexes	-	-	3	-	-	-
Forwards-						
Foreign currency forwards	29,196	2,112	19,942	932	113,730	1,315
Forwards indexes	-	-	7	-	9	1
Forwards shares	-	2	-	1	-	-
Options-						
Foreign currency options	38	73	15	79	51	270
Rates options	43	91	44	94	50	83
Options indexes	1	1	-	-	-	-
Swaps-						
Rates swaps	12,261	1,536	6,921	295	6,039	221
Total trading derivatives	52,093	3,815	32,618	1,401	127,163	1,890
Hedging derivatives						
Rates swaps	838	143	-	-	-	-
Total hedging derivatives	838	143	-	-	-	-
Total position	\$ 52,931	\$ 3,958	\$ 32,618	\$ 1,401	\$ 127,163	\$ 1,890

	2016		2015		2014	
	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	\$ 4	\$ -	\$ 56	\$ -	\$ 5,050	\$ -
Futures securities	-	-	-	-	330	-
Forwards-						
Foreign currency forwards	32,764	779	25,431	443	115,980	713
Forwards indexes	-	-	7	-	8	1
Forwards shares	379	-	295	-	325	-
Forwards securities	-	-	5	-	40	1
Options-						
Foreign currency options	47	119	14	31	60	151
Rates options	139	179	72	101	71	96
Options indexes	-	-	-	-	-	-

	2016		2015		2014	
	Nominal amount of the sales	Asset position net	Nominal amount of the sales	Liability position net	Nominal amount of the sales	Liability position net
Swaps-						
Rates swaps	12,323	1,598	7,102	475	6,209	390
Total trading derivatives	45,656	2,675	32,982	1,050	128,073	1,352
Hedging derivatives						
Rates swaps	704	9	-	-	-	-
Total hedging derivatives	704	9	-	-	-	-
Total position	\$ 46,360	\$ 2,684	\$ 32,982	\$ 1,050	\$ 128,073	\$ 1,352

For the years ended December 31, 2016, 2015 and 2014, the valuation effect of the trading derivative instruments is reflected in the statements of income under "Gain/losses on financial assets and liabilities (net)" (See Note 29)

#### Fair value hedging

Monex, S.A.B. 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 Monex, S.A.B. as of December 31, 2016:

Hedged position	Designated Financial Instrument	Market value
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day TIE, plus a spread (2.0414%).	\$ 25
95PEMEX11-3	Interest rate swap which pays fixed rate (7.65%) and receives 28 day TIE plus a spread (1.35%).	\$ 17
95PEMEX13-2	Interest rate swap which pays fixed rate (7.19%) and receives 28 day TIE plus a spread (1.01%).	\$ 52
95PEMEX10-2	Interest rate swap which pays fixed rate (9.1%) and receives 28 day TIE plus a spread (1.4%).	\$ 9
AUDI 1	Interest rate swap which pays fixed rate (6.135%) and receives 28 day TIE.	\$ 24
AUDI 2	Interest rate swap which pays fixed rate (6.155%) and receives 28 day TIE.	\$ 8
CODESA	Interest rate swap which pays fixed rate (5.355%) and receives 28 day TIE	\$ 16

In every case the risk to be covered is market rate; i.e., the changes in the values of the positions for interest rate movements. Every month, the gain or loss on all the hedge derivatives is recorded (affecting stockholders' equity and results).

Derivatives and the underlying assets are as follows:

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

The guarantees and collateral received and delivered for the derivative financing transactions as of December 31, 2016, 2015 and 2014, are comprised as follows:

Heading	Type of collateral	Market	Received		
			2016	2015	2014
Sundry creditors and other accounts payable	Cash	OTC	\$ 2,815	\$ 1,550	\$ 1,288
Collaterals sold or pledge in guarantee	Securities	OTC	\$ -	\$ 42	\$ 14

Heading	Type of collateral	Market	Delivered		
			2016	2015	2014
Margin accounts	Cash	Organized market	\$ 541	\$ 383	\$ 650
Other receivables	Securities	OTC	\$ 184	\$ 471	\$ 821

Upon executing transactions with “Over the counter” (OTC) derivatives, Monex, S.A.B. 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, 2016, 2015 and 2014, there are no restricted securities delivered as security for derivative transactions.

**Management of derivative financial instrument usage policies**

The policies of Monex, S.A.B. 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 Monex, S.A.B. 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***

Monex, S.A.B. 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.

Monex, S.A.B. 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, 2016, 2015 and 2014, Monex, S.A.B. 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 Monex, S.A.B. 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 2016, 2015 and 2014 was necessary to cover contributions in both the organized and the required collateral contracts markets.

At December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, 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 following chart shows the total sensitivity consumption as of December 31, 2016 (unaudited):

Sensitivity analysis	Sensitivity (all factors)
Stage one 1%	(0.49)
Stage two 2%	(0.52)

### *Stress test -*

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

As of December 31, 2016 the results for these scenarios are as follows and show the impact on results if they occurred (unaudited):

Risk profile	Stress test (all factors)
Scenario one	\$ (5.4)
Scenario two	\$ (10.8)

## **9. Loan portfolio**

As of December 31, 2016, 2015 and 2014, the performing loan portfolio and non-performing loan portfolio granted by type of currency are as follows:

	2016		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans-			
Commercial	\$ 8,078	\$ 55	\$ 8,133
Loans to financial institutions	1,435	-	1,435
Housing loans-			
Housing loans	180	6	186

	2016		
	Performing	Non-performing	Total
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	7,779	21	7,820
Loans to financial institutions	<u>720</u>	<u>-</u>	<u>720</u>
Total	<u>\$ 18,212</u>	<u>\$ 82</u>	<u>\$ 18,294</u>
	2015		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans-			
Commercial	\$ 4,646	\$ 55	\$ 4,701
Loans to financial institutions	<u>984</u>	<u>-</u>	<u>984</u>
Housing loans-			
Housing loans	9	12	21
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	6,252	51	6,303
Loans to financial institutions	<u>472</u>	<u>-</u>	<u>472</u>
Total	<u>\$ 12,363</u>	<u>\$ 118</u>	<u>\$ 12,481</u>
	2014		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans-			
Commercial	\$ 3,014	\$ 31	\$ 3,045
Loans to financial institutions	<u>888</u>	<u>-</u>	<u>888</u>
Housing loans-			
Housing loans	161	6	167
U.S. dollars converted to Mexican pesos:			
Commercial loans -			
Commercial	<u>3,968</u>	<u>3</u>	<u>3,971</u>
Total	<u>\$ 8,031</u>	<u>\$ 40</u>	<u>\$ 8,071</u>

Monex, S.A.B. 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, Monex, S.A.B. 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 Monex, S.A.B., 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, Monex, S.A.B. will claim the settlement and subrogate the collection rights to such bank, which continues collections efforts on the loans.

