

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

Consolidated Financial Statements for  
the Years Ended December 31, 2013  
and 2012, and Independent Auditors'  
Report Dated February 24, 2014

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

## **Independent Auditors' Report and Consolidated Financial Statements for 2013 and 2012**

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

We have audited the accompanying consolidated financial statements of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

### *Management's Responsibility in relation to the Consolidated Financial Statements*

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

### *Responsibility of the Auditors*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero and subsidiaries as of December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with the accounting criteria of the Commission

*Emphasis of matters*

As discussed in Note 1, the Institution acquired Schneider Foreign Exchange Limited in a transaction that was accounted for as a business combination. Our opinion is not qualified in respect of this matter.

Furthermore, as mentioned in Note 1, the Institution changed the commercial portfolio rating model. Our opinion is not qualified in respect of this matter.

*Other matter*

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

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



CPA Jorge Adrián Ramírez Soriano  
February 24, 2014



**Banco Monex, S.A., Institución de Banca Múltiple,  
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## Consolidated Balance Sheets

As of December 2013 and 2012  
(In millions of Mexican pesos)

Assets	2013	2012	Liabilities	2013	2012
Funds available	\$ 12,416	\$ 14,460	Deposits:		
Margin accounts	676	534	Demand deposits	\$ 6,410	\$ 3,813
Investment in securities:			Time deposits-		
Trading securities	9,527	10,436	General public	3,994	878
Securities available for sale	-	15	Money market	1,046	1,559
	9,527	10,451	Debt securities	370	794
Repurchase agreements	33	-		11,820	7,044
Derivatives:	540	575	Bank and other loans:		
Held for trading	540	575	Demand loans	-	2,811
Performing loan portfolio:			Short-term loans	473	337
Commercial loans -				473	3,148
Commercial or financial activity	2,801	2,721	Creditors under sale and repurchase agreements	6,229	8,309
Financial entities loans	527	647	Collateral sold or pledged in guarantee		
Government entities loans	34	42	Repurchase	1	2
	3,362	3,410	Derivatives	635	554
Housing loans	948	1,129	Held for trading	635	554
Total performing loan portfolio	4,310	4,539	Other payables:		
Non-performing loan portfolio:			Income taxes payables	-	18
Commercial loans -			Employee profit sharing payables	36	10
Commercial or financial activity	23	38	Creditors from settlement of transactions	13,822	18,596
Housing loans	1	-	Sundry creditors and other payables	2,157	1,549
Total non-performing portfolio	24	38		16,015	20,173
Total loan portfolio	4,334	4,577	Deferred charges and received in advance income	38	25
Allowance for loan losses	(64)	(84)	Total liabilities	35,211	39,255
Loan portfolio (net)	4,270	4,493			
Other receivables (net)	10,034	11,120	Stockholders' equity		
Foreclosed assets (net)	2	2	Paid-in capital:		
Furniture and fixtures (net)	80	81	Capital stock	1,525	1,525
Investments in equity	13	14		1,525	1,525
Deferred taxes (net)	41	36	Earned capital:		
Other assets:			Capital reserves	313	229
Goodwill	684	675	Retained earnings	1,202	1,007
Deferred charges, advance payments and intangibles (net)	1,121	980	Currency translation adjustment	37	9
Other assets	20	5	Net income	542	841
	1,825	1,660		2,094	2,086
Total assets	\$ 39,457	\$ 43,426	Minority Interest	627	560
			Total stockholders' equity	4,246	4,171
			Total liabilities and stockholders' equity	\$ 39,457	\$ 43,426

Memorandum accounts (See Note 27)

	2013	2012
Loan commitments	\$ 2,647	\$ 5,930
Goods in trust or mandate -		
Held in trusts	55,859	41,627
Collateral received by the Institution	392	525
Collateral received and sold or pledged as guarantee by the Institution	358	525
Uncollected interest earned on non-performing loan portfolio	7	11
Other record accounts	<u>2,435</u>	<u>2,428</u>
	<u>\$ 61,698</u>	<u>\$ 51,046</u>

The accompanying notes are part of these consolidated financial statements.

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

## **Consolidated Statements of Income**

For the years ended December 31, 2013 and 2012

(In millions of Mexican pesos)

	2013	2012
Interest income	\$ 1,076	\$ 987
Interest expense	<u>(619)</u>	<u>(615)</u>
Financial margin	457	372
Provision for loan losses	<u>(38)</u>	<u>(37)</u>
Financial margin after provision for loan losses	419	335
Commission and fee income	187	193
Commission and fee expense	(195)	(151)
Intermediation result	3,108	3,134
Other operating (expenses) income	(4)	138
Administrative and marketing expense	<u>(2,725)</u>	<u>(2,390)</u>
Income before income taxes	790	1,259
Current income taxes	(185)	(335)
Deferred income taxes (net)	<u>(15)</u>	<u>(76)</u>
	<u>(200)</u>	<u>(411)</u>
Net result before the Minority interest	590	848
Minority interest	<u>(48)</u>	<u>(7)</u>
Net income	<u>\$ 542</u>	<u>\$ 841</u>

The accompanying notes are an integral part of these consolidated financial statements.



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## Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2013 and 2012  
(In millions of Mexican pesos)

	Capital contributed	Earned capital						
	Capital stock	Capital reserves	Retained earnings	Result from valuation of securities available for sale, net	Currency translation adjustment	Net income	Minority interest	Total stockholders'
Balances as of December 31, 2011	\$ 935	\$ 158	\$ 653	\$ 154	\$ 25	\$ 702	\$ -	\$ 2,627
Entries approved by stockholders -								
Increase in share capital and paid shares	590	-	-	-	-	-	-	590
Capital reserve	-	71	(71)	-	-	-	-	-
Transfer of prior year result	-	-	702	-	-	(702)	-	-
Dividends declared	-	-	(276)	-	-	-	-	(276)
Total entries approved by stockholders	590	71	355	-	-	(702)	-	314
Comprehensive income -								
Net income	-	-	-	-	-	841	7	848
Result from valuation of securities available for sale, net	-	-	-	(154)	-	-	-	(154)
Cumulative effect from conversion of foreign subsidiaries	-	-	-	-	(16)	-	-	(16)
Minority interest of Monex Europe	-	-	(1)	-	-	-	553	552
Total comprehensive income	-	-	(1)	(154)	(16)	841	560	1,230
Balances as of December 31, 2012	1,525	229	1,007	-	9	841	560	4,171
Entries approved by stockholders -								
Capital reserve	-	84	(84)	-	-	-	-	-
Transfer of prior year result	-	-	841	-	-	(841)	-	-
Dividends declared	-	-	(427)	-	-	-	-	(427)
Total entries approved by stockholders	-	84	330	-	-	(841)	-	(427)
Comprehensive income -								
Net income	-	-	-	-	-	542	-	542
Cumulative effect from conversion of foreign subsidiaries	-	-	-	-	28	-	48	76
Adjustment for financial effect from the new methodology of commercial portfolio rating	-	-	(135)	-	-	-	-	(135)
Minority interest of Monex Europe	-	-	-	-	-	-	19	19
Total comprehensive income	-	-	(135)	-	28	542	67	502
Balances as of December 31, 2013	\$ 1,525	\$ 313	\$ 1,202	\$ -	\$ 37	\$ 542	\$ 627	\$ 4,246

The accompanying notes are part of these consolidated financial statements.



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## Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012  
(In millions of Mexican pesos)

	2013	2012
Net income	\$ 542	\$ 841
Adjustment for items that do not require cash flows:		
Depreciation and amortization	54	39
Current and deferred income taxes	200	411
Others	87	-
	<u>883</u>	<u>1,291</u>
Operating activities:		
Change in margin account	(232)	(184)
Change in investments in securities	924	(2,094)
Change in repurchase agreements, net	(2,113)	2,065
Change in derivatives, net	116	(163)
Change in loan portfolio	223	(850)
Change in other operating assets	1,158	2,373
Change in deposits	4,776	2,592
Change in bank and other loans	(2,675)	2,407
Change in other operating liabilities	(4,659)	864
	<u>-</u>	<u>(298)</u>
Net cash flows from operating activities	(1,599)	8,003
Investing activities:		
Proceeds from sale of property, furniture and fixtures	1	-
Investment in shares	-	(1)
Purchase of furniture and equipment	(40)	(27)
Payments for improvements and adaptations	(16)	-
Purchase of foreign subsidiary	-	(732)
	<u>-</u>	<u>(732)</u>
Net cash flows from investing activities	(55)	(760)
Financing activities:		
Dividends paid	(427)	(276)
Subscription of shares	-	590
Minority interest	-	552
	<u>-</u>	<u>552</u>
Net cash flows from financing activities	(427)	866
Net (decrease) increase in cash	(2,081)	8,109
Effects from changes in cash value	37	(12)
Funds available at the beginning of the year	<u>14,460</u>	<u>6,363</u>
Funds available at the end of the year	<u>\$ 12,416</u>	<u>\$ 14,460</u>

The accompanying notes are integral part of these consolidated financial statements.

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## **Notes to Consolidated Financial Statements**

For the years ended December 31, 2013 and 2012  
(In millions of Mexican pesos)

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

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

The Treasury Department (SHCP) issued minimum capital requirements for credit institutions, which establish a minimum capital ratio for market, credit and operational risks incurred by financial institutions. Also, financial authorities imposed limits on liabilities and demand deposits in foreign currency charges to paid-in capital and capital reserves. This information is presented in Note 24. As of December 31, 2013 and 2012, the Institution determined a capital ratio of 18.45% and 20.38%, respectively, which includes the total of market, credit and operational risk, which exceeds the 8% required by the authorities by 10.45% and 12.36%, respectively.

#### *Significant events in 2013 and 2012*

##### *a. Sale of the credit portfolio to AdmiMonex*

Through the transfer agreement of December 23, 2013, the Institution assigned its entire loan portfolio due from housing constructors to AdmiMonex, S.A de C.V., (AdmiMonex) (related party) for the amount of \$31. At the transaction date, the gross value of the transferred loans was \$215, for which the Financial Group recognized an allowance for loan losses of \$184. AdmiMonex paid the agreed sales price at the contract execution date. The price was determined according to market values.

The transaction was authorized by the Board of Directors of the Institution and reported to the Central Bank in accordance with the provisions of Circular 15/2012.

##### *b. Tax reforms*

On November 1, 2013, Mexican Congress approved a series of tax reforms which are effective starting fiscal 2014. These reforms include amendments to the Income Tax Law, Value Added Tax Law and Federal Tax Code. They also resulted in the elimination of the Business Flat Tax Law and Cash Deposit Tax Law. The main effects of these tax reforms are detailed in Note 22.



c. *Acquisition of Schneider Foreign Exchange Limited (SFE)-*

As part of its strategy, on July 2, 2012, Holding Monex, S.A.B. de C.V. (Holding Monex) (Parent Company) acquired all outstanding shares of Schneider Foreign Limited (currently doing business as Monex Europe Holdings, Ltd. "Monex Europe"), a UK company engaged in the purchase and sale of foreign currencies and carrying out international payments, domiciled in London. The acquired entity is regulated by the Financial Services Authority as an Authorized Payment Institution below the London and Gales Jurisdiction. Without being a banking institution, is dedicated to treading of foreign currency, payment and transfer of resources according to the instructions of its customers.

The transaction was structured as follows:

- a. The Financial Group capitalized the Institution with a capital contribution of \$590, which in turn contributed \$580 for shares of common stock of Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios) (a direct subsidiary). With these resources, Monex Negocios acquired 50.10% of the Monex Europe's capital stock.
- b. The other 49.9% of shares was acquired by the Parent Company at the same date.
- c. The Commission authorized this transaction through official notice 210-12223/2012 dated June 28, 2012.

Although the final purchase price depends on the financial performance of Monex Europe from March 31, 2012 through March 31, 2015, on July 2, 2012, the Institution took control of its operations and, together with the Parent Company, made the first of three payments totaling £32.4 million to the former stockholders. Likewise, the amount of £20.2 million was deposited in an escrow account to cover the liability represented by the following payments. The second payment of £8.6 million was made in May 2013; the final payment will be made in May 2015. The total contribution was £52.6 million, of which the Institution contributed £26.4 million and the Parent Company contributed £26.2 million.