At December 31, 2016, 2015 and 2014, the portfolio with third party participation administered by Monex, S.A.B. denominated in foreign currency are as follows:

	2016	2015	2014
Short-term	\$ 19	\$ 198	\$ 186
Medium term	<u>3</u>	<u>8</u>	<u>16</u>
	<u>\$ 22</u>	<u>\$ 206</u>	<u>\$ 202</u>

### *Housing Loans*

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

	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>	
	2014			
	Performing	Number of loans	Non-performing	Number of loans
Housing loans				
ROA	\$ 161	26,023	\$ 6	1,085
REA	<u>-</u>		<u>-</u>	<u>68</u>
Total	<u>\$ 161</u>		<u>\$ 6</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 Monex, S.A.B. 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, 2016, 2015 and 2014, the non-performing housing portfolio is classified as follows:

Terms	2016	2015	2014
From 1 to 180 days	\$ -	\$ -	\$ 4
From 181 to 365 days	2	8	2
From 366 to 2 years	<u>4</u>	<u>4</u>	<u>-</u>
Total	<u>\$ 6</u>	<u>\$ 12</u>	<u>\$ 6</u>

### ***Risk diversification -***

At December 31, 2016, Monex, S.A.B. maintains the following credit risk operations in conformity with the general diversification rules established for active and passive transactions by the Provisions, as follows:

- Monex, S.A.B. 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 \$4,803, 115% of Monex, S.A.B. basic capital.
- The total of the loans granted to Monex, S.A.B. three main borrowers is \$2,235 and represents 53.6% of its basic capital.

According to the Provisions, the limits applicable to the diversification of Monex, S.A.B.'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, Monex, S.A.B. is subject to the maximum financing limit obtained by applying the following:

Capitalization level	Maximum financing limit calculated according to the bank'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 Monex, S.A.B.'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 Monex, S.A.B. 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 Monex, S.A.B.

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, 2016, 2015 and 2014 the loan amounts delivered to related parties in accordance with Article 73 of the Law on Credit Institutions are \$263, \$207 and \$22 respectively, which were approved by the Board of Directors.

***Policy and methods used to identify distressed commercial loans*** - For disclosure proposes in the financial statements, Monex, S.A.B. 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.

Monex, S.A.B. performs the classification of distressed commercial loans, reporting a total of \$142 which represents 1% of the total commercial portfolio as of December 31, 2016.

	2016		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial loans-			
Commercial	\$ 75	\$ 46	\$ 121
Dollars valued in Mexican pesos:			
Commercial loans-			
Commercial	-	21	21
Total	<u>\$ 75</u>	<u>\$ 67</u>	<u>\$ 142</u>

**Policy and procedures to identify credit risk concentration** - Concentration risk is an essential element of risk management. Monex, S.A.B. 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, 2016, 2015 and 2014, unused credit lines authorized to customers for \$8,912, \$6,908, and \$1,159, respectively.

As of December 31, 2016, 2015 and 2014, aging of non-performing portfolio is as follows:

	2016	2015	2014
From 90 to 179 days	\$ 1	\$ 98	\$ 4
From 180 to 365 days	2	10	4
Over 365 days	<u>79</u>	<u>10</u>	<u>32</u>
	<u>\$ 82</u>	<u>\$ 118</u>	<u>\$ 40</u>

#### 10. Allowance for loan losses

As of December 31, 2016, 2015 and 2014, the allowance for loan losses was \$307, \$182 and \$112, respectively, and is assigned as follows:

2016	Performing Portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial	\$ 15,877	\$ 76	\$ 287
Loans to financial institutions	2,155	-	18
Housing loans-			
Housing loans	<u>180</u>	<u>6</u>	<u>2</u>
Total portfolio	<u>\$ 18,212</u>	<u>\$ 82</u>	<u>\$ 307</u>

2015	Performing Portfolio	Non-performing portfolio	Assigned allowance
Commercial loans- Commercial Loans to financial institutions	\$ 10,898 1,456	\$ 106 -	\$ 171 8
Housing loans- Housing loans	9	12	3
Total portfolio	<u>\$ 12,363</u>	<u>\$ 118</u>	<u>\$ 182</u>

2014	Performing Portfolio	Non-performing portfolio	Assigned allowance
Commercial loans- Commercial Loans to financial institutions	\$ 6,982 888	\$ 34 -	\$ 103 6
Housing loans- Housing loans	161	6	3
Total portfolio	<u>\$ 8,031</u>	<u>\$ 40</u>	<u>\$ 112</u>

As of December 31, 2016, 2015 and 2014, Monex, S.A.B. maintained an allowance for loan losses equivalent to 374%, 154% and 280%, of the non-performing portfolio, respectively.

The allowance for loan losses resulting from the loan portfolio classification with responsibilities as of December 31, 2016, 2015 and 2014, reported by Monex, S.A.B., is as follows:

Degree of risk	2016		2015		2014	
	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	\$ 9,134	\$ 45	\$ 6,397	\$ 32	\$ 4,078	\$ 18
A-2	7,911	96	4,483	55	3,356	43
B-1	838	15	2,046	34	1,616	26
B-2	717	16	269	7	133	3
B-3	602	18	353	12	338	11
C-1	32	2	91	7	87	6
C-2	109	15	6	1	13	2
D	106	46	72	28	1	-
E	54	54	10	6	34	3
Base rating portfolio	19,503	<u>\$ 307</u>	13,727	<u>\$ 182</u>	9,656	<u>\$ 112</u>
Less - Letter of credit	(1,209)		(1,246)		(1,585)	
Loan portfolio, net	<u>\$ 18,294</u>		<u>\$ 12,481</u>		<u>\$ 8,071</u>	

Below is the activity of the allowances for loan losses for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Opening balances	\$ 182	\$ 112	\$ 64
Provisions (applications) with debit (credit) to:			
Additions charged to results	150	76	48
Cancellation of allowances (1)	(41)	-	-
Exchange result	19	11	4
Applications	(3)	(17)	(4)
Closing balances	<u>\$ 307</u>	<u>\$ 182</u>	<u>\$ 112</u>

- (1) Related to payments on loans granted during 2016, loans which had allowances recorded during previous years and this year has recorded in "Other operating income".

#### 11. Other receivables, net

As of December 31, 2016, 2015 and 2014, the other receivables, are as follows:

	2016	2015	2014
Receivables from liquidation of money market transactions	\$ 1,128	\$ 3,321	\$ 2,179
Receivables from foreign exchange transactions	14,593	9,741	8,889
Receivables from transactions	271	347	610
Intercompany administrative services	1	-	-
Employee loans and other debtors	22	22	10
Collateral delivered for derivative financing transactions	184	471	821
Other receivables	<u>17</u>	<u>9</u>	<u>19</u>
	16,216	13,911	12,528
Allowance for doubtful accounts	<u>(73)</u>	<u>(62)</u>	<u>(230)</u>
Total	<u>\$ 16,143</u>	<u>\$ 13,849</u>	<u>\$ 12,298</u>

#### 12. Property, furniture and fixtures, net

As of December 31, 2016, 2015 and 2014, property, furniture and fixtures are as follows:

	2016	2015	2014
Office furniture and equipment	\$ 110	\$ 97	\$ 84
Computer and communications equipment	96	71	60
Vehicles	<u>8</u>	<u>8</u>	<u>8</u>
	214	176	152
Less-			
Accumulated depreciation	<u>(119)</u>	<u>(92)</u>	<u>(64)</u>
Total property, furniture and fixtures (net)	<u>\$ 95</u>	<u>\$ 84</u>	<u>\$ 88</u>

The annual depreciation and amortization rates were as follows:

	Percentage
Buildings	5%
Computer and communications equipment	30%
Vehicles	25%
Office furniture and equipment	10%

For the years ended at December 31, 2016, 2015 and 2014, depreciation expense amounted to \$28, \$26 and \$25, respectively.

### 13. Other assets

As of December 31, 2016, 2015 and 2014, goodwill and other assets were as follows:

	2016	2015	2014
Goodwill:			
Tempus	\$ 407	\$ 407	\$ 407
Monex Europe LTD.	326	326	326
Conversion effect	<u>370</u>	<u>253</u>	<u>129</u>
	1,103	986	862
Deferred charges, prepayments and intangible:			
Other intangible assets arising from the acquisition of Tempus (1)	176	176	176
Other intangible assets arising from the acquisition of Monex Europe (1)	635	635	635
Conversion effect	<u>205</u>	<u>161</u>	<u>57</u>
Intangible assets	1,016	972	868
Adjustments and improvements	276	217	209
Software	99	56	25
Prepayments	231	199	137
Investment projects	24	6	-
Other deferred charges	<u>46</u>	<u>13</u>	<u>8</u>
	1,692	1,463	1,247
Less - accumulated amortization	<u>(185)</u>	<u>(151)</u>	<u>(111)</u>
	1,507	1,312	1,136
Other assets:			
Operational deposit	123	76	74
Management trust (2)	<u>100</u>	<u>100</u>	<u>100</u>
	<u>223</u>	<u>176</u>	<u>174</u>
	<u>\$ 2,833</u>	<u>\$ 2,474</u>	<u>\$ 2,172</u>

- (2) As of December 31, 2016, 2015 and 2014 Monex, S.A.B. has identified intangible assets for the acquisition of Tempus and Monex Europe, as follows:

	Tempus	Monex Europe	Total		
			2016	2015	2014
Licenses	\$ 71	\$ -	\$ 71	\$ 71	\$ 71
Sales force	42	67	109	109	109
Operating agreements with banks	56	401	457	457	457
Software	7	6	13	13	13
Non-compete agreements	-	161	161	161	161
Total	176	635	811	811	811
Conversion effect			205	161	57
Total			1,016	972	868
Amortization			(66)	(63)	(45)
Total intangibles assets			\$ 950	\$ 909	\$ 823

- (1) Management Trust No. F/523 – On May 19, 2010, Monex, S.A.B. started a stock option plan for its key executives, which was approved during a Stockholders' Meeting of the same date. Consequently, Admimonex, executed Management Trust agreement F/523 with the Bank to grant financing to its executives to enable them to acquire shares representing the common stock of Monex, S.A.B. At December 31, 2016, the shares deposited in the trust amount to 8,598,660 Series "B" shares of Monex, S.A.B., which were assigned and acquired by executives at that date.

#### 14. Foreign currency position

As of December 31, 2016, 2015 and 2014, foreign currency assets and liabilities of Monex, S.A.B. were as follows:

	Millions of US Dollars			Millions of Euros			Millions of Pounds Sterling			Other foreign currencies in millions of U.S. dollars		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Funds available	USD 628	USD 722	USD 967	€ 50	€ 23	€ 19	£ 56	£ 53	£ 39	USD 6	USD 7	USD 5
Margin accounts	4	5	3	-	-	-	-	-	-	-	-	-
Investment in securities	251	95	67	-	9	-	-	-	-	-	-	-
Repurchase agreements	68	8	23	-	-	-	-	-	-	-	-	-
Derivative (assets not offset)	-	1,496	2,345	-	-	31	77	21	17	-	-	1
Performing loan portfolio	426	388	265	-	-	-	-	-	-	-	-	-
Other assets	49	48	49	-	-	-	48	45	47	-	-	-
Other receivables	9	40	115	-	-	-	47	18	22	1	-	-
Deposits	(677)	(368)	(463)	(38)	(27)	(11)	(1)	(1)	(1)	(5)	(7)	(5)
Liabilities arising from sale and repurchase agreements	(86)	(51)	(110)	-	(2)	(2)	-	-	-	-	-	-
Bank and other loans	(13)	(11)	(13)	-	-	-	-	-	-	-	-	-
Collaterals	(37)	(10)	(66)	-	-	(2)	(66)	(43)	(57)	-	-	-
Derivative (liability not offset)	(4)	(1,581)	(2,897)	-	(18)	(38)	(14)	-	(1)	-	-	(1)
Sundry creditors and other payables	(491)	(635)	(748)	(4)	-	(1)	(76)	(27)	-	(2)	-	-
Deferred credits and prepayments	(4)	(2)	(1)	-	(3)	-	-	-	-	-	-	-
Asset (liability) position	USD 123	USD 144	USD (464)	€ 8	€ (18)	€ (4)	£ 71	£ 66	£ 66	USD -	USD -	USD -
Mexican peso equivalent	\$ 2,536	\$ 2,484	\$ (6,840)	\$ 174	\$ (337)	\$ (71)	\$ 1,809	\$ 1,679	\$ 1,517	\$ -	\$ -	\$ -

As of December 31, 2016, 2015 and 2014, the "Fix" (48-hour) exchange rate submitted by the Central Bank and used was \$20.6194, \$17.2487 and \$14.7414 per U.S. dollar, respectively.

As of December 31, 2016, 2015 and 2014, the "Euro" exchange rate submitted by the Central Bank and used was \$21.7534, \$18.7493 and \$17.8385 per Euro, respectively.

As of December 31, 2016, 2015 and 2014, the “Pound Sterling” exchange rate submitted by the Central Bank and used was \$25.4814, \$25.4366 and \$22.9847 per Pound Sterling, respectively.

On March 17, 2016, the foreign currency position (unaudited) is similar to the position at the end of the year. The foreign exchange “Fix” at this date is \$19.1170 per U.S. dollar, \$20.5202 per Euro and \$23.6277 per Pound Sterling.

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

Monex, S.A.B. performs a large number of foreign currency transactions mainly in U.S. dollar, Euro, Sterling pound, Canadian dollar 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, 2016, 2015 and 2014, deposits were as follows:

	2016	2015	2014
Demand deposits	\$ 15,209	\$ 8,366	\$ 7,852
Time deposits-			
General public	10,733	4,984	5,483
Money market:			
Deposit certificates	434	2,033	656
Promissory Notes with Interest			
Payable at Maturity (BMONEX)			
(1)	-	2,149	280
	<u>26,376</u>	<u>17,532</u>	<u>14,271</u>
Debt securities			
Debt securities (Bonds)	<u>440</u>	<u>81</u>	<u>156</u>
Global account for inactive deposits	<u>3</u>	<u>3</u>	<u>-</u>
Total deposits	<u>\$ 26,819</u>	<u>\$ 17,616</u>	<u>\$ 14,427</u>

(1) Short-term maturities which generated interest at an average 7.33%, 3.43% and 2.91% rate, in 2016, 2015 and 2014, respectively.

## 16. Bank and other loans

As of December 31, 2016, 2015 and 2014, bank loans were as follows:

	2016				2015	2014
	Mexican Pesos	Foreign currency	Rate	Total	Total	Total
Demand deposits-						
“Call Money” received	\$ 344	\$ -	5.68%	\$ 344	\$ -	\$ 200
Total demand deposits	<u>344</u>	<u>-</u>		<u>344</u>	<u>-</u>	<u>200</u>
Short term-						
FIRA	50	-	5.84%	50	22	8
Clusters	759	260	4.49%	1,019	838	584
Digital loans	9	-	5.10%	9	20	-
Total short-term loans	<u>818</u>	<u>260</u>		<u>1,078</u>	<u>880</u>	<u>592</u>
Total bank loans and other loans	<u>\$ 1,162</u>	<u>\$ 260</u>		<u>\$ 1,422</u>	<u>\$ 880</u>	<u>\$ 792</u>

**Loans with Development Bank Institutions** - Loans are granted by, Nacional Financiera, S.N.C. (NAFIN) and Fideicomiso of Central Bank (FIRA), which represent a direct obligation for Monex, S.A.B. with these entities. Accordingly, Monex, S.A.B. 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 Monex, S.A.B. The financial conditions are set under fixed and variable rate programs, both in U.S. dollars and Mexican pesos, and the term is based on the specific program or transaction determined for each project.