The fair values of the identified assets of Monex Europe as of July 2, 2012, the acquisition date, are shown below (the exchange rate in effect on that date was 21.4278 Mexican pesos per pound sterling):

Monex Europe (amounts in millions of Pesos)	2012
Assets:	
Cash	\$ 395
Accounts receivable	144
Other assets	7
Liabilities:	
Current liabilities	376
Accounts payable	7
Others	1
Total net assets acquired	<u>\$ 162</u>
Estimated price of acquisition in pesos	<u>1,127</u>
Goodwill generated by the acquisition	<u>\$ 965</u>

- d. *Capitalization of Monex USA, Corp., (Monex USA)-* In accordance with management's business strategy, on December 20, 2012 the following transactions were carried out:
  - i. The Institution granted a loan of US 29.9 million to Monex Negocios.
  - ii. With the loan proceeds, Monex Negocios made a capital contribution for such amount to Monex USA.
  - iii. Monex USA settled the total amount of the loan payable to the Institution.

- e. *Sale of shares of the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV)* - During 2012, the Institution sold on the Mexican stock market all the investments in securities of the BMV that held as of December 31, 2011. The cumulative sales price of the securities was \$365, while the total historical acquisition cost was \$44, thereby resulting in a profit of \$321, included in Intermediation income in the income statement.

## 2. Basis of presentation

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

**Monetary unit of the financial statements** - The financial statements and notes as of December 31, 2013 and 2012 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 Institution and those of its subsidiaries over which it exercises control. The shareholding percentage in their capital stock of such entities is shown below:

Company	Share holding percentage		Activity
	2013	2012	
1. Monex Servicios, S.A. de C.V. (Monex Servicios)	99.99%	99.99%	Provides supplemental and ancillary services to the Institution as per Article 88 of the Law for Credit Institutions. Monex Servicios is currently sub-leases to the Institution the premises and fixed assets of its branches.
2. Monex Negocios Internacionales, S.A. de C.V. (Monex Negocios)	99.99%	99.99%	Parent Company of Tempus and Monex Europe Holdings LTD.
2.1 Tempus, Inc. (Tempus)	100%	100%	Indirect subsidiary of the Institution. Entity located in Washington D.C., USA, whose purpose is the purchase sale of currencies. Its customers are mainly located in the United States.
2.2 Monex Europe Holdings (Monex Europe LTD)	50.10%	50.10%	Parent company of Monex Europe and Schneider Fx, entities located in United Kingdom.
2.2.1 Monex Europe Limited (Monex Europe)	50.10%	50.10%	Acquire is dedicated to foreign trading in the European market
2.2.2 Schneider Foreign Exchange Limited (Schneider Fx)	50.10%	50.10%	Entity without operations.

Significant intercompany balances and transactions have been eliminated.

**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 using the currency in which transactions are recorded. The financial statements are subsequently translated to Mexican pesos using the following methodology:

- a. *Foreign operations whose functional currency is the same as the currency in which transactions are recorded.* These components translate their financial statements using the following exchange rates:
- 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities;
  - 2) historical exchange rates for stockholders' equity, and
  - 3) the rate on the date of accrual of revenues, costs and expenses and translation effects are recorded in stockholders' equity.



The currency in which transactions are recorded and the functional currency of foreign operations and the exchange rates used in the different translation processes are as follows:

Company	Recording currency	Functional currency	Exchange rate to translate from functional currency to Mexican pesos
Tempus, Inc.	U.S. dollar	U.S. dollar	13.0843
Monex Europe.	Pound sterling	Pound sterling	21.6689

As of December 31, 2013, an analysis of the cumulative translation adjustment is as follows:

	Amount	
Beginning balance	\$ 9	\$ 25
Conversion effect of the year -		
Goodwill and intangible assets	48	(16)
Other	(20)	-
Ending balance	\$ 37	\$ 9

The Institution's functional currency is the Mexican peso. Investments in foreign subsidiaries, whose functional currencies are other than the Mexican peso, expose the Institution to foreign currency translation risk. In addition, the Institution has monetary assets and liabilities denominated in foreign currencies, mainly in U.S. dollars pounds sterling and Euros; resulting in exposure to foreign exchange risks arising from transactions entered into over the normal course of business. (Refer to discussion of comprehensive risk management in Note 31 for further details).

### 3. Significant accounting policies

The significant accounting policies applied by the Institution comply with the accounting criteria established by the Commission in the "General Provisions Applicable to Credit Institutions", in its rulings and mandates issued generally and directed to specific issues, which require management to make certain estimates and judgments, to determine the amounts included in the consolidated financial statements and related disclosures. Although the actual results may differ from such estimates, management believes that the estimates and judgments used in the preparation of these consolidated financial statements were appropriate under the circumstances.

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

#### *Changes in the Accounting Criteria of the Commission during 2013*

##### *Change of commercial portfolio rating model -*

On June 24, 2013, the Commission issued a Ruling to amend the "General provisions applicable to Credit Institutions", which modifies the commercial credit portfolio rating methodology so as to change the methodology currently used to determine the allowance for loan losses from an incurred loss to an expected loss model, which estimates the credit losses of the following 12 months based on the best possible credit information. This modification took effect on the day following its publication.



The new methodology based on the expected loss model considers the following parameters: probability of default, loss severity and exposure at default, while also classifying the commercial portfolio into a series of groups to which different variables will be applied to estimate the probability of default.

As required by the Commission, the Institution was subject to a deadline of December 31, 2013 to implement this change of methodology, although early implementation was permitted. Accordingly, on August 31, 2013, the Institution created additional reserves of \$135 representing the cumulative financial effect derived from adopting the new methodology. Likewise, based on the specific accounting criterion issued by the Commission in the aforementioned ruling, this effect was recognized in the consolidated balance sheet as an increase to the Allowance for loan losses with a corresponding charge was to stockholders' equity under the "Retained earnings" heading.

Management considers that determining the effect of this change at December 31, 2012 was impractical because insufficient calculation data was available.

The significant accounting policies of the Institution are as follows:

**Recognition of the effects of inflation** - Cumulative inflation rates over the three-year periods ended December 31, 2013 and 2012 were 12.26%, in each period. 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, 2013 and 2012 were 3.97% and 3.57%, respectively.

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

**Funds available** - Consist mainly of bank deposits and the income from them are recognized in income as earned, are valued at face value; foreign currency funds available are valued at fair value using the year end exchange rates.

Foreign currency acquired which it is agreed 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 information presentation purposes, foreign currency settlement accounts receivable and payable are offset by contract and term and are presented under other accounts receivable (net) or creditors from settlement of transactions, as applicable.

Other funds available such as correspondent banks and other liquid notes are also included in this line item.

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

Guarantee 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.

**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 a price supplier hired by the Institution, in accordance with the Provisions of the Commission. The cost is determined using the average cost method. The difference between the cost of investments in debt securities plus their accrued interest and the cost of equity instruments relative to fair value is recorded in the income statement under the caption "Financial intermediation". 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.

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

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

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in results for 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 in and out of the trading securities classification, conditional upon the prior express authorization of the Commission.

***Securities available for sale*** - Securities available for sale are debt instruments and shares that are not held for purposes of obtaining gains on sales transactions derived from increases in value and, in the case of debt instruments, those that the entity does not intend or is able to hold to maturity and, therefore, represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the Institution intends to trade such securities in the future prior to their maturity.

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

The Institution determines the increase or decrease in the fair value using prices provided by the price supplier, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security and is recognized in the consolidated statement of income under "Interest income". Unrealized gains or losses changes in fair values as reported by pricing services are recorded in other comprehensive income under Result from valuation of securities available for sale net deferred relative taxes net, except in the case 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 share are recognized in results for the year in the same period in which the right to receive the dividend arises.

The accounting criteria of the Commission allow the transfer of securities classified as available for sale trading or held to maturity to the Institution does not have the intention or the ability to hold them to maturity, as well as reclassifications of trading securities to available for sale, with the prior express authorization of the Commission.

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

A credit instrument is considered 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 very 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 of the Institution has not identified objective evidence of impairment of a credit instrument held as of December 31, 2013.

**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 secured financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as collateral in the event of default.

The repurchase transactions are recorded as indicated below:

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

When the Institution acts as the buying party on the contracting date of the repurchase transaction, the withdrawal of funds available or a credit settlement account is recognized, 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 will be 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 revelation standards as are they are 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 guarantee 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, using the liability valued at amortized cost.

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

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

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

*Derivative instrument transactions (trading purposes)* - The Institution recognizes all of its derivatives as assets or liabilities (depending on the related rights and/or obligations) in the balance sheet, initially at fair value, which are 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 Result from intermediation.

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 exercise the rights early in accordance with the related conditions and the agreed consideration is settled.



#### *Forward and future contracts for trading:*

Forward and future contracts for trading are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established amount, quality and price on a trading contract. Both forward and futures contracts are recorded by the Institution as assets and liabilities in the 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 intermediation income.

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 and the resulting net debit or credit balances are recognized a derivative asset and 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 buy options (call) and sell options (put).

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

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

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

The Institution records the premium paid/received for the option on the transaction date as an asset or liability. Any fluctuations in the fair value are recognized in the consolidated statements of income under Intermediation income. When an option matures or is exercised, the premium recognized is cancelled against results for the year, also under Intermediation income.

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 the Institution in the balance sheet as an asset or liability, at fair value, which presumably is equal to the agreed-upon price.

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

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

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

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in 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.

**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 independent derivative. An embedded derivative causes certain cash flows required by the contract (or even 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.

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 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 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 fixed 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 its 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 credit 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 results of the year as it is accrued and classified in accordance with the nature of the cost or expense.

**Performing loan portfolio** –The Institution has the following criteria to classify the credits as performing portfolio:

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



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

- Loans with a single payment of principal and interest at maturity are considered past due 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered past due 90 days after interest is due or 30 days after principal is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered past due 90 days after they become due.
- Customer checking accounts showing overdrafts will be reported in the non-performing portfolio at the date of the overdraft.

Restructured non-performing loans will remain classified in the non-performing loan portfolio and until evidence exists of sustained payment. Under the accounting criteria of the Commission, sustained payments are evidenced by compliance with contractual payment terms on at least three consecutive payments.

Renewed loans where the borrower is delinquent on payments of accrued interest and at least 25% of the original loan amount is considered non-performing until proof exists of receipt of payment, as required by the accounting criteria prescribed by the Commission.

Once the portfolio is classified as non-performing, interest no longer accrues. This includes loans which are interest capitalized to the principal.

For accrued but uncollected regular interest on non-performing loans, the Institution creates a provision for an amount equal to the outstanding accrued interest when the loan is transferred to the non-performing portfolio.

**Classification of the loan portfolio and allowance for loan losses** - In accordance with the Provisions, the loan portfolio must be classified as commercial, housing loans consumer loans. As of December 31, 2013 and 2012, the Institution has classified its loan portfolio as follows:

- a. Commercial: direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency, loans indexed to investment units or changes in minimum wages, together with any interest generated, which are granted to corporations or individuals with business activities, intended for their commercial or financial activity including those given to financial entities discount and rediscount; transactions of factoring operations and leasing operations 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, credits granted to states, municipalities and their decentralized agencies are included when they can be classified in accordance with applicable regulations.
- b. Housing loans: direct loans granted to individuals denominated in Mexican pesos, foreign currency investment units or changes in minimum wages, together with the respective interest granted to individuals, for housing improvements, but not for commercial housing speculation purposes including guaranteed liquidity housing loans and all loans granted to the Institution ex-employees.

The Institution recognizes reserves created to cover credit risks in conformity with such provisions, based on the following:

*Commercial portfolio:*

In June 2013, the Commission issued the new regulatory methodology applicable to commercial portfolio credit reserves in line with the criteria recently published by the Basel Committee. This methodology is based on the estimation of expected losses so as to generate reserves instead of considering incurred losses, as was the case under the prior methodology, thereby permitting the early identification of certain sectorial risks.



The Expected Loss (PE) calculation considers the following three elements:  $(PE = EI \times PI \times SP)$ , whereby the Default Exposure (EI) is the balance of revocable credit lines plus the unused portion of irrevocable credit lines. The Probability of Default (PI) is the probability of customer default, which considers quantitative and qualitative information. The Loss Severity (SP) is the percentage of the EI that would be lost in the event of credit default and depending on the warranties and portfolio type. Both items are explained in further detail below.