#### 17. Securitization certificates

##### *Issuance of the Bank*

As mentioned in Note 1 subsection b) Monex, S.A.B. through the Bank made a public offering of securitization certificates.

The Bank made its first public offering of securitization certificates 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 Interbank Interest Rate (TIE) 28-day rate + 90 basis points.

##### *Issuance of Monex, S.A.B.*

As mentioned in Note 1 subsection b), Monex, S.A.B. issued 10 million of marketable certificates by public offering celebrated on November 7, 2014 for the amount of \$1,000 effective for three years, which pay interest every 28 days at a rate of 28-days TIE plus 160 basis points.

As of December 31 de 2016, 2015 and 2014 Monex, S.A.B. has payed interest for the amount of \$114, \$93 and \$68, respectively.

On the other side of the first issuance of securitization certificates which made Monex, S.A.B. during 2012 for the amount of \$1,000, they were settled during July, 2015.

#### 18. Comparative maturities of principal assets and liabilities

As of December 31, 2016 the maturities of principal assets and liabilities are as follows:

	6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
<b>Assets:</b>					
Funds available (1)	\$ 6,891	\$ -	\$ -	\$ 229	\$ 7,120
Margin accounts	722	-	-	-	722
Investment in securities	3,318	3,883	13,398	6,152	26,751
Repurchase agreements	3,942	-	-	-	3,942
Derivatives	1,337	656	1,084	881	3,958
Performing loan portfolio	7,575	551	7,273	2,813	18,212
Other receivables (net)	16,143	-	-	-	16,143
<b>Total assets</b>	<b>39,928</b>	<b>5,090</b>	<b>21,755</b>	<b>10,075</b>	<b>76,848</b>
<b>Liabilities:</b>					
Deposits	26,789	30	-	-	26,819
Issuance of securitization certificates	-	-	2,001	-	2,001
Bank and other loans	1,363	13	46	-	1,422
Liabilities arising from sale and repurchase agreements	14,848	-	-	-	14,848
Derivatives	798	177	902	807	2,684
Obligations arising from settlement of transactions	15,139	-	-	-	15,139
Liabilities arising from cash collateral received	2,815	-	-	-	2,815
Other accounts payables	2,754	-	-	242	2,996
<b>Total liabilities</b>	<b>64,506</b>	<b>220</b>	<b>2,949</b>	<b>1,049</b>	<b>68,724</b>
<b>Assets less liabilities</b>	<b>\$ (24,578)</b>	<b>\$ 4,870</b>	<b>\$ 18,806</b>	<b>\$ 9,026</b>	<b>\$ 8,124</b>

The heading of Funds available includes Monetary Regulation Deposits with Central Bank. Such deposits as of December 31, 2016 are \$229, and cannot be disposed of freely.

## 19. Related party transactions and balances

As of December 31, 2016, 2015 and 2014 Monex, S.A.B. maintained loans amounts with to related parties for the amount of \$251, \$207 and 22 respectively.

As of December 31, 2016, 2015 and 2014 Monex, S.A.B. had consolidated all its transactions with related parties over which Monex, S.A.B. has equity interest greater than 50% and the control. As is mentioned in Note 1 subsection c), since November 2014, Monex, S.A.B. ceased to consolidate its transactions with its subsidiaries Monex Servicios and Pagos Intermex. Because Monex, S.A.B. and such subsidiaries perform operations related to investment in securities, deposits, personal services, correspondents, most of them originate revenues in one entity and expenses in the other entity. Transactions and balances as of December 31, 2014 are as follows:

	2014
Receivable-	
Derivatives	\$ <u>3</u>
Liabilities-	
Deposits	\$ <u>30</u>
Payables accounts	\$ <u>4</u>
Revenue-	
Other products	\$ <u>14</u>
Gain/losses on financial assets and liabilities (net)	\$ <u>3</u>
Expenses-	
Interest	\$ <u>1</u>
Administrative services	\$ <u>63</u>

## 20. Labor benefits

Under Mexican Labor Law, Monex, S.A.B. is liable for pensions, severance payments, and seniority premiums to employees terminated under certain circumstances.

Each year, Monex, S.A.B. 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 Monex, S.A.B.'s employees.

As of December 31, 2016, 2015 and 2014, balances and activity reflected in employee benefits, which include, seniority premiums and severance payments, were as follows:

	2016	2015	2014
Defined benefit obligation	\$ 542	\$ 504	\$ 433
Plan assets	<u>(177)</u>	<u>(170)</u>	<u>(165)</u>
Underfunded status	365	334	268
Unamortized:			
Past service cost	(107)	(143)	(130)
Past services not recognized	<u>(16)</u>	<u>(9)</u>	<u>(7)</u>
Net projected liability	\$ <u>242</u>	\$ <u>182</u>	\$ <u>131</u>

Net periodic cost for defined benefits consists of the following:

	2016	2015	2014
Service cost for the year	\$ 43	\$ 40	\$ 32
Interest net related to PNBD	25	14	10
Recycling of remeasurement of net liability for defined benefits	(1)	-	-
Amortization of transition liability, labor cost of past service and accrual losses	(36)	(3)	(4)
Recycling of unrecognized gains or losses	<u>1</u>	<u>-</u>	<u>-</u>
Net cost	32	51	38
Remeasurement recorded in comprehensive income	1	-	-
Gradual recognition in retained earnings	<u>27</u>	<u>-</u>	<u>-</u>
Defined benefits cost	<u>\$ 60</u>	<u>\$ 51</u>	<u>\$ 38</u>

The economic assumptions used were as follows:

	2016	2015	2014
Discount rate	8.12%	7.57%	7.09%
Expected rate of return of assets	8.12%	7.57%	7.09%
Rate of wage increases	4.50%	3.50%	4.00%

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

	2016	2015	2014
Opening balance (face value)	\$ 182	\$ 131	\$ 94
Net cost of the period and profit losses recognition	60	51	38
Other	<u>-</u>	<u>-</u>	<u>(1)</u>
Net projected liability	<u>\$ 242</u>	<u>\$ 182</u>	<u>\$ 131</u>

As of December 31, 2016, 2015 and 2014, such assets were invested as follows:

	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Capital market	\$ 48	27%	\$ 33	19%	\$ 45	28%
Money market	114	64%	137	81%	110	66%
Repurchase market	<u>15</u>	8%	<u>-</u>	-	<u>10</u>	6%
Total	<u>\$ 177</u>		<u>\$ 170</u>		<u>\$ 165</u>	

As of December 31, 2016, 2015 and 2014, 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:

	2016	2015	2014
Present value of the defined benefits obligation as of January 1	\$ 504	\$ 433	\$ 322
Actual payment of benefits during the year	-	(22)	(17)
Actuarial (loss) profit in defined benefit obligation	(7)	23	71
Cost of the year	<u>45</u>	<u>70</u>	<u>57</u>
Present value of the defined benefits obligation as of December 31, of each year	<u>\$ 542</u>	<u>\$ 504</u>	<u>\$ 433</u>

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

	2016	2015	2014
Deferred PTU asset:			
Provisions	\$ 11	\$ 23	\$ 26
Labor benefits	24	18	14
Gain on derivative financial instrument transaction	74	13	8
Allowance for loan	30	17	5
Other	<u>18</u>	<u>11</u>	<u>-</u>
Total	157	82	53
Deferred PTU liability:			
Loss on derivative financial instrument transaction	-	(12)	(15)
Prepayments	<u>(7)</u>	<u>(4)</u>	<u>(3)</u>
Total	<u>(7)</u>	<u>(16)</u>	<u>(18)</u>
Total asset (liability)	<u>\$ 150</u>	<u>\$ 66</u>	<u>\$ 35</u>

The deferred PTU recorded in the results of the period amounted \$(84), \$(31) and \$4 in 2016, 2015 and 2014, respectively.