While the application of this methodology to the commercial portfolio is mandatory in December 2013, early application is nonetheless permitted as of June 2013. The Institution exercised this option and applied the new methodology as of August 2013.

This methodology is applicable to Companies and Corporate Offices, Small and Medium Enterprises, Financial and Decentralized Entities.

At August 31, 2013 and based on a specific accounting criterion issued by the Commission, the Institution recognized the initial effect of \$135 on stockholders' equity derived from its adoption of this methodology; this effect was recorded under the heading "Result of prior years". The application of this methodology required the creation of additional reserves.

#### *Commercial portfolio (methodology applied since August 2013)*

Before rating the loans included in its commercial credit portfolio, the Institution classifies them into one of the following groups, depending on whether they are granted to: a) Financial entities and municipalities; b) Projects with their own payment sources; c) Trustees acting under the auspices of trusts and which are not included in the preceding numeral, as well as "structured" credit schemes; d) Financial entities; e) Companies excluded from the preceding groups and individuals with business activities. In turn, this group is divided into the following sub-groups: b1) Customers with annual net revenues or sales denominated in Mexican pesos less than or equal to the equivalent of 14 million investment units (UDIs) and which can be "certified without delay" which is the case when late payments were not recorded for these borrowers with other institutions during the previous 12 months in credit bureau reports, and when no delays were reported for these customers with the Institution according to available information when the rating is determined. Likewise, the category of "certified with delay" can be used when a late payments not exceeding one day has been recorded for these borrowers with other institutions during the previous 12 months in credit bureau reports, or when a late payment not exceeding one day was recorded for these customers with the Institution according to available information when the rating is determined. b2) Customers with annual net revenues or sales denominated in Mexican pesos equal to or exceeding the equivalent of 14 million UDIs.

The Institution rates, creates and records allowances for loan losses for each of the loans included in its commercial loan portfolio. For this purpose, it utilizes the outstanding balance in effect on the final day of each quarter, which is adjusted to the methodology and information requirements established by the Commission.

- a. The allowance for loan losses of each loan will be the result of applying the following expression:

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

Where:

$R_i$  = Amount of the allowance for loan losses to be created for the nth credit.

$PI_i$  = Probability of default of the nth credit.

$SP_i$  = Severity of loss of the nth credit.

$EI_i$  = Exposure to default of the nth credit.

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 Institution estimates the probability of default of each credit ( $PI_i$ ), 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:

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

Where:

*Quantitative Credit Score i* = Is the score obtained for the nth borrower when evaluating the risk factors established in the Provisions, as is applicable.

*Qualitative Credit Score i* = Is the score obtained for the nth borrower when evaluating the risk factors established in the Provisions, as is applicable.

$\alpha$  = is the relative weight of the quantitative credit score, calculated as is established by the Provisions.

The  $PI_i$  of credits granted to centralized federal, state and municipal entities and political parties is calculated by utilizing Appendix 21 or 22 of the Provisions, as the case may be. The  $PI_i$  of loans granted to state-owned financial entities and those outstanding to the federal public administration are calculated by utilizing Appendix 20 of the Provisions.

The  $PI_i$  of loans granted to trusts, excluding projects with their own payment source and in which the resources of the trustor(s) can be clearly separated, and "structured" credit schemes in which the affected assets allows to evaluate the related credit risk or resources associated to the scheme concerned can be individually evaluated, is determined by utilizing the following:

- a. The methodology applicable to the underlying loans, when the trust's net worth is composed by loans for which it can provide the Institution with sufficient information to allow it to calculate the  $PI_i$  of each loan in accordance with the current Provisions;
- b. The methodology detailed in Appendix 21 of the Provisions, whenever the assumptions detailed in the preceding numeral a) are not fulfilled.

In the case of trusts in which the trustor provides explicit or implicit support, but when the mechanisms referred to by the Provisions are not available, or structured schemes for which the risk cannot be individually evaluated, the  $PI_i$  is calculated by utilizing the general methodology and considering the trustor(s) as the borrower or, if applicable, the structured scheme's resources and by using the net worth affected by the scheme as a warranty, provided it fulfills the requirements established by Appendix 24 of the Provisions. In order to calculate the  $PI_i$  of factoring transactions, the Institution determines who is actually exposed to the credit risk. For this purpose, it considers the factor that transfers credit rights to it and which is entitled to receive payment of the respective credit rights from the factoring institution and joint obligor. In this case, the  $PI_i$  refers to:

- a) The entity liable for paying the credit rights, depending on the group to which it belongs according to the Provisions.
- b) The  $PI_i$  of the entity liable for paying the credit rights can be replaced by the  $PI_i$  of the factor when its joint and several liability is established in the document prepared to formalize the factoring transaction.

In any case, only credit rights that are not subject to conditions or controls under which the debtor can contest the payment may be considered.

The Institution uses the same *PI*, for all the loans of the same borrows. In the case of there is any joint obligor which responds for the borrower's entire liability, the latter's *PI*, can be replaced by that of the joint obligor or guarantor, which is determined by applying the respective methodology.

The reserve percentage is equal to 0.5% of the granted credit or represents a fraction of the total amount of each credit covered by a warranty granted by:

- i. Federal public administration entities under direct budgetary control or programs derived from a federal law forming part of the federal spending budget.
- ii. Public trusts with the capacity of state-owned entities and which form part of the Mexican banking system when the credit is granted, as defined by the Provisions.
- iii. Counter-guarantee trusts.
- iv. The entity "Financiera Rural".
- v. The national infrastructure fund.
- vi. The national fund for agrarian, forestry, fishery and rural warranties.
- vii. Trusts specifically created to share the credit risk with the institutions in which they act as trustor, as well as fiduciary development banking institutions with an express federal government warranty.
- viii. Any entity with an express federal government warranty.

The Institution assigns a *PI*, of 100 percent to the borrower in the following cases:

- i. When the borrower has a loan with the Institution that has been transferred to the overdue portfolio according to the terms of criterion B-6, "Credit Portfolio", of the Accounting Criteria.
- ii. The above treatment is not applicable to obligations that are not recognized by the customer and for which a claim or clarification process exists. Similarly, it is not applicable to amounts of less than 5% of the borrower's total debt with the Institution when the rating is determined.
- iii. When it is likely that the debtor will not completely fulfill its credit obligations with the Institution; this assumption is fulfilled when:
  - a) The Institution determines that the credits payable by the debtor constitute a "distressed portfolio" according to criterion B-6, "Credit Portfolio", of the Provisions, or
  - b) The Institution has requested that the debtor file bankruptcy proceedings or the latter decides to do so.
- iv. If, for three consecutive months, the Institution fails to report a borrower's credit to the credit bureau or if information related to the balance and behavior of the borrower's payment, which must be sent to the bureau, is not updated.
- v. If differences arise between the items reported by the Institution to the credit bureau and the data contained in institutions' files, which indicates the delayed payments of the Institution during three consecutive months.
- vi. If the Institution fails to report the debt balances due from federal and municipal entities to the credit bureau during three consecutive months.
- vii. If the Institution had access to information that fulfills the maximum aging requirements and definitions detailed in Appendixes 18, 20, 21 and 22 of the Provisions to enable it to estimate the probability of default, but systematically utilized ratings pertaining to the "Without Information" range to obtain a probability of default below the level that which would have been estimated had all available information been utilized.



For the purposes of numerals iii, iv and v, the Institution provides credit bureaus with data and information for all the identity records of its borrowers and which are attributable to the same borrower.

As regards the preceding numerals iii, iv, v and vi, once a  $PI_i$  of 100 percent has been assigned to the borrower, it must be maintained for a minimum one-year period as of the date on which the record omission or inconsistency is detected or when this information becomes out of date.

b. *Loss severity*

The Loss Severity ( $SP_i$ ) is 45 percent for credits contained in the commercial loan portfolio and which lack actual or personal guarantees and those derived from the credit itself. Similarly, an  $SP_i$  of 75 percent is applied to subordinated and syndicated loans which are contractually subordinated to those of other creditors for payment prioritization purposes. An  $SP_i$  of 100 percent is applied to loans with past-due payments of 18 months or more as regards the settlement of the amount due under the originally agreed terms.

The Institution applied the terms of the Provisions to loans covered by actual or personal guarantees and those derived from the loan itself.

c. *Default exposure*

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

- i) Uncommitted credit lines that can be unconditionally canceled or automatically canceled at any time without the Institutions giving prior notice, as long as they demonstrate that they are providing constant follow-up on the borrower's financial position and that their internal control systems allow the credit line to be canceled if the borrower's credit quality becomes impaired.

$$EI_i = S_i$$

- ii) For the other lines of credit which don't comply with any of the requirements of the paragraph before:

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

Where:

$S_i$ : The unpaid balance of the nth credit at the classification date, which represents the amount of credit effectively, granted to the borrower, adjusted for interest accrued, fewer 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 credits which are in overdue portfolio.

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

The allowance for loan losses of commercial credit portfolio of Multiple Object Financial Entity, which the Institutions held less of 99% of their stock holders, is calculated by multiplying the exposure to default by the 0.5% in accordance to the Provisions.

*Commercial portfolio (methodology applied until July 31, 2013)*

- a. Individual method - For borrowers with balances of over 4,000,000 UDIs, the estimation for the reserve for loan losses entails evaluating:
- The creditworthiness of the borrower based on the evaluation of 1) the probability of default of the borrower using the proprietary methodology authorized by the Commission for these purposes, or 2) the application of the standard methodology, specifically and independently rating country risk, financial risk, industry risk, and payment experience aspects, as established in those provisions.
  - A differentiation is made between personal, property collateral, and real, property collateral, based on an estimate of probable loss. As a result of the analysis of real collateral, loans are classified into two groups, based on the discounted value of collateral: a) loans fully collateralized and b) loans with an exposed portion.
- b. Non-individualized method - For borrowers with balances less than 4,000,000 UDIs:
- Parametric calculation of the allowance for loan losses based on the borrower's payment history over the last 12 months and its credit behavior.

The commercial portfolio is rated every quarter and filed with the Commission within the 30 days following the classification date. The allowance for loan losses is recorded based on the balance of the accounts on the last day of each month and rated portfolio as of the latest known quarter, which includes the updated risks as of the current month-end.

Reductions, forgiveness, rebates and discounts on the portfolio, whether full or partial are recorded as a debit to allowance for loan losses. In the event that the reductions exceed the amount is the allowance associated with the credit previously estimates are up to the amount of the difference

The allowance for loan losses under the individual method is determined by applying the respective percentage to the collateralized portion and, if applicable, to the unsecured portion of the loan, based on the following table:

Individually Commercial Loan portfolio  
Table of sites within the range of reserves

Risk level	Low	Intermediate	High
A-1	0.50%	0.50%	0.50%
A-2	0.99%	0.99%	0.99%
B-1	1.00%	3.00%	4.99%
B-2	5.00%	7.00%	9.99%
B-3	10.00%	15.00%	19.99%
C-1	20.00%	30.00%	39.99%
C-2	40.00%	50.00%	59.99%
D	60.00%	75.00%	89.99%
E	100.00%	100.00%	100.00%

Classification is determined according to the last known clarification for each loan in the covered portion and, if exposed, adjusting the intermediate range.

*Housing loan portfolio:*

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



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

*Due and Payable Amount*- Amount which in accordance with the income statement the borrower has to pay in the billing period agreed, without considering any previous due and payable amounts that were not paid. If the billing is half monthly or weekly, the due and payable amounts of the two half months or four weeks in the month, respectively, must be added up so that the due and payable amount reflects a monthly billing period.

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

*Payment made*- Includes totals payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the credit or group of credits are not considered as payments.

If the billing is half monthly or weekly, the payments made for the two half months or four weeks of a month, respectively, must be added up so that the payment made reflects one full monthly billing period.

The variable "payment made" must be greater than or equal to zero.

*Value of the Home  $V_i$*  - The value of the home at the time of the credit origination, restated in accordance with the following:

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

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

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

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

*Credit Denomination (MON)* - This variable will take the value of one (1) when the housing loan is denominated in UDI's, minimum wages or a currency other than Mexican pesos, and zero when it is denominated in pesos.