## 21. Liabilities arising from settlements of transactions

As of December 31, 2016, 2015 and 2014, creditors from settlement of transactions are as follows:

	2016	2015	2014
Creditors from operations by foreign exchange	\$ 14,011	\$ 9,670	\$ 9,441
Creditors for settlement of transactions of securities loan	<u>1,128</u>	<u>3,159</u>	<u>1,456</u>
	<u>\$ 15,139</u>	<u>\$ 12,829</u>	<u>\$ 10,897</u>

## 22. Sundry creditors and other payables

As of December 31, 2016, 2015 and 2014, sundry creditors and other payables were as follows:

	2016	2015	2014
Employee retirement obligation provision	\$ 419	\$ 352	\$ 296
Funds	<u>(177)</u>	<u>(170)</u>	<u>(165)</u>
	242	182	131
Suppliers	77	47	35
Creditors from operations	520	453	323
Intercompany payable	1	-	4
Payable commissions, bounds and other gratifications	535	299	159
Contingent liabilities (1)	152	73	5
Various taxes and social security contribution	122	25	39
Taxes withheld	77	59	62
Reclassification of creditors bank	103	54	30
Cash overdraft	596	-	-
Others sundry creditors	<u>571</u>	<u>278</u>	<u>448</u>
	<u>\$ 2,996</u>	<u>\$ 1,470</u>	<u>\$ 1,236</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, 2016 and 2015 and 2014 Monex, S.A.B. canceled a balance of \$42, \$31, and 92 respectively, recognized in "Other operating income" in the statement of income.

## 23. Income taxes

Monex, S.A.B. is subject to ISR, in conformity with ISR Law as of December 31, 2016, 2015 and 2014, the rate was at 30% and will continue at the same percentage thereafter.

Deferred taxes are composed as follows:

	2016	2015	2014
ISR:			
Current	\$ (614)	\$ (400)	\$ (263)
Deferred	<u>295</u>	<u>76</u>	<u>3</u>
	<u>\$ 319</u>	<u>\$ (324)</u>	<u>\$ (260)</u>

**Reconciliation of the accounting tax result** - The main items affecting the determination of Monex, S.A.B.'s tax result were the annual adjustment for inflation, provisions, the difference between accounting and tax depreciation and amortization, the allowance for loan losses, provisions created for the expenses of prior years that were settled in the current year and the valuation effect of derivatives.

**Tax loss carryforwards and IETU tax credit** - As of December 31, 2016, Monex, S.A.B. has ISR tax loss carryforwards as follows:

Company	Amount
AdmiMonex	<u>\$ 33</u>
Monex, S.A.B.(Individually)	<u>\$ 36</u>

***PTU and deferred taxes*** - At December 31, 2016, 2015 and 2014, PTU and deferred taxes are composed as follows:

	2016	2015	2014
Deferred ISR asset:			
Provisions	\$ 34	\$ 70	\$ 50
Labor obligations	70	53	42
Gain on derivative financial instrument transaction	224	38	28
Others	<u>261</u>	<u>137</u>	<u>34</u>
Deferred ISR asset	589	298	154
Deferred ISR (liability):			
Prepaid expenses	(23)	(13)	-
Others	<u>(136)</u>	<u>(147)</u>	<u>(84)</u>
Deferred ISR liability	(159)	(160)	(84)
Deferred PTU asset	<u>150</u>	<u>66</u>	<u>35</u>
Net deferred taxes (net)	<u>\$ 580</u>	<u>\$ 204</u>	<u>\$ 105</u>

Holding Monex's management doesn't record a reserve for the deferred income tax asset that they believe will be recovered, based on the financial and tax projections prepared by management.

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

As Monex, S.A.B. does not consolidate the results of its subsidiaries for tax purposes, the Management of Monex, S.A.B. considers that the effective rate presented individually for each of its main subsidiaries provides information more realistic than if it were presented on a consolidated basis, having subsidiaries abroad with different tax rates.

The reconciliation of the legal ISR and the effective rate of the main entities of Monex, S.A.B., expressed as a percentage of profit before ISR are:

	Bank			Brokerage House		
	2016	2015	2014	2016	2015	2014
Legal rate	30%	30%	30%	30%	30%	30%
Valuation of investment securities	6%	6%	(7%)	-	3%	6%
Annual adjustment for inflation	(1%)	(3%)	12%	(2%)	(2%)	(4%)
Non deductible	(17%)	(4%)	-	14%	13%	(4%)
Others	-	1%	(5%)	-	-	2%
Effective tax rate	<u>18%</u>	<u>30%</u>	<u>30%</u>	<u>42%</u>	<u>44%</u>	<u>30%</u>

*Other tax issues:*

As of December 31, 2016, 2015 and 2014, the main subsidiaries of Monex, S.A.B. have the following balances for significant tax measures (individually):

	Bank (individually)			Brokerage House (individually)		
	2016	2015	2014	2016	2015	2014
Contributed capital account	<u>\$ 3,655</u>	<u>\$ 2,931</u>	<u>\$ 2,270</u>	<u>\$ 595</u>	<u>\$ 576</u>	<u>\$ 564</u>
Net tax income account	<u>\$ 3,833</u>	<u>\$ 2,741</u>	<u>\$ 2,496</u>	<u>\$ 536</u>	<u>\$ 473</u>	<u>\$ 500</u>

## 24. Stockholders' equity

As of December 31, 2016, 2015 and 2014, capital stock, at par value, was as follows:

	Number of shares	Amount
Fixed capital-		
Series A Shares	50,000	\$ 1
Series B Shares	<u>545,758,505</u>	<u>2,054</u>
	<u>545,808,505</u>	<u>\$ 2,055</u>

The Stockholders' Ordinary General meeting of April 7, 2016, agreed the follows movements:

- Transfer the net result of the year of 2015, for the amount of \$625 to the "Retained earnings".
- Declared of dividends to shareholders in the amount of \$250, under the account "Retained earnings".

At December 31, 2016, 2015 and 2014, the reserve created to repurchase shares is composed as follows:

	2016	2015	2014
Repurchased shares	9,535,305	9,517,088	8,236,577
Market price per share	\$ 10.00	\$ 10.20	\$ 12.60
Market value	\$ 95	\$ 97	\$ 104
Balance of reserve at the beginning	\$ 241	\$ 254	\$ 668
Movements approved by the stockholders	-	-	(400)
Less:			
Loss of repurchase shares	-	(15)	(1)
Historic value of repurchased shares	-	2	(13)
Balance for repurchased shares	\$ 241	\$ 241	\$ 254

Minimum fixed capital is \$50, as represented by 50,000 fully subscribed and paid-in Series "A" shares.

Variable capital is unlimited and represented by ordinary, nominative Series "B" shares at no par value.

Foreign people who exercise authority are prohibited from participating in the Capital Stock of Monex, S.A.B., as are Mexican financial institutions, regardless of whether they form part of Monex, S.A.B. group, unless they act as institutional investors within the meaning of Article 19 of the Law Regulating Financial Groups.

In cases where dividends are distributed prior to the payment of taxes applicable to Monex, S.A.B., such tax must be paid when the dividend is distributed; therefore, Monex, S.A.B. 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.

Monex, S.A.B. and its subsidiaries, except the Bank, must maintain a legal provision whereby at least 5% of the net profits of each year must be separated and transferred to a capital reserve fund until they equal to 20% of paid-in capital. In the case of the Bank, the applicable legal provision requires the creation of a legal reserve equal to 10% of net profits until reaching 100% of paid-in capital. While these entities exist, this reserve can only be distributed to stockholders as share dividends.

25. Earnings per share

Earnings per share related to the years ended as of December 31, 2016, 2015 and 2014 were determined as follows:

	2016	2015	2014
Net income	\$ 1,071	\$ 625	\$ 604
Weighted average number of ordinary shares	<u>536,223,200</u>	<u>536,241,417</u>	<u>391,713,423</u>
Earning per share	<u>\$ 1.98</u>	<u>\$ 1.17</u>	<u>\$ 1.54</u>

26. Capital ratio of the Bank (2016 and 2015 corresponds to latest information submitted to Central Bank and 2014 to definitive information submitted to Central Bank) (Unaudited)

As of December 31, 2016, 2015 and 2014, in accordance with the capital requirements in effect applicable to full service banks, Monex, S.A.B. presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

	2016	2015	2014
Net capital / required capital	1.85%	2.08%	1.99%
Basic capital / assets subject to credit, market and operational risk	14.77%	16.62%	15.95%
Net capital / assets subject to credit risk	19.26%	24.43%	22.60%
Net capital / assets subject to credit, market and operational risk	14.77%	16.62%	15.95%

The capitalization ratio of the Bank was updated and submitted to the Central Bank for the years 2016, 2015 and 2014, on January 20, 2017, January 18, 2016 and February 9, 2015, respectively.

As of December 31, 2016, 2015 and 2014, the net capital used to calculate the capital ratio is as follows:

	2016	2015	2014
Basic capital:			
Stockholder's equity disregarding convertible securities and subordinate debt	\$ 5,770	\$ 5,746	\$ 4,402
Less:			
Organization costs and other intangible	(328)	(44)	(173)
Investment in shares of entities	<u>(1,375)</u>	<u>(1,254)</u>	<u>(1,381)</u>
	(1,703)	(1,298)	(1,554)
Complementary capital:			
Allowance for loan losses	<u>298</u>	<u>176</u>	<u>112</u>
Total net capital	<u>\$ 4,365</u>	<u>\$ 4,624</u>	<u>\$ 2,960</u>

	2016		2015		2014	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
<b>Market risk:</b>						
Transactions with nominal rate and above par rate in Mexican pesos	\$ 1,600	\$ 128	\$ 2,402	\$ 192	\$ 1,897	\$ 152
Transactions with real rate	1,650	132	1,940	155	275	22
Transactions with nominal rate in foreign currency	800	63	891	71	556	44
Transactions with shares and related to shares	150	12	154	12	90	7

	2016		2015		2014	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
Foreign exchange transactions	376	30	135	11	618	49
Transactions in UDIS relating INPC	11	1	10	1	9	-
For impact Gamma	-	-	137	11	-	-
	<u>4,587</u>	<u>366</u>	<u>5,669</u>	<u>453</u>	<u>3,445</u>	<u>274</u>
	2016		2015		2014	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
<b>Credit risk:</b>						
Deposits and loans	18,275	1,462	11,612	929	8,303	664
From repurchase agreements and derivatives counterparties	1,350	108	576	46	621	48
From issuers of debt securities in position	1,475	119	1,373	110	960	79
From long-term investment in shares and other assets	713	57	1,150	92	1,424	114
From guarantees and credit lines and securitization	837	66	892	71	598	48
From collateral issuers and persons received	12	1	7	1	-	-
Transactions with related parties	-	-	626	50	-	-
	<u>22,662</u>	<u>1,813</u>	<u>16,236</u>	<u>1,299</u>	<u>11,906</u>	<u>953</u>
<b>Operational risk:</b>	<u>2,293</u>	<u>183</u>	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>
Total assets at risk	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>

At December 31, 2016, 2015 and 2014, weighted positions by market risk are as follows:

	2016		2015		2014	
	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement
Market risk	\$ 4,587	\$ 366	\$ 5,669	\$ 453	\$ 3,445	\$ 274
Credit risk	22,662	1,813	16,236	1,299	11,906	953
Operational risk	<u>2,293</u>	<u>183</u>	<u>1,963</u>	<u>157</u>	<u>1,540</u>	<u>123</u>
	<u>\$ 29,542</u>	<u>\$ 2,362</u>	<u>\$ 23,868</u>	<u>\$ 1,909</u>	<u>\$ 16,891</u>	<u>\$ 1,350</u>

## 27. Ratings of the Bank

As of December 31, 2016, the Bank 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	Apr 29, 2016	Nov 24, 2016

## 28. Memorandum accounts

Memorandum accounts are not included in the balance sheet and only the memorandum accounts in which transactions are directly related to the balance sheet are audited, such as: clients banks, clients securities in custody, client repurchase agreements, client securities lending securities transactions, client collateral received in guarantee, derivatives purchase transactions, derivatives sale transactions, contingent assets and liabilities and collateral received and sold or pledged as guarantee.

Aside from the above memoranda accounts, Monex, S.A.B. also has the following:

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

As of December 31, 2016, 2015 and 2014, Monex, S.A.B. administered the following trusts and mandates:

	2016	2015	2014
Trusts under-Administration	\$ 82,727	\$ 71,859	\$ 62,234
Guarantee	4,517	4,302	2,239
Investment	1,689	2,439	4,055
	<u>\$ 88,933</u>	<u>\$ 78,600</u>	<u>\$ 68,528</u>

As of December 31, 2016, 2015 and 2014, the income from the administration of such assets was \$94, \$77 and \$61, respectively.

b. **Other record accounts (unaudited) -**

As of December 31, 2016, 2015 and 2014, other record accounts have a balance of \$3,660, \$3,106 and \$2,207, respectively.