*Completion of File (INTEXP)* - This variable will take the value of one (1) if the selling party of the real estate property participated in obtaining the proof of income or in contracting the appraisal, and zero in any other case.

The total amount of reserves to be created by the Institution will be equal to the reserves for each loan, as follows:

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

Where:

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

$PI_i$  = Probability of default on the nth credit.

$SP_i$  = Severity of the loss on the nth credit.

$EI_i$  = Exposure to default on the nth credit.

In any case, the amount subject to the classification must not include uncollected accrued interest recorded on the balance sheet, of loans that are classified within nonperforming portfolio.

The consumer loan portfolio related to the program established between the INFONAVIT and the Institution and is called "renovating your home". According to the Commission, these loans are classified as housing loans and qualify as consumer loan portfolio

The Institution, when classifying the non-revolving consumer credit portfolio, determines the respective allowances for losses as of the classification date of the loans, by considering for such purpose the probability of default, the severity of the loss and the exposure to default, as follows:

The total amount of allowances for loan losses on no revolving consumer portfolio will be equal to the allowances for each loan, as follows:

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

Where:

$R_i$  = Amount of allowances to be created for the nth credit.

$PI_i$  = Probability of default on the nth credit,

$SP_i$  = Severity of the loss on the nth credit.

$EI_i$  = Exposure to default on the nth credit.

The classification and creation of the allowances for loan losses on revolving consumer credit portfolio is made using figures as of the final day of each month and is presented to the Commission at the latest 30 days after the month classified, based on the applicable allowance percentages indicated above.

The Institution classified, created and recorded the allowances for loan losses on revolving consumer loan portfolio, which did not include credit card operations, at the final day of each month, in accordance with the following procedure:

- I. The total portfolio is stratified based on the number of cases of noncompliance reported in each billing period at the classification date regarding the due or minimum payments established by the Institution, based on payment history data from at least 9, 13 or 18 periods prior to that date according to the tables below. When the loan has been offered inside the above - mentioned period, management uses the available information at such date.
- II. Reserves are created by applying the reserve percentages detailed below and depending on whether billing periods are weekly, biweekly or monthly, to total unpaid loan balances. Nevertheless, the Institution does not include uncollected interest recorded in the consolidated balance sheets accrued by loans forming part of the overdue portfolio; uncollected interest accrued on the overdue portfolio is fully reserved when the respective loans are transferred.

Table applicable for loans with monthly billing:

Number of billing periods that report default (months)	Probability of default	Percentage of severity of the loss	Percentages of allowance for loan losses
0	0.5%		0.5%
1	10%		10%
2	45%		45%
3	65%		65%
4	75%	100%	75%
5	80%		80%
6	85%		85%
7	90%		90%
8	95%		95%
9 or more	100%		100%



The following table is used to assign the appropriate risk level based on percentage ranges of allowance for loan losses:

Risk level	Percentage ranges of Allowances for loan losses
A	0 to 0.99%
B	1 to 19.99%
C	20 to 59.99%
D	60 to 89.99%
E	90 to 100.99%

*Evidence of sustained payment:*

When the loans are recorded as past-due and require restructuring, the Institution maintains such loans at the level in effect prior to such restructuring, until it obtains evidence of sustained loan payment under the criteria established by the Commission.

*Distressed portfolio:*

For disclosure purposes in the financial statements, the Institution considers commercial loans with C, D and E risk ratings as distressed, without excluding risk rating improvements derived from the loan portion covered by guarantees, as well as renegotiated loans in which debt forgiveness, reductions or rebates are authorized at the end of the agreed period or are payable by individuals or entities classified as undesirable customers.

After procedures to recover impaired loans are exhausted, they are submitted to the board of directors for authorization of write-offs.

Impaired loans written off and are applied to the allowance for loan losses when their recovery is considered to be remote. Any amounts recovered as regards previously written-off loans are recognized in results.

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

The Institution has a policy of reserving those accounts receivable identified and not identified within 90 days and 60 days, following the initial recording, 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.

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

**Other assets** - Other assets are mainly represented by software, system developments, prepaid payments, installation expenses incurred for the renovation of new corporate office and intangible assets identified in the acquisition of Tempus and Monex Europe.

Software, system developments and installation expenses are initially recorded at acquisition cost and include costs incurred in the development phase.

The amortization of software and system developments is calculated using the straight line method over their estimated economic useful life.



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

The investments in securities acquired to cover the severance and seniority premium are recorded at market 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 it is less, such balance will be presented by decreasing the heading of "Sundry creditors and other accounts payable". As of December 31, 2013 and 2012, the balance applicable to the Institution is presented by decreasing the heading of "Sundry creditors and other accounts payable".

**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. The Institution records the goodwill of the minority interest. During, 2010, management identified certain intangible assets in connection with the acquisition of Tempus, which, were allocated to software of \$7, licenses of \$71, sales force of \$42 and operating contracts with banks of \$56. In the case of Monex Europe as mentioned in Note 1, management identified and assigned values to intangible assets, arising from the acquisition of that entity, which correspond to sales force for \$67, regarding credit institutions for \$401, non-compete agreement for \$161 and software for \$6.

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

**Deposits** - This heading is composed by 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.

**Interbank loans and those from other entities** - 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.

**Creditors 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 that are negotiated and settled to within 24 or 48 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 statutory employee profit sharing (PTU) payable, and incentives (bonds).
- 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)** - Until December 31, 2012 the Institution recognized the PTU in its operating results in accordance with Article 127, Paragraph III of the Federal Labor Law ("LFT"); however, on August 30, 2013, was published in the Judicial Weekly of the Federation jurisprudence of the Supreme Court of Justice of the Nation solving court decisions in conflict cuts lower level, which provides that only the patterns obtained their income solely by (I) the administration of income producing real estate or (ii) credit recovery and interest on such property, the right to apply Article 127, Section III of the CFT to determine PTU.

As result of the 2014 Tax Reform, as of December 31, 2013, PTU is determined based on taxable income, according to Section I of Article 10 of the Income Tax Law. Deferred PTU derived from temporary differences between the accounting and tax bases of assets and liabilities is recognized in accordance with the Mexican financial reporting standard (MFRS) D-3 "Employee Benefits". The Institution determined and recorded a deferred PTU asset of \$20 with a credit in administration and promotion expenses in the statement of income.

**Income taxes** - Income tax ("ISR") and business flat tax (IETU) are recorded in results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections, the Institution determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits.

Management recognizes only the deferred tax asset that is deemed highly probable of realization.

As a result of the 2014 Tax Reform, as of December 31, 2013 deferred IETU is not recognized.

**Effects of restatement of net worth** - This represents contributed and earned capital restated up to December 31, 2007 using the factor derived from the value of the UDIs. As of 2008, the Institution operates in a noninflationary environment; the effects of inflation of the period for contributed and earned capital are not recognized.

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

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

Interest expense is composed of premiums, discounts and interest on deposits in the Institution, bank loans, repurchase agreements and securities loans. The amortization of costs and expenses incurred during the origination of the loan granting 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 according to the market and general economic situation.

**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 "intermediation result".

**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 the Institution's stockholders during the period and consists of the effect from the valuation of securities available for sale, adjustment for the change of the financial effect from the new methodology of commercial portfolio rating, the cumulative effects from conversion and net income.

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

**Statement of cash flows** - In accordance with C-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.

Cash flow together with the rest of the financial statements provides information that allows:

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

**Memorandum accounts (See note 27)-**

- *Credit commitments*

This item represents the amounts of letters of credit granted by the Institution, 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 the Institution. In the Mandate is recorder the declared value of the assets established by the mandate contracts celebrated by the Institution.

- *Collateral received:*

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

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

Accrued interest is recognized on the date that the credit balance of the amount due is transferred to the non-performing loan portfolio. The interests that are generated by the credits transferred to the performing loan portfolio are recorded in the memorandum account.

- *Other record accounts (Unaudited):*

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



#### 4. Funds available

As of December 31, 2013 and 2012, funds available were as follows:

Funds Available	2013			2012
	Mexican pesos	Foreign currency	Total	Total
Cash	\$ 39	\$ 36	\$ 75	\$ 98
Deposits in banks	3,041	4,305	7,346	5,910
Remittance	-	34	34	25
Immediate collection documents	-	2	2	12
	<u>3,080</u>	<u>4,377</u>	<u>7,457</u>	<u>6,045</u>
Restricted funds available:				
Foreign currency purchase 24 and 48 hours (1)	-	13,772	13,772	18,516
Foreign currency sale 24 and 48 hours (1)	-	(8,913)	(8,913)	(10,201)
Regulatory monetary deposits (2)	<u>100</u>	<u>-</u>	<u>100</u>	<u>100</u>
	<u>100</u>	<u>4,859</u>	<u>4,959</u>	<u>8,415</u>
Total net	<u>\$ 3,180</u>	<u>\$ 9,236</u>	<u>\$ 12,416</u>	<u>\$ 14,460</u>

- (1) This item refers to currency purchase-sale transactions to be settled in 24 or 48 hours and which are considered as restricted until their settlement date. At December 31, 2013 and 2012, balances denominated in foreign currency (in millions of each currency) and the equivalent amounts in Mexican pesos are composed as follows:

	2013				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 and 48 hours (Mexican pesos)	\$ 11,764	\$ 1,131	\$ 863	\$ 14	\$ 13,772
Sale of foreign exchange receivable in 24 and 48 hours (Mexican pesos)	<u>(7,234)</u>	<u>(773)</u>	<u>(863)</u>	<u>(43)</u>	<u>(8,913)</u>
Total included in funds available (Mexican pesos)	<u>\$ 4,530</u>	<u>\$ 358</u>	<u>-</u>	<u>\$ (29)</u>	<u>\$ 4,859</u>

The exchange rate as of December 31, 2013 was \$13.0843 and \$18.0301 Mexican pesos per the U.S. dollar and Euro, respectively.

	2012				
	Dollars	Euros	Pound sterling	Others	Total
Total funds available-					
Purchase of foreign exchange receivable in 24 and 48 hours (Mexican pesos)	\$ 18,154	\$ 150	\$ 79	\$ 133	\$ 18,516
Sale of foreign exchange receivable in 24 and 48 hours (Mexican pesos)	<u>(9,756)</u>	<u>(183)</u>	<u>(79)</u>	<u>(183)</u>	<u>(10,201)</u>
Total in funds available (Mexican pesos)	<u>\$ 8,398</u>	<u>\$ (33)</u>	<u>-</u>	<u>\$ (50)</u>	<u>\$ 8,315</u>

The exchange rate as of December 31, 2012 was \$12.9658 and \$17.1381 Mexican pesos per the U.S. dollar and Euro, respectively.

- (2) In accordance with the monetary policy established by the Central Bank and in order to regulate its money market liquidity, the Institution must maintain minimum deposits for indefinite periods, which accrue interest at the average bank rate. At December 31, 2013 and 2012, these deposits amounted to \$100. 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, 2013 and 2012, the margin account is as follows:

	2013	2012
Collaterals delivered as guarantee	\$ 652	\$ 599
Valuation of futures	<u>24</u>	<u>(65)</u>
	<u>\$ 676</u>	<u>\$ 534</u>

As of December 31, 2013 and 2012, margin accounts for collateral submitted in organized operating markets are remained with Scotiabank Inverlat, S.A. for \$404 and \$482, respectively, and Banco Santander for \$45 and \$71, Lek Securities for \$22 and \$46, respectively, and Bancomer BBVA for \$181 as of December 31, 2013.

Guarantee deposits cover rate futures operations, CPI futures, dollar futures, and weight and futures options.

## 6. Investment in securities

*Trading securities* - As of December 31, 2013 and 2012, trading securities were as follows:

	2013				2012	
	Acquisition cost	Interes accrued	Increase (decrease) due to valuation	Total	Total	
<b>Debt instruments:</b>						
Government securities						
Federal Government Development Bonds (BONDS)	\$ 881	\$ 1	\$ (1)	\$ 881	\$ 240	
Bonds M, M0 and M7	131	-	-	131	684	
Federal Government Development Bonds in Udis (UDIBONDS)	80	-	-	80	1	
Saving protection bonds (BPATS)	750	6	(7)	749	1,730	
United Mexican States Bonds (UMS)	482	11	(11)	482	179	
Private securities-						
Marketable certificates	4,585	26	(62)	4,549	4,395	
Commercial paper	74	-	-	74	761	
Foreign station titles	410	1	(8)	403	-	
Corporate debt	-	-	-	-	3	
Private bank issued securities -						
Promissory note with yield payable at maturity (PRLV)	849	-	4	853	351	
Marketable certificates	1,006	6	(10)	1,002	565	
Certificates of deposit (CEDES)	471	1	(4)	468	1,481	
<b>Capital market instruments-</b>						
Industry, commercial and services shares	-	-	-	-	12	
<b>Value date transactions-</b>						
Private bank issued securities -						
Traded bank certificates	(180)	-	-	(180)	-	
Capital market instruments-						
Investments in mutual funds	<u>34</u>	<u>-</u>	<u>1</u>	<u>35</u>	<u>34</u>	
Total trading securities	<u>\$ 9,573</u>	<u>\$ 52</u>	<u>\$ (98)</u>	<u>\$ 9,527</u>	<u>\$ 10,436</u>	



### *Restricted trading securities -*

At December 31, 2013 and 2012, the securities under repurchase agreement are as follows:

	2013	2012
Government securities -		
Federal Government Development Bonds (Bondes)	\$ 614	\$ 240
Bonds M, M0 and M7	74	644
Federal Government Development Bonds in Udis (UDIBONDS)	79	-
Saving protection bonds (BPAT's)	7	1,077
United Mexican States Bonds (UMS)	482	-
Subtotal	<u>1,256</u>	<u>1,961</u>
Private securities-		
Private traded certificates	4,085	4,189
Commercial paper	74	267
Subtotal	<u>4,159</u>	<u>4,456</u>
Private bank issued securities		
Promissory note with interest payable of the maturity (PRLV)	-	1,481
Traded bank certificates	308	385
Certificates of deposit (CEDES)	468	-
Subtotal	<u>776</u>	<u>1,866</u>
Total	<u>\$ 6,191</u>	<u>\$ 8,283</u>

This position is considered restricted within trading securities.

As of December 31, 2013, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

Issuer	Maturity date	% Rate	Restated value
TFOVIS13-2U	2043/07/27	2.7%	\$ 747
BACOMER21145	2021/04/02	4.0%	518
BACOMER22224	2022/05/26	5.6%	467
TFOVIS10-3U	2040/03/27	1.7%	462
SGMEX12-2	2017/10/11	4.4%	406
TFOVIS13U	2043/03/27	2.5%	386
RBS556100217	2017/02/10	4.7%	363
BINTER14063	2014/01/14	3.6%	352
PEMEX10-2	2020/01/27	6.9%	303
TFOVIS12-4U	2042/09/27	2.9%	300
BAINVEX14023	2014/01/23	3.6%	299
HITOTAL10U	2041/01/02	1.8%	283
SGMEX13D	2016/05/16	0.9%	262
PE&OLES10D	2015/08/12	1.8%	252

## 7. Repurchase agreements

As of December 31, 2013 and 2012, repurchase agreements were as follows:

When the Institution acts as purchaser where as follows:

	2013		
	Cash to receive	Collateral	Net asset position
Government securities-			
Government bonds	\$ 61	\$ 28	\$ 33
Subtotal	61	28	33
Private bank issued securities-			
Certificates of deposit (CEDES)	186	186	-
Subtotal	186	186	-
Private securities-			
Marketable certificates	145	145	-
Subtotal	145	145	-
Total	\$ 392	\$ 359	\$ 33
	2012		
	Cash to receive	Collateral	Net asset position
Government securities-			
Government bonds	\$ 34	\$ 34	\$ -
Subtotal	34	34	-
Private bank issued securities-			
Certificates of deposit (CEDES)	486	486	-
Subtotal	486	486	-
Private securities-			
Marketable certificates	5	5	-
Subtotal	-	-	-
Total	\$ 525	\$ 525	\$ -

When the Institution acts as seller:

	2013	2012
	Cash to delivered	Cash to delivered
Government securities-		
Federal Government Development Bonds (BONDES)	\$ 614	\$ 240
Bonds M, M0 and M7	74	-
Federal Government Development Bonds (UDIBONDS)	79	-
Saving Protection Bonds (BPAT's)	7	1,080
Bonds United Mexican States (UMS)	482	643
Subtotal	1,256	1,963
Private securities-		
Private traded certificates	4,117	4,215
Commercial paper	74	267
Subtotal	4,191	4,482
Private bank issued securities-		
Certificates of deposit (CEDES)	472	1,480
Marketable bank certificates	310	384
Subtotal	782	1,864
Total	\$ 6,229	\$ 8,309



For the years ended December 31, 2013 and 2012, interest collected on sale agreements are \$56 and \$39, respectively and the interest expenses on purchase agreements are \$306 and \$353, respectively.

As of December 31, 2013 and 2012, the repurchase transactions performed by the Institution, acting as seller, were agreed at terms ranging between 2 to 27 days and 5 to 12 days, respectively.

#### 8. Derivative financial instrument transaction

As of December 31, 2013 and 2012, the position for transactions with financial derivatives is as follows:

Asset position	2013		2012	
	Nominal amount	Asset position	Nominal amount	Asset position
Futures-				
Foreign currency futures	\$ 9,059	\$ -	\$ 7,015	\$ -
Futures indexes	24	-	-	-
Forwards-				
Foreign currency forwards	29,627	336	75,800	428
Options-				
Foreign currency options	6	4	12	8
Options rates	33	48	47	73
Options indexes	5	4	-	-
Swaps-				
Interest rate swaps (IRS)	4,367	148	3,303	66
Total position	<u>\$ 43,121</u>	<u>\$ 540</u>	<u>\$ 86,177</u>	<u>\$ 575</u>

Liability position	2013		2012	
	Nominal amount	Liability position	Nominal amount	Liability position
Futures-				
Foreign currency futures	\$ 293	\$ -	\$ 1,140	\$ -
Futures indexes	-	-	9	-
Forwards-				
Foreign currency forwards	44,553	279	93,601	185
Forwards Indexes	26	1	-	-

Liability position	2013		2012	
	Nominal Amount	Liability Position	Nominal amount	Liability Position
Options-				
Foreign currency options	6	5	13	6
Options indexes	3	2	1	1
Options rates	22	43	37	67
Swaps-				
Interest swaps	-	305	3,534	295
Total position	\$ 44,903	\$ 635	\$ 98,335	\$ 554

For the years ended December 31, 2013 and 2012, the valuation effect of the trading derivative instruments is reflected in the statements of income under "Intermediation result" (See note 29).

In conformity with the accounting criteria prescribed by the Commission, the valuation effect of futures is presented under "Margin accounts", together with minimum initial contributions, under "Funds available and "Margin accounts". For the years ended December 31, 2013 and 2012 the gain (loss) on changes in valuation of the trading futures is \$24 and \$(65), respectively.

Derivatives and the underlying assets are as follows:

Futures	Forwards	Options	Swaps	Notes
IPC	FX-USD	ORG MXP IPC	IRS-TIE 28	USD/MXN
USD	FX-EUR	OTC MXP IPC	IRS-LIBOR IM	EUR/MXN
	EQ-IPC	OTC USD/MXN	CCSWAP-TIE LIB	
		OTC EUR MXN	CCSWAP Fija-Fija	
			USD/MXN	

The guarantees and/or collateral received and delivered for the derivative financing transactions as of December 31, 2013 and 2012, are comprised as follows:

Heading	Type of collateral	Received Market	2013	2012
Collateral sold or pledged in guarantee				
Guarantees received	Securities	OTC	\$ 110	\$ 75
Sundry creditors and other accounts payable				
Guarantees received	Cash	OTC	\$ 502	\$ 82



Heading	Type of collateral	Delivered Market	2013	2012
<b>Margin accounts</b>				
Guarantees delivered	Cash	OTC and recognized markets	\$ <u>652</u>	\$ <u>599</u>
<b>Other receivables</b>				
Guarantees delivered	Securities	OTC	\$ <u>470</u>	\$ <u>406</u>

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

As of December 31, 2013 and 2012, there are no restricted securities delivered as security for derivative transactions.

#### *Management of derivative financial instrument usage policies*

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes. The main objectives of these products are covering risks and maximizing profitability.

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

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

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

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

#### *Authorization levels and processes*

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

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

#### *Independent reviews*

The Institution is subject to the supervision and oversight of the Commission and the Central Bank, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports. Similarly, internal and external 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 supplier.
- "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 supplier.
- 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.

In every case, the Institution values 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 financial instruments*

Resources are obtained through the Treasury.

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

In relation to financial instruments for trading at December 31, 2013 and 2012, the Institution has no situation or event, such as changes in the value of the underlying asset or reference variables, implying that the use of instruments derivatives differ from those that were originally conceived, that could significantly modify their plan and require the Issuer to assume new obligations, commitments or changes in your cash flow so that affected their liquidity (margin calls) , or contingencies and known or anticipated by Management of the Institution event that may affect future reports.

The amount of margin calls made during 2013 and 2012 was necessary to cover contributions in both the organized and the required collateral contracts markets.

At December 31, 2013 and 2012, except as mentioned in the previous paragraph, there is no evidence of deterioration in credit risk (counterparty) that requires modifying the carrying amount of financial assets from the rights set forth in the instruments financial derivatives.

### *Impairment of financial derivatives -*

At December 31, 2013 and 2012, 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, as follows:

- The risk factors that may generate losses on transactions with derivative financial instruments due to changes in market conditions are interest rate, exchange rate, and changes in share indexes. A sensitivity analysis shows that the consumption in these risks is not relevant.
- The sensitivity is assessed using the effect of variances in risk factors on the market value of the positions in effect at a certain date; such position considers the derivatives with customers and the hedging transactions in spot markets and with OTC derivatives with financial intermediaries, i.e., the net position in terms of delta.

The following chart shows the total sensitivity consumption as of December 31, 2013 (unaudited):

Sensitivity analysis	Sensitivity (all factors)
Stage one 1%	(0.179)
Stage two 2%	(0.359)

### *Stress Test -*

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

As of December 31, 2013 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	\$ 1.80
Scenario two	\$ 3.60

## 9. Loan portfolio

As of December 31, 2013 and 2012, the performing portfolio and non-performing loan portfolio granted by type of currency are as follows:

	2013		
	Performing	Non-performing	Total
Mexican pesos:			
Commercial credits -			
Commercial with guarantee	\$ 1,554	\$ 15	\$ 1,569
Loans to financial institutions	396	-	396
Government entities	34	-	34
Housing loans-			
Housing loans	948	1	949
U.S. dollars converted to Mexican pesos:			
Commercial credits -			
Commercial with guarantee	1,247	8	1,255
Loans to financial institutions	<u>131</u>	<u>-</u>	<u>131</u>
Total	<u>\$ 4,310</u>	<u>\$ 24</u>	<u>\$ 4,334</u>
2012			
	Performing	Non-performing	Total
Mexican pesos:			
Commercial credits -			
Commercial with guarantee	\$ 1,420	\$ 34	\$ 1,454
Loans to financial institutions	412	-	412
Government entities	42	-	42
Housing loans-			
Housing loans	1,129	-	1,129
U.S. dollars converted to Mexican pesos:			
Commercial credits -			
Commercial with guarantee	1,301	4	1,305
Loans to financial institutions	<u>235</u>	<u>-</u>	<u>235</u>
Total	<u>\$ 4,539</u>	<u>\$ 38</u>	<u>\$ 4,577</u>

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

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



At December 31, 2013 and 2012, the portfolio with third participation administered by the Institution and balances denominated in foreign currency and without third party equity participation are as follows:

	2013	2012
Short-term	\$ 214	\$ 250
Medium-term	<u>42</u>	<u>61</u>
	<u>\$ 256</u>	<u>\$ 311</u>

***Risk diversification -***

As of December 31, 2013, the Institution had the following credit risk, in compliance with the general rules for the diversification of risks in the conduct of active and passive transactions:

- The Institution maintains no loans to debtors or groups of persons representing a common risk and whose individual value is greater than 10% of core capital.
- The Institution maintains two loans with debtors whose values amount to \$301 and \$263, which represent 14% and 12% of basic capital.
- The amount of credit extended to the three largest borrowers is \$714 and represent 33% of basic capital of the Institution.