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

For the years ended December 31, 2016, 2015 and 2014, gain/losses on financial assets and liabilities (net) are as follows:

	2016	2015	2014
Foreign exchange result:			
Valuation	\$ (3)	\$ (12)	\$ 4
Realized gains or losses	<u>2,465</u>	<u>3,385</u>	<u>2,873</u>
	2,462	3,373	2,877
Derivatives result:			
Valuation	(181)	(87)	340
Realized gains or losses	<u>2,711</u>	<u>681</u>	<u>(161)</u>
	2,530	594	179
Income from debt securities:			
Valuation	(136)	(4)	16
Realized gains or losses	<u>354</u>	<u>(114)</u>	<u>280</u>
	218	(118)	296
Equity:			
Valuation	6	(2)	-
Realized gains or losses	<u>1</u>	<u>23</u>	<u>10</u>
	7	21	10
	<u>\$ 5,217</u>	<u>\$ 3,870</u>	<u>\$ 3,362</u>

30. **Interest income (expenses)**

As of December 31, 2016, 2015 and 2014, the financial margin was as follows:

	2016	2015	2014
Interest income:			
Investment securities, debt and equity	\$ 1,387	\$ 1,100	\$ 812
Bank and other loans	3	7	19
Deposits with financial institutions	51	27	41
Loan portfolio	951	542	364
Others	<u>49</u>	<u>34</u>	<u>43</u>
	2,441	1,710	1,279
Interest expenses:			
Interest from repurchase agreements	(899)	(566)	(373)
Interest on bank and other loans	(60)	(40)	(30)
Demand deposits	(51)	(44)	(37)
Time deposits	(482)	(298)	(336)
Securitization certificates	(115)	(95)	(72)
Others	<u>(8)</u>	<u>(7)</u>	<u>-</u>
	(1,615)	(1,050)	(848)
Total	<u>\$ 826</u>	<u>\$ 660</u>	<u>\$ 431</u>

### 31. Segment information

As of December 31, 2016, 2015 and 2014, Monex, S.A.B. 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.

2016	Foreign exchange	International	Derivatives	Banking products	Credit and deposits	Trust services	Others	Total
Gain/losses on financial assets and liabilities (net)	\$ 2,480	\$ 1,930	\$ 582	\$ 225	\$ -	\$ -	\$ -	\$ 5,217
Interest income	-	7	36	1,392	954	-	52	2,441
Interest expense	-	-	-	(1,014)	(593)	-	(8)	(1,615)
Allowance for loan losses	-	-	-	-	(150)	-	-	(150)
Commission and fee income	82	116	-	139	40	189	28	594
Commission and fee expense	(6)	(30)	(11)	(40)	-	(1)	(83)	(171)
Other operating income (expenses), net	-	(1)	-	-	41	(7)	49	82
Administrative and promotional expense	(1,995)	(1,606)	(470)	(589)	(198)	(150)	-	(5,008)
Current and deferred income taxes	(172)	(98)	(22)	(35)	(29)	(10)	47	(319)
Total general	<u>\$ 389</u>	<u>\$ 318</u>	<u>\$ 115</u>	<u>\$ 78</u>	<u>\$ 65</u>	<u>\$ 21</u>	<u>\$ 85</u>	<u>\$ 1,071</u>
2015	Foreign exchange	International	Derivatives	Banking products	Credit and deposits	Trust services	Others	Total
Gain/losses on financial assets and liabilities (net)	\$ 2,284	\$ 1,282	\$ 400	\$ (96)	\$ -	\$ -	\$ -	\$ 3,870
Interest income	-	8	24	1,110	549	-	19	1,710
Interest expense	-	-	-	(661)	(385)	-	(4)	(1,050)
Allowance for loan losses	-	-	-	-	(76)	-	-	(76)
Commission and fee income	76	88	-	145	42	143	34	528
Commission and fee expense	-	(23)	(9)	(41)	(3)	(1)	(97)	(174)
Other operating income (expenses), net	-	4	-	2	-	(6)	159	159
Administrative and promotional expense	(1,941)	(1,052)	(349)	(439)	(116)	(129)	-	(4,026)
Current and deferred income taxes	(145)	(106)	(23)	(7)	(3)	(3)	(37)	(324)
Equity in income of unconsolidated associate companies	-	-	-	-	-	-	8	8
Total general	<u>\$ 274</u>	<u>\$ 201</u>	<u>\$ 43</u>	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 4</u>	<u>\$ 82</u>	<u>\$ 625</u>
2014	Foreign exchange	International	Derivatives	Banking products	Credit and deposits	Trust services	Others	Total
Gain/losses on financial assets and liabilities (net)	\$ 2,030	\$ 867	\$ 158	\$ 307	\$ -	\$ -	\$ -	\$ 3,362
Interest income	-	6	35	820	383	-	35	1,279
Interest expense	-	-	-	(445)	(403)	-	-	(848)
Allowance for loan losses	-	-	-	-	(48)	-	-	(48)
Commission and fee income	66	85	-	171	69	129	41	561
Commission and fee expense	-	(16)	(11)	(36)	(18)	(4)	(111)	(196)
Other operating income (expenses), net	-	(3)	-	2	-	(2)	172	169
Administrative and promotional expense	(1,733)	(742)	(150)	(726)	23	(109)	-	(3,437)
Current and deferred income taxes	(112)	(61)	(10)	(28)	(2)	(4)	(43)	(260)
Equity in income of unconsolidated associate companies	-	-	-	-	-	-	22	22
Total general	<u>\$ 251</u>	<u>\$ 136</u>	<u>\$ 22</u>	<u>\$ 65</u>	<u>\$ 4</u>	<u>\$ 10</u>	<u>\$ 116</u>	<u>\$ 604</u>

*Foreign exchange* - Purchases and sales currencies, includes intermediation services in the acquisition or sale and international payments.

*International* - International operations includes purchases, sales services and foreign currency forwards in US, London and Spain.

*Derivatives* - Foreign currency forwards and solutions of risk administration, includes intermediation services of forwards, currency options, interest rate swaps, options shares, notes and structured bonus.

*Banking products*: Securities Products and Services Asset Management brokerage services includes intermediation services of fixed income in investment in securities and repurchase agreements, securities brokerage and international capital, funds and managed portfolios.

*Credit and deposits* - Operations banking products, lending services and client's deposits.

*Trust Services* - Operations Common Trust Services and Representation.

*Others* - Includes trust services, deposits, mutual funds, bank and other loans and others.

### 32. Contingencies and commitments

- a) **Lawsuits** - Over the normal course of business, Monex, S.A.B. and subsidiaries have 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, 2016, 2015 and 2014 Monex, S.A.B. has contingency reserves for \$152, \$21 and \$5 respectively, which are included in "Sundry creditors and other accounts payable". Monex, S.A.B.'s management considers the reserve is reasonable in accordance with its internal and external legal counsel opinion.
- b) **Administered loan portfolio** - As discussed in Note 9, the portfolio administered by Monex, S.A.B. derived from the sales made and equity held under the outline agreement executed with ExIm-Bank and Pefco is for the amount of \$22, \$206 and \$202 at December 31, 2016, 2015 and 2014, respectively. In relation to this loan portfolio, Monex, S.A.B. 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) **Connectivity Service Contract** - On December 17, 2015, Monex, S.A.B through its subsidiary Monex Grupo Financiero, signed a contract with Alestra, S. de R.L. de C.V., for the provision of connectivity services; access to the internet; security equipment; monitoring; platform execution; storage and restoration of information; administration of applications and databases, among others. It will last 5 years. The estimated amount to be paid for the 5 years of service is \$135.

### 33. Subsequent events

On January 26, 2017, Monex, S.A.B. signed an agreement for a vehicle organized or managed by Ventura Capital Privado, S.A. de C.V. can invest up to \$1,500 in shares of Monex, S.A.B. At a price per share of \$18.65. This operation is subject to approval by the Commission.

### 34. Comprehensive risk management (unaudited)

#### a. *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 Monex, S.A.B. 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.

#### b. *Environment -*

Monex, S.A.B. 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, Monex, S.A.B. has technological tools to calculate the Value at Risk (VaR), while also performing supplemental stress testing. Likewise, Monex, S.A.B. 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.