***Loans to related parties*** - As of December 31, 2013 and 2012, the loan amounts delivered by the Institution to related parties in accordance with Article 73 of the Law on Credit Institutions is \$22 and \$528, respectively, which were approved by the Board of Directors.

***Policy and methods used to identify distressed commercial loans*** - Commercial loans are identified as distressed in regard to the individual portfolio rating, by considering quantitative elements when they are unsatisfactory and there are significant weaknesses in cash flow, liquidity, leverage, and/or profitability that may jeopardize the client's ability to continue as a going concern or when it has stopped operating. In general, they refer to borrowers whose portfolio rating is "D" or "E".

***Policy and procedures to identify credit risk concentration*** - Concentration risk is an essential element of risk management. The Institution continuously monitors the degree of concentration of credit risk portfolios by economic group.

***Credit lines unused by customers*** - As of December 31, 2013 and 2012, unused credit lines authorized to customers for \$1,281 and \$4,718, respectively.

As of December 31, 2013 y 2012, aging of non-performing portfolio is as follows:

	2013	2012
From 1 to 179 days	\$ 1	\$ 34
From 180 to 365 days	10	3
Over 365	<u>13</u>	<u>1</u>
	<u>\$ 24</u>	<u>\$ 38</u>

10. Allowance for loan losses

As of December 31, 2013 and 2012, the allowance for loan losses was \$64 and \$84, respectively, and is assigned as follows:

2013	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans			
Commercial with guarantee	\$ 2,801	\$ 23	\$ 48
Loans to financial institutions	527	-	5
Government entities	34	-	3
Housing loans-			
Housing loans	<u>948</u>	<u>1</u>	<u>8</u>
Total portfolio	<u>\$ 4,310</u>	<u>\$ 24</u>	<u>\$ 64</u>
2012	Performing portfolio	Non-performing portfolio	Assigned allowance
Commercial loans-			
Commercial with guarantee	\$ 2,721	\$ 38	\$ 67
Loans to financial institutions	647	-	4
Government entities	42	-	3
Housing loans-			
Housing loans	<u>1,129</u>	<u>-</u>	<u>10</u>
Total portfolio	<u>\$ 4,539</u>	<u>\$ 38</u>	<u>\$ 84</u>

As of December 31, 2013 and 2012, the Institution maintained an allowance for loan losses equivalent to 267% and 221%, of the non-performing portfolio, respectively.

The allowance for loan losses resulting from the loan portfolio classification with responsibilities as of December 31, 2013 and 2012, reported by the Institution, is as follows:

Degree of risk	2013		2012	
	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	\$ 2,613	\$ 13	\$ 4,603	\$ 27
A-2	1,584	18	604	5
B-1	954	15	268	13
B-2	85	2	41	3
B-3	159	6	228	24
C-1	66	5	4	2
C-2	9	1	1	1
D	10	4	1	1
E	<u>-</u>	<u>-</u>	<u>9</u>	<u>8</u>
Base rating portfolio	5,480	<u>\$ 64</u>	5,759	<u>\$ 84</u>
Less - Letter of credit	<u>(1,146)</u>		<u>(1,182)</u>	
Loan portfolio, net	<u>\$ 4,334</u>		<u>\$ 4,577</u>	



The portfolio classified with “D” and “E” risk is identified as a distressed portfolio.

Below is the activity of the allowances for loan losses for the years ended December 31, 2013 and 2012:

	2013	2012
Opening balances	\$ 84	\$ 67
Provisions (applications) with a charge (credit) to:		
Results	38	37
Effect of adoption of new methodology commercial portfolio	135	-
Exchange result	(1)	(1)
Applications	<u>(192)</u>	<u>(19)</u>
Closing balances	<u>\$ 64</u>	<u>\$ 84</u>

#### 11. Other receivables, net

As of December 31, 2013 and 2012, the other receivables, are as follows:

	2013	2012
Debtors due to liquidation of operations of money market	\$ 173	\$ 182
Debtors by foreign exchange transactions in 24 or 48 hours	8,997	10,200
Debtors of operation	540	347
Intercompany administrative services	1	121
Employee loans and other debits	18	13
Collateral delivered for the derivative financing transactions	470	406
Other debtors	<u>14</u>	<u>21</u>
	10,213	11,290
Allowance for doubtful accounts	<u>(179)</u>	<u>(170)</u>
Total	<u>\$ 10,034</u>	<u>\$ 11,120</u>

#### 12. Furniture and fixtures, net

As of December 31, 2013 and 2012, furniture and fixtures are as follows:

	2013	2012
Office furniture and equipment	\$ 68	\$ 88
Computers and communications equipment	96	137
Vehicles	<u>8</u>	<u>11</u>
	172	236
Less-		
Accumulated depreciation	<u>(92)</u>	<u>(155)</u>
Total, furniture and fixtures (net)	<u>\$ 80</u>	<u>\$ 81</u>

The annual depreciation and amortization rates were as follows:

	Percentage
Computers and communications equipment	33%
Vehicles	25%
Office furniture and equipment	10%

For the years ended at December 31, 2013 and 2012, depreciation expense amounted \$28 and \$23, respectively.

### 13. Other assets

As of December 31, 2013 and 2012, goodwill and other assets were as follows:

	2013	2012
Goodwill:		
Tempus	\$ 407	\$ 407
Monex Europe Holding	229	229
Conversion effect	<u>48</u>	<u>39</u>
	684	675
Deferred charges, prepayments and intangible:		
Other intangible assets arising from the acquisition of Tempus	165	163
Other intangible's assets arising in the acquisition of Monex Europe	642	625
Adjustments and improvements	198	190
Software	24	-
Advance payments	29	16
Investment projects	11	-
Other deferred charges	<u>116</u>	<u>23</u>
	1,185	1,017
Less - accumulated amortization	<u>(64)</u>	<u>(37)</u>
	1,121	980
Other assets:		
Operational deposit	<u>20</u>	<u>5</u>
	<u>\$ 1,825</u>	<u>\$ 1,660</u>

At December 31, 2013 and 2012, the Institution has identified intangible assets acquired separately from goodwill from the acquisition of Tempus and Monex Europe, as follows:

	Tempus	Monex Europe	2013	2012
Licenses	\$ 71	\$ -	\$ 71	\$ 71
Sales force	42	67	109	109
Operating agreements with banks	56	401	457	457
Software	7	6	13	13
No compete agreements	-	161	161	161
Total	<u>176</u>	<u>635</u>	<u>811</u>	<u>811</u>
Conversion effect	<u>(11)</u>	<u>7</u>	<u>(4)</u>	<u>(23)</u>
Total intangible assets	<u>\$ 165</u>	<u>\$ 642</u>	<u>\$ 807</u>	<u>\$ 788</u>



#### 14. Foreign currency position

As of December 31, 2013 and 2012, foreign currency assets and liabilities of the Institution were as follows:

	Millions of US Dollars		Millions of Euros		Other foreign currencies in millions of U.S. dollars	
	2013	2012	2013	2012	2013	2012
Funds available	USD 678	USD 941	€ 23	€ 12	USD 49	USD 2
Margin accounts	4	5	-	-	-	-
Investment in securities	85	40	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Derivative (assets)	3,134	4,191	65	10	291	9
Loan portfolio	104	147	-	-	-	-
Other receivables	67	35	-	3	143	1
Furniture and fixtures	-	-	-	-	1	-
Investments in equity	10	-	-	-	(10)	32
Deferred taxes	(4)	-	-	-	-	-
Other receivables	49	47	-	-	69	119
Deposits	(158)	(166)	(9)	(10)	(6)	(1)
Bank and other loans	-	(30)	-	-	-	-
Resale agreements	(96)	(26)	(2)	(1)	-	-
Derivative, (liability)	(3,738)	(5,070)	(65)	(9)	(279)	(9)
Sundry creditors and other payables	(88)	(128)	(13)	(3)	(172)	(150)
Deferred credits and prepayments	(1)	-	-	-	-	-
Collateral sold or pledged	(2)	(10)	-	-	-	-
Asset (liability) position	USD 44	USD (24)	€ (1)	€ 2	USD 86	USD 3
Mexican peso equivalent	\$ 576	\$ (310)	\$ (18)	\$ 34	\$ 1,128	\$ 38

As of December 31, 2013 and 2012, the "Fix" (48-hour) exchange rate submitted by the Central Bank and used was \$13.0843 and \$12.9658 per U.S. dollar, respectively.

As of December 31, 2013 and 2012, the "Euro" exchange rate used was \$18.0301 and \$17.1387 per Euro, respectively.

On February 24, 2014, the foreign currency position (unaudited) is similar to the position of the end of the year. The foreign exchange "Fix" at this date is \$13.2090 per U.S. dollar and \$18.1439 per Euro.

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

The Institution performs a large number of foreign currency transactions mainly in U.S. dollar, Euro, British 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, 2013 and 2012, deposits were as follows:

	2013	2012
Demand deposits	\$ 6,410	\$ 3,813
Time deposits-		
General public:	3,994	878
Money market:		
Deposit certificates	695	568
Promissory notes with interest payable at maturity (IBMONE X) (1)	351	991
	<u>5,040</u>	<u>2,437</u>
Debt securities		
Debt securities (Bonds)	<u>370</u>	<u>794</u>
Total deposits	<u>\$ 11,820</u>	<u>\$ 7,044</u>

(1) Short-term maturities which generated interest at an average 6.6 % and 4.6% rate, in 2013 and 2012, respectively.

## 16. Bank and other loans

As of December 31, 2013 and 2012, bank loans were as follows:

	2013		2012	
	Mexican pesos	Rate	Total	Total
Demand deposits-				
"Call Money" received	\$ -	-	\$ -	\$ 2,811
Total demand deposits	-	-	-	2,811
Short term-				
FIRA	10	3.78%	10	-
Clusters	462	3.50%	462	337
Digital loans	<u>1</u>	<u>4.58%</u>	<u>1</u>	<u>-</u>
Total interbank loans and other loans	<u>\$ 473</u>		<u>473</u>	<u>\$ 3,148</u>

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

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



17. Comparative maturities of principal assets and liabilities (unaudited)

The maturities of the significant assets and liabilities held as of December 31, 2013 were as follows:

	6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Assets:					
Funds available (1)	\$ 12,316	\$ -	\$ -	\$ 100	\$ 12,416
Margin accounts	676	-	-	-	676
Investment in securities	9,527	-	-	-	9,527
Derivatives	91	105	269	75	540
Loan portfolio (net)	2,748	98	1,358	66	4,270
Other receivables (net)	<u>10,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,034</u>
Total assets	35,392	203	1,627	241	37,463
Liabilities:					
Bank and loans	473	-	-	-	473
Resale agreements	6,229	-	-	-	6,229
Derivative	260	30	131	214	635
Other accounts payables	<u>2,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,157</u>
Total liabilities	<u>9,119</u>	<u>30</u>	<u>131</u>	<u>214</u>	<u>9,494</u>
Assets less liabilities	<u>\$ 26,273</u>	<u>\$ 173</u>	<u>\$ 1,496</u>	<u>\$ 27</u>	<u>\$ 27,969</u>

(1) The heading of Funds available includes Monetary Regulation Deposits with Central Bank. Such deposits as of December 31, 2013 and 2012 are \$100, and cannot be disposed of freely.

18. Related party transactions and balances

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

As of December 31, 2013 and 2012, the receivable and payable accounts with related companies are as follow:

	2013	2012
Asset-		
Funds available (1)	<u>\$ 2,898</u>	<u>\$ 24,657</u>
Repurchase agreements	<u>\$ 393</u>	<u>\$ 525</u>
Derivatives	<u>\$ -</u>	<u>\$ 172</u>
Other receivables (1)	<u>\$ 1,122</u>	<u>\$ 126</u>
Other assets	<u>\$ 5</u>	<u>\$ -</u>
Liability-		
Deposits (1)	<u>\$ 1,514</u>	<u>\$ 361</u>
Resale agreements	<u>\$ 4,923</u>	<u>\$ 7,057</u>
Derivatives (liability)	<u>\$ 11</u>	<u>\$ 66</u>
Other payables accounts (1)	<u>\$ 4,012</u>	<u>\$ 30</u>

As of December 31, 2013 and 2012, the most significant transactions carried out by the Institution with related and affiliated companies (at face values) were as follows:

	2013	2012
Income by-		
Interest (1)	\$ <u>59</u>	\$ <u>53</u>
Corporate services	\$ <u>50</u>	\$ <u>91</u>
Expenses by-		
Interest and commissions	\$ <u>268</u>	\$ <u>389</u>
Corporate services (1)	\$ <u>60</u>	\$ <u>78</u>
Results for intermediation	\$ <u>117</u>	\$ <u>233</u>

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

- (1) On November 29, 2013 Holding Monex and Pagos Intermex, S.A. de C.V., both holders of the shares of Prestaciones Universales, S.A. de C.V. (PU), completed the sale to a French company, for this reason since the date the Financial Institution stopped to consider the transactions whit PU as a related party. The main intercompany balance at December 31, 2012 was \$120 which was a receivable whit PU.

## 19. Labor benefits

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

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

As of December 31, 2013 and 2012, the Institution amortizes variances based on the seniority premiums plan, based on the average remaining years of service of the Institution's employees.

As of December 31, 2013 and 2012, balances and activity reflected in employee benefits, which include, seniority premiums and severance payments, were as follows:

	2013	2012
Defined benefit obligation	\$ 270	\$ 280
Plan assets	<u>(134)</u>	<u>(84)</u>
Underfunded status	136	196
Unamortized:		
Unrecognized actuarial profits	<u>(69)</u>	<u>(119)</u>
Net projected liability	\$ <u>67</u>	\$ <u>77</u>

As of December 31, 2013 and 2012, the net projected liabilities for severance payments at the end of the employment relationship for reasons other than restructuring are \$50 and \$45, respectively.



Net periodic cost consists of the following:

	2013	2012
Service cost for the year	\$ 27	\$ 27
Financial cost and expected return on plan assets	11	12
Amortization of transition liability	<u>1</u>	<u>7</u>
Net cost	<u>\$ 39</u>	<u>\$ 46</u>

The economic assumptions used were as follows:

	2013	2012
Discount rate	8.18%	6.98%
Expected rate of return of assets	8.18%	6.98%
Rate of wage increases	4.00%	4.00%

The changes in net projected obligations were as follows:

	2013	2012
Opening balance (face value)	\$ 77	\$ 91
Payment of benefits	(49)	(60)
Provision for the year	<u>39</u>	<u>46</u>
Net projected liability	<u>\$ 67</u>	<u>\$ 77</u>

As of December 31, 2013 and 2012, the Institution had assets related to the defined benefit plan, were invested as follows:

	2013		2012	
	Amount	%	Amount	%
Capital market	\$ 29	22%	\$ 23	28%
Monkey market	86	64%	40	47%
Repurchase market	<u>19</u>	14%	<u>21</u>	25%
Total	<u>\$ 134</u>		<u>\$ 84</u>	

As of December 31, 2012, 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:

	2013	2012
Present value of the defined benefits obligation as of January 1	\$ 280	\$ 123
Actual payment of benefits during the year	(7)	-
Actuarial loss	(49)	129
Cost of the year	<u>46</u>	<u>28</u>
Present value of the defined benefits obligation as of December 31, of each year	<u>\$ 270</u>	<u>\$ 280</u>

## 20. Creditors from settlements of transactions

As of December 31, 2013 and 2012, creditors from settlement of transactions are as follows:

	2013	2012
Creditors from settlements of transaction by foreign exchange to 24 and 48 hours	\$ 13,769	\$ 18,516
Creditors for settlement of transactions	37	80
Creditors for settlement of transactions of derivatives	<u>16</u>	<u>-</u>
Total	<u>\$ 13,822</u>	<u>\$ 18,596</u>

## 21. Sundry creditors and other payables

As of December 31, 2013 and 2012, sundry creditors and other payables were as follows:

	2013	2012
Employee retirement obligation provision	\$ 201	\$ 161
Funds	<u>(134)</u>	<u>(84)</u>
	67	76
Suppliers	16	23
Creditors from settlements of transaction by foreign exchange	1,027	795
Intercompany payables	2	26
Payable commissions, bounds and other gratifications	114	139
Deposits in guarantee	495	393
Contingent liabilities	1	1
Various taxes and social security contribution	52	38
Taxes withheld	31	19
Reclassification of creditors bank balances	182	11
Monex Europe creditors	71	-
Others	<u>99</u>	<u>27</u>
	<u>\$ 2,157</u>	<u>\$ 1,549</u>

## 22. Income taxes

In 2013, the Institution is subject to ISR and IETU during December 31, 2013 and 2012.

ISR- The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR Law (2014 Tax Law), the rate will continue at 30% in 2014 and thereafter.

IETU- IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

*Principal reforms to the Income Tax Law, Business Flat Tax Law, Cash Deposits Tax Law and Value Added Tax Law*

### a) Income tax

The definitive rate is left at 30%. The scheduled reductions that were to bring the rate to 29% in 2014 and 28% in 2015 and thereafter established in superseded LISR as of 2015 are repealed.



An additional income tax of 10% is established on dividends paid when they are distributed to individuals and residents abroad. The income tax is paid by means of withholding and is considered a final payment owed by the shareholder. In the case of foreigners, the appropriate double taxation treaties may be applied. This tax will be applicable on the distribution of profits generated as of the year 2014.

The deduction of payments to workers which are exempt revenues for them is limited to 47% or 53% subject to certain requirements. Furthermore, the deduction is limited in the same percentages for contributions to pension and retirement funds.

The Social Security fees paid by the employer are considered 100% nondeductible.

Special calculation of the PTU. The base is determined by subtracting the allowable deductions taxable income, without incorporating the PTU in the year paid or tax loss carryforwards.

For credit institutions, rules surrounding the deduction of general loss reserves recognized in accordance with the rules of the Commission were amended. A transitional regime for profits generated in previous years, which limits the deduction to 2.5% of the average portfolio balance in subsequent years, is incorporated.

b) *Business Flat Tax and Cash Deposits Tax*

The Business Flat Tax Law and the Cash Deposits Tax Law are repealed.

c) *Value-Added Tax ("IVA")*

The IVA rate is standardized at the national level, therefore the rate in the border zone increased from 11% to 16%.

Regarding the accounting recognition of items included in the Tax Reform 2014 that are related to income taxes, CINIF issued Interpretation 20, "Accounting for Tax Reform 2014" with effect from December 2013.

As of December 31, 2013 and 2012, the current income tax is the greater of ISR and IETU up to 2013.

The provision created in results for ISR is as follows:

	2013	2012
ISR:		
Current	\$ 185	\$ 335
Deferred	15	76
	<u>\$ 200</u>	<u>\$ 411</u>

**Reconciliation of the accounting tax result** - The main items affecting the determination of the Institution's tax result were the annual adjustment for inflation, provisions, the difference between depreciation and accounting and tax depreciation and amortization, the difference between the accounting increase of the preventive credit risk estimate and the respective tax deduction, provisions created for the expenses of prior that were settled during the current year and the transfer of housing constructor credit portfolio.

**Penalty interest for purposes of business flat tax (IETU)** - In accordance with the Business Flat Tax Law at December 31, 2012, the Institution must consider interest as taxable revenue for purposes of this tax as it is accrued, regardless of whether it is collected or not, which applies both to ordinary and penalty interest. The Institution considers all accrued interest, regardless of whether it is ordinary or penalty interest.

**Tax loss carryforwards and IETU tax liabilities** - As of December 31, 2013, the Institution does not have ISR tax loss carryforwards or IETU tax liabilities.

*Deferred taxes* - At December 31, 2013 and 2012, deferred taxes are composed as follows:

	2013	2012
Deferred ISR asset:		
Provisions	\$ 42	\$ 26
Allowance for loan losses	2	4
Labor obligations	20	23
PTU	11	4
Depreciation in financial instruments	-	21
Fees and interest collected in advance	6	4
Deferred ISR asset	<u>81</u>	<u>82</u>
Deferred ISR (liability):		
Prepaid expenses	(9)	(12)
Goodwill of Tempus	-	(34)
Others	(51)	-
Deferred ISR liability	<u>(60)</u>	<u>(46)</u>
Deferred PTU asset	<u>20</u>	<u>-</u>
Net deferred taxes assets (liabilities)	<u>\$ 41</u>	<u>\$ 36</u>

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

	2013	2012
Legal rate	30%	30%
Valuation of investment securities	(1)%	(5)%
Annual adjustment for inflation	(5)%	-
Non deductible	1%	-
Others	(4)%	7%
Effective tax rate	<u>21%</u>	<u>32%</u>

*Other tax issues:*

As of December 31, 2013 and 2012, the Institution has the following balances for significant tax indicators:

	2013	2012
Contributed capital account	\$ <u>2,181</u>	\$ <u>2,098</u>
Net tax income account	\$ <u>2,119</u>	\$ <u>2,137</u>

## 23. Stockholders' equity

As of December 31, 2013 and 2012, capital stock, at par value, was as follows:

	Number of shares		Amount	
	2013	2012	2013	2012
Fixed capital - Series "O" Shares	<u>1,524,573</u>	<u>1,524,573</u>	\$ <u>1,525</u>	\$ <u>1,525</u>
Total	<u>1,524,573</u>	<u>1,524,573</u>	\$ <u>2,525</u>	\$ <u>1,525</u>



During Stockholders' Extraordinary General Meetings held on January 14, May 6 and November 13, 2013, the Stockholders resolved to pay a cash dividend charged the account "Retained earnings" for \$94, \$263 and \$70, respectively.

During Stockholders' Ordinary General Meetings held on April 29, 2013, the Stockholders resolved to increase the contribution reserve of \$84 charged to the account "retained earnings".

Foreign corporations that exercise functions of authority may not participate under any circumstances in the capital of the Institution. National financial entities cannot do either, including those which form part of the Institution, except when they act as institutional investors, pursuant to article 19 of the Law to regulate financials groups.

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

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

The Institution requires the creation of a legal reserve equal to 10% of net profits until reaching 100% of paid-in capital. While these entities exist, this reserve can only be distributed to stockholders as share dividends.

As of January 1, 2014 and according to the amendments to the Law on Income Tax in the case of payment of dividends by Mexican companies, an additional income tax of 10% on dividends paid to physical and people living abroad, if residing abroad may apply treaties to avoid double taxation.