#### c. *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.

d. ***Market risk -***

Monex, S.A.B. 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.

e. ***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 Monex, S.A.B.

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

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

f. ***Credit risk -***

Monex, S.A.B.'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 Monex, S.A.B.

Furthermore, Monex, S.A.B. 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, Monex, S.A.B. 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 and report it, periodically, to the UAIR, CR and the Board of Directors.

g. **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.

Monex, S.A.B. has implemented procedures to follow up the operational risk, and periodically report the results to the UAIR, the CR and to the Board of Directors.

Monex, S.A.B. 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 Monex, S.A.B.; 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 Monex, S.A.B. is 3.
- Accordingly, each identified operating risk must be classified at levels 1 and 2 (Low - Medium) of the scale.

General Director of Monex, S.A.B., 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 Monex, S.A.B. if a given risk materializes.

Monex, S.A.B. 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.

h. **Legal risk -**

Monex, S.A.B. has established policies and procedures in the MARO and implements the same process as that used for operating risks.

i. **Technological risk -**

Monex, S.A.B. has policies and procedures for systems operation and development.

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

j. **Quantitative information (unaudited)**

a) **Market risk -**

At December 31, 2016, 2015 and 2014, the VaR was \$30, \$14 and \$6, respectively (unaudited) and with a 99% reliance for one day. This value represents the maximum loss expected during one day and is situated within the limits established by Monex, S.A.B.

At December 31, 2016, 2015 and 2014, portfolio concentration by segment was as follows (unaudited):

	2016	2015	2014
Farming	\$ 596	\$ 406	\$ 60
Foods	513	257	108
Automotive	1,187	1,026	679
Commerce	1,132	740	805
Housing construction	550	150	119
Specialized construction	1,076	805	481
Pharmacist	12	13	-
Financial	2,155	1,456	897
Hospitality / Restaurants (tourism)	1,290	1,183	540
Chemistry Industry	317	280	209
Real state	1,915	1,552	1,392
Manufacturing (manufacture of plastic)	906	614	484
Manufacturing (manufacture of electrical and electronic)	19	18	60
Manufacturing (manufacture of concrete products)	714	636	226
Manufacturing (other)	726	497	164
Mining and metals	484	351	308
Natural person	680	411	509
Suppliers (PEMEX)	597	902	545
Services	2,371	503	242
Transport and telecommunications	666	342	151
Others	<u>379</u>	<u>329</u>	<u>61</u>
Total	<u>\$ 18,285</u>	<u>\$ 12,471</u>	<u>\$ 8,040</u>

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

Note: As of 31 December 2016 sectoral classification criteria including more industries to identify more accurately the risk are updated. For comparative purposes of this report the information regroups 2015 and 2014.

#### Market risk statistics

	VaR Minimum	VaR Average	VaR Maximum
Global	2	21	47
Derivatives	1	4	10
Money market	1	5	19
Foreign exchange	0.01	0.43	1.77

\*The average value refers to the daily exposure of the money market, derivatives and foreign-exchange as of December 31, 2016.

b) **Credit risk -**

Corporate bonds portfolio.

The credit VaR of the corporate bonds portfolio of the Money market as of December 31, 2016 in Monex, S.A.B. was (3.39%) relative to an investment of \$10,400, whereas the credit stress of such portfolio was (10.48%) 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	3.15%	0.69%	2.45%
Maximum	3.73%	0.81%	2.93%
Average	3.49%	0.77%	2.72%

Note: The figures presented are expressed in amounts relative to the value of the corporate bonds portfolio, for the daily exposure of December 31, 2016.

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	253	298	273
Not expected loss	51	58	54
Var	304	356	327

The expected loss statistics refer to the daily exposure of December 31, 2016 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 -**

Monex, S.A.B. 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
2016	\$ (20,270)	\$ 19,123

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

Year	Requirement ≤30 days	Requirement ≤30 days
2016	\$ 611	\$ 578

Liquidity risk statistical.

GAP total depreciation

Statically	≤30	≤90	≤180	≤360	≤720	≤1800	>1800	Total
Minimum	(7,797)	828	751	1,045	1,875	2,750	2,373	5,890
Maximum	(5,113)	4,217	2,434	1,804	2,186	3,432	3,121	8,634
Average	(6,309)	2,500	1,844	1,519	1,995	3,054	2,845	7,448

GAP maturity total

Statically	≤30	≤90	≤180	≤360	≤720	≤1800	>1800	Total
Minimum	(7,667)	(1,859)	1,507	3,481	5,669	12,167	(5,265)	14,216
Maximum	(1,890)	3,561	4,309	5,506	8,264	16,137	(3,090)	23,376
Average	(5,576)	1,052	2,885	4,264	6,601	13,587	(4,018)	18,794

\*The statistics of the maturity GAP refer to the position of the money market, credit, derivatives and foreign-exchange portfolios of December 31, 2016.

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

Repos renewal effect	Amount mmp	Var Absolut	Effect of Selling off unusual MD	Amount	
Actual Cost	(161,647)		Value of securities	21,458,421	
Sensitivity 1*	(177,812)	(16,165)	Sensitivity 1	(4,890)	
Sensitivity 2	(193,977)	(32,329)	Sensitivity 2	(48,796)	
Stress 1	(210,142)	(48,494)	Stress 1	(477,519)	
Stress 2	(226,306)	(64,659)	Stress 2	(931,824)	
Sensitivity 1 = 10%, Sensitivity 2 = 20%, Stress 1 = 30%, Stress 2 = 40%.			Sensitivity 1 = 1bp, Sensitivity 2 = 10bp, Stress 1 = 100bp, Stress 2 = 200bp.		
Effect of selling unusual Money market	Amount mmp		Interest paid of deposits	Current MTM	MTM variation
Securities' value	29,723,982		Interest paid (actual)	(5,715)	
Sensitivity 1	(351,040)		Sensitivity 1*	(10,202)	(4,487)
Sensitivity 2	(3,501,758)		Sensitivity 2	(14,689)	(8,975)
Stress 1	(34,153,013)		Stress 1	(19,177)	(13,462)
Stress 2	(66,384,757)		Stress 2	(23,664)	(17,949)
Sensitivity 1 = 1bp, Sensitivity 2 = 10bp, Stress 1 = 100bp, Stress 2 = 200bp.			Sensitivity 1 = 10%, Sensitivity 2 = 20%, Stress 1 = 30%, Stress 2 = 40%.		

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

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

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

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

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

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 of them.

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

Monex, S.A.B. 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.

35. **New accounting principles**

As of December 31, 2016, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the financial statements of Monex, S.A.B.:

a. **Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017:**

NIF B-13, *Events after the date of the financial statements*, If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF C-11, *Stockholders' equity* – Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already the property of investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.

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

- b. Improvements to NIF 2017 – The following improvements do not generate accounting changes:

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

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements.

- c. The following NIF were issued and are effective January 1, 2018:

NIF C-9, *Provisions, contingencies and commitments*: The term probable replaced the term virtually unavoidable in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

At the date of issuance of these consolidated financial statements, Monex, S.A.B. has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

**36. Authorization of the Financial Statements**

On March 17, 2017 the issuance of the consolidated financial statements was authorized by Moisés Tiktin Nickin, Chief Executive Officer of Monex, S.A.B., Álvaro Alberto Calderón Jiménez, Chief Financial Officer, José Luis Orozco Ruiz, 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 be modified.

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