#### 24. Capital ratio (latest information published by Central Bank) - Unaudited

As of December 31, 2013 and 2012, in accordance with the capital requirements in effect, applicable to full service banks, the Institution presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

	2013	2012
Net capital / required capital	221.00%	254.51%
Basic capital / assets subject to credit, market and operational risk	17.71%	20.09%
Net capital / assets subject to credit risk	28.50%	32.74%
Net capital / assets subject to credit, market and operational risk	17.71%	20.38%

The capitalization ratio of the Financial Institution was updated and sent to Central on February 11, 2014

As of December 31, 2013 and 2012, the net capital used to calculate the capital ratio is as follows:

	2013	2012
Basic capital:		
Stockholder's equity disregarding convertible securities and subordinate debt	\$ 3,689	\$ 3,598
Less:		
Organization costs and other intangible	(159)	(499)
Investment in shares of entities	(1,316)	(883)
Investment in shares of financial entities	-	(10)
	<u>2,214</u>	<u>2,206</u>
Complementary capital:		
Allowance for loan losses	<u>16</u>	<u>31</u>
Total net capital	<u>\$ 2,230</u>	<u>\$ 2,237</u>

	2013		2012	
	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	\$ 2,025	166	\$ 1,808	145
Transactions with real rate	589	47	671	54
Transactions with nominal rate in foreign currency	217	17	348	28
Transactions with shares and related to shares	116	5	85	7
Foreign exchange transactions	324	26	134	11
Transactions in UDIS relating INPC	8	1	7	-
	<u>3,279</u>	<u>262</u>	<u>3,053</u>	<u>245</u>
	2013		2012	
	Equivalent amount position	Capital requirement (8%)	Equivalent amount position	Capital requirement (8%)
<b>Credit risk:</b>				
Deposits and loans	5,048	406	4,194	336
From repurchase and derivatives counterparties	95	6	200	16
From issuers of debt securities in position	828	66	1,023	82
From long-term investment in shares and other assets	1,032	83	839	67
From guarantees and credit lines and securitization	496	40	576	46
Transactions with related parties	2	-	4	-
	<u>7,501</u>	<u>601</u>	<u>6,836</u>	<u>547</u>
<b>Operational risk:</b>	<u>1,298</u>	<u>104</u>	<u>1,093</u>	<u>87</u>
Total assets at risk	<u>\$ 12,078</u>	<u>\$ 967</u>	<u>\$ 10,982</u>	<u>\$ 879</u>

At December 31, 2013 and 2012, weighted positions by market risk are as follows:

	2013		2012	
	Weighted assets by risk	Capital requirement	Weighted assets by risk	Capital requirement
Market risk	\$ 3,279	\$ 262	\$ 3,053	\$ 245
Credit risk	7,501	601	6,836	547
Operational risk	<u>1,298</u>	<u>104</u>	<u>1,093</u>	<u>87</u>
	<u>\$ 12,078</u>	<u>\$ 967</u>	<u>\$ 10,982</u>	<u>\$ 879</u>



## 25. Ratings

As of December 31, 2013, the Institution the following ratings:

	Standard & Poor's	Fitch Ratings
National level-		
Short-term	MxA-1	F1(mex)
Long-term	MxA+	A+(mex)
Financial strength-		
Perspective	Stable	Stable
Public date	May 31 2013	Nov 20 2013

## 26. Contingencies and commitments

- a) **Lawsuits** - On the normal course of business, the Institution has been involved in certain lawsuits which are not expected to significantly affect their financial position or future results of operations. Provisions have been recognized for those matters representing probable losses. As of December 31, 2013 and 2012, the Institution has recorded provisions for the amount \$1 for both years under the heading of "Sundry creditors and other accounts payable" which, based on the opinion of its internal and external legal advisors, the management believes is appropriate.
- b) **Administered loan portfolio** - As discussed in Note 9, the portfolio administered by the Institution derived from the sales made and equity held under the outline agreement executed with Exim-Bank and Pefco is for the amount of \$256 y \$311 at December 31, 2013 and 2012, respectively. In relation to this loan portfolio, the Institution has the commitment to assume all credit risks in the event of noncompliance with the terms agreed with Exim-Bank regarding the documentation of each loan. However, management considers that the possibility of a refund to Exim-Bank is unlikely.
- c) **Commitment** - As of December 31, 2013 and 2012 the Institution has service contracts (to receive), related to its operation, which represent less than 4% for both years of expenses, respectively, which are part of the Institution's current expenses.

## 27. Memorandum accounts

Memorandum accounts are not included in the balance sheet and only the memoranda accounts in which transactions directly related to the balance sheet are recorded, such as collateral received in guarantee by the Institution, loan commitments and collateral received and sold or delivered in guarantee were subject to external audit.

Aside from the above memoranda accounts, the Institution also has the following:

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

As of December 31, 2013 and 2012, the Institution administered the following trusts and mandates:

	2013	2012
Trusts under-		
Administration	\$ 49,492	\$ 36,223
Guarantee	5,469	4,572
Investment	<u>898</u>	<u>832</u>
Total transactions under trust or mandate	<u>\$ 55,859</u>	<u>\$ 41,627</u>

As of December 31, 2013 and 2012, the income from the administration of such goods was \$47 and \$41, respectively.

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

As of December 31, 2013 and 2012, other record accounts have a balance of \$2,435 and \$2,428, respectively.

**28. Financial Margin**

As of December 31, 2013 and 2012, the financial margin was as follows:

	2013	2012
Interest income:		
Investment securities, debt and equity	\$ 577	\$ 633
Interbank and other loans	16	6
Deposits with financial institutions	30	9
Loan portfolio	390	313
Others	63	26
	<u>1,076</u>	<u>987</u>
Interest expenses:		
Interest from repurchase agreements	(306)	(360)
Interest on bank and other loans (1)	(31)	(19)
Demand deposits	(43)	(36)
Time deposits	(237)	(200)
Others	(2)	-
	<u>(619)</u>	<u>(615)</u>
Financial margin	<u>\$ 457</u>	<u>\$ 372</u>

- (1) For the years ended December 31, 2013 and 2012, the interest expenses in U.S. dollars amounts to less than \$1 of interest expense in U.S. dollar each year comprising.

**29. Intermediation result**

For the years ended December 31, 2013 and 2012, the main items comprising the result from intermediation are as follows:

	2013	2012
Foreign exchange result:		
Profit per sale	<u>\$ 2,906</u>	<u>\$ 2,363</u>
	2,906	2,363
Derivatives result:		
Valuation	(189)	39
Profit per sale	<u>501</u>	<u>215</u>
	312	254
Trading securities result:		
Valuation	-	(13)
Profit per sale	<u>(114)</u>	<u>195</u>
	(114)	182
Equity result:		
Valuation	1	(5)
Profit per sale	<u>3</u>	<u>340</u>
	4	335
	<u>\$ 3,108</u>	<u>\$ 3,134</u>



### 30. Segment information

As of December 31, 2013, the Institution identified operating segments within its different business and it considers each as part of its internal structure and with its own profit risks and opportunities. These segments are regularly reviewed in order to assign operating monetary resources and evaluate their performance.

	Foreign exchange	Cash and securities	International	Derivative	Others	Banking products	Total
Interest income	\$ -	\$ 173	\$ 450	\$ -	\$ 63	\$ 390	\$ 1,076
Interest expense	-	(306)	-	-	(313)	-	(619)
Allowance for loan losses	-	-	-	-	-	(38)	(38)
Commission and fee income	70	-	-	-	67	50	187
Commission and fee expense	-	-	-	(21)	-	(174)	(195)
Intermediation result	2,305	(114)	601	316	-	-	3,108
Administration and marketing expenses	(1,391)	(317)	(420)	(238)	(35)	(324)	(2,725)
Other operating income (expenses), net	-	-	-	-	1	(5)	(4)
Current income taxes	(93)	(21)	(28)	(16)	(5)	(22)	(185)
Deferred income taxes	(7)	(2)	(2)	(1)	-	(3)	(15)
Minority interest	-	-	-	-	(48)	-	(48)
Grand total	\$ 884	\$ (587)	\$ 601	\$ 40	\$ (270)	\$ (126)	\$ 542

### 31. Comprehensive risk management (unaudited)-

#### *Applicable standards-*

This disclosure is supplemental to the obligation to disclose information on adopted risk management policies, procedures and methodologies, together with information on potential losses by risk and market type.

Management has policies and procedures manuals which follow the guidelines established by the Commission and Central Bank to prevent and control the risks exposure the Institution is incurs based on the transactions it performs.

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

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

#### a. *Environment -*

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

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

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

b. *Risk management entities -*

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

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

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

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

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

c. *Market risk -*

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

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

d. *Liquidity risk -*

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

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

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

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

e. *Credit risk -*

The Institution classifies each customer according to the methodology established by the Commission, which takes into account the client's financial risk, payment experience and guarantees. Together with quarterly credit follow-up evaluations, credit risk concentrations are determined by borrower or risk group, economic activity and state.

As established by the Commission's Banking Ruling, the Institution established a maximum credit risk exposure limit equal to 40% of basic capital for an individual or entity or group of entities constituting a joint risk. Furthermore, the Institution also complies with the standard applicable to related loans.



When performing customer transactions with over-the-counter derivatives, the risk unit determines transaction lines based on an analysis of the financial situation of each counterpart. The credit risk is covered by requesting margins from customers ranging from el 6% to 10% of the transaction amount. Lower percentages must be approved by the Risk Lines Committee, in which case a maximum loss amount is established. Customers are subject to margin calls either during the day or at the daily close whenever significant losses could be generated by the valuation of their open positions.

In the case of exchange transactions, the credit risk is analyzed based on a customer credit evaluation. Line settlement proposals are presented to the Lines Committee, which can either reject or approve them. This risk is controlled by matching the authorized line with that actually utilized.

f. *Operating risk -*

The Comprehensive Risk Management Manual (MAIR) and Operating Risk Management Manual (MARO) establish policies and procedures for monitoring operational risk, and periodically the follow-up on and control of operating risks. The Management of the Institution has requested that the Controllershship area implement an operating risk management program, the activities of which should also be made known to the Risk and Audit Committees.

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

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

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

Scale	Level
1	Low
2	Medium
3	High

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

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

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

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

g. *Legal risk -*

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

h. *Technological risk -*

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

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

i. *Quantitative information (unaudited)*

a) *Market risk -*

At December 31, 2013 and 2012, the VaR was \$6 and \$7, respectively (unaudited) and with a 99% reliance for one day. This value represents the maximum loss expected during one day and is situated within the limits established by the Institution.

At December 31, 2013 and 2012, portfolio concentration by segment was as follows (unaudited):

Portfolio concentration by segment	2013	2012
Farming and cattle-raising	\$ 7	\$ 14
Foods	-	202
Commercial	972	838
Financial	527	646
Industrial	841	818
Real-estate	352	322
Services	335	1,720
Textile	-	13
Individually	1,299	-
Total	<u>\$ 4,333</u>	<u>\$ 4,573</u>

b) *Credit risk -*

At December 31, 2013 and 2012, portfolio concentration by state was as follows:

Portfolio concentration by state	2013	2012
Aguascalientes	\$ 21	\$ 27
Baja California	352	291
Campeche	75	45
Chihuahua	122	118
Chiapas	7	10
Coahuila	104	165
Colima	4	6
Distrito Federal	1,384	1,379
Durango	114	81
Estado de México	227	214
Guerrero	13	11
Guanajuato	177	184
Hidalgo	11	15
Jalisco	230	211
Michoacán	8	12
Morelos	24	36
Nayarit	3	17
Nuevo León	821	826
Oaxaca	7	11
Puebla	26	34
Quintana Roo	9	58
Querétaro	17	28
Sinaloa	38	193
San Luis Potosí	24	32
Sonora	45	62
Tabasco	36	41
Tamaulipas	82	78
Tlaxcala	7	8
Veracruz	145	112
Yucatán	68	79
Zacatecas	120	88
Foreign locations	12	91
Total	<u>\$ 4,333</u>	<u>\$ 4,573</u>



c) *Liquidity risk*

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

Year	Requirement to 1 day	Requirement from 2 to 7 days	Requirement > 8 days
2013	\$ <u>2</u>	\$ <u>(6)</u>	\$ <u>5</u>

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

Year	Requirement to 1 day	Requirement from 2 to 7 days	Requirement > 8 days
2013	\$ <u>0.3</u>	\$ <u>(0.1)</u>	\$ <u>0.1</u>

d) *Operating Risk -*

At monthly Risk Committee meetings information on events related to the operating risks reported by different business units is presented. This information indicates the event and date.

Comptroller personnel keep a risk log that is used to quantify risks which are also detailed in the operating risk event database.

j. *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 UAIR based on balance sheet and statement of income information. Transaction amounts and initial margins are authorized and/or ratified by the Lines Committee.

The credit risks of these transactions are controlled by using guarantees and the implementation of daily margin calls or whenever the valuation loss reaches the upper limit authorized by the Lines Committee.

In order to monitor the risks inherent to transactions involving derivative financial instruments, the Institution has established the following control measures, among others:

- i. A Risk Committee, which is informed of these transaction risks.
- ii. An UAIR, which is independent of business areas and permanently monitors risk positions.
- iii. Transactions are primarily performed with financial intermediaries and non-financial customers approved by the UAIR and Lines Committee.
- iv. Maximum amounts or credit limits have been established based on the initial risk classification given to each potential borrower.

k. *Detection of transactions with illegal resources -*

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

32. **Authorization of the Financial Statements**

On February 24, 2014, the issuance of the consolidated financial statements was authorized by Moisés Tiktin Nickin, Chief Executive Officer of the Institution, Álvaro Alberto Calderón Jimenez, Chief Financial Officer, Eduardo Antonio Mújica Dávalos, Chief Internal Auditor and Ricardo Cordero Jurado, Deputy Director of Accounting. These consolidated financial statements are by the Board of Directors, where they may be modified.

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