

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Financial statements

December 31, 2017 and 2016

(With Statutory and Independent Auditors'
Reports Thereon)

(Free Translation from Spanish Language Original)

Statutory Auditors' Report
(Free Translation from Spanish Language Original)

The Stockholders
Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
Grupo Financiero Scotiabank Inverlat:

In our capacity as Statutory Auditors of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat (“the Brokerage Firm”), we hereby submit our report on the reliability, fairness and sufficiency of the financial information furnished to you by the Board of Directors, for the year ended December 31, 2017.

We have attended the Stockholders’ and Board of Directors’ meetings to which we have been summoned, and we have obtained from the directors and management such information on the operations, documentation and accounting records, as we considered necessary in the circumstances.

In our opinion, the accounting and reporting criteria and policies followed by the Brokerage Firm, and considered by management in preparing the financial statements presented at this meeting, are adequate and sufficient under circumstances and have been applied on a basis consistent with that of the preceding year. Therefore, such information is a fair, sufficient and reasonable representation of the financial position of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2017, and the results of its operations and cash flows for the year then ended, in conformity with the accounting criteria for brokerage firms in Mexico issued by the National Banking and Securities Commission.

Sincerely,

SIGNATURE

Victor Leonel Esquivel Romero
Statutory Auditor for Series “F” shares

SIGNATURE

Ricardo Delfín Quinzaños
Statutory Auditor for Series “B” shares

Mexico City, February 22, 2018.



Independent Auditors' Report

(Translation from Spanish language original)

The Board of Directors and Stockholders
Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
Grupo Financiero Scotiabank Inverlat:

(Millions of Mexican pesos)

Opinion

We have audited the financial statements of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), which comprise the balance sheets as of December 31, 2017 and 2016, the statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat, have been prepared, in all material respects, in accordance with the Accounting Criteria for Brokerage Firms in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

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

Key audit matters

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



Derivative financial instruments non-listed in recognized markets \$27 (assets) and \$13 (liabilities).

See notes 3 (g) and 9 to the financial statements.

Key audit matter

How the key audit matter was addressed in our audit

Fair value determination, as of the date of the balance sheet, of derivative financial instruments non-listed in recognized markets and hedging transactions, is carried out through the use of valuation techniques that involve a high degree of judgement by Management, mainly when it is required the use of inputs not observable in financial markets.

As part of our audit procedures, we obtained evidence of the approval by the Brokerage Firm's Risk Committee, of the valuation model for derivative financial instruments traded in non-recognized markets used by Management. Likewise, through selective tests, we evaluated the reasonableness of those models, through the participation of our valuation specialists. In addition, through selective tests, we evaluated the fair value determination of the derivative products traded in non-recognized markets.

Responsibilities of Management and Those Charged with Governance for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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



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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Brokerage Firm's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Brokerage Firm's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Brokerage Firm to cease to continue as a going concern.

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

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

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

KPMG Cárdenas Dosal S. C.

SIGNATURE

Ricardo Lara Uribe

Mexico City,
February 22, 2018.

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Balance sheets

December 31, 2017 and 2016

(Millions of Mexican pesos)

Memorandum accounts

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Transactions on behalf of third parties				Transactions for the brokerage firm's own account	
Customer current accounts:				Collaterals received by the entity:	
Customers' banks	\$ 255	40		\$ 31,544	24,185
Settlement of customers' transactions	(821)	(691)		Government debt	
Other current accounts	<u>137</u>	<u>137</u>		Net equity instruments	<u>149</u> <u>148</u>
	<u>(429)</u>	<u>(514)</u>		<u>31,693</u>	<u>24,333</u>
 Custody operations:					
Customer securities in custody (note 16)	<u>378,988</u>	<u>301,979</u>		Collaterals received and sold or pledged in guarantee by the entity:	
 Management transactions:				Government debt (note 16)	31,544 24,184
Securities on repurchase/resell agreements on behalf of customers (note 16)	63,617	49,578		Net equity instruments (notes 8 and 16)	<u>34</u> <u>66</u>
Securities lending transaction on behalf of customers (note 16)	48	97		<u>31,578</u>	<u>24,250</u>
Collaterals received in guarantee on behalf of customers (note 16)	32,062	25,399			
Collaterals delivered in guarantee on behalf of customers (note 16)	36,075	28,172			
 Managed trusts	<u>212</u>	<u>194</u>		Other accounts	1,581 1,570
	<u>132,014</u>	<u>103,440</u>			
 Total on behalf of third parties	\$ <u>510,573</u>	<u>404,905</u>		Total for the Brokerage Firm	\$ <u>64,852</u> <u>50,153</u>

(Continued)

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Balance sheets, continued

December 31, 2017 and 2016

(Millions of Mexican pesos)

Assets	2017	2016	Liabilities and stockholders' equity	2017	2016
Cash and cash equivalents (note 6)	\$ 543	215	Assigned securities to be settled (note 7c)	\$ 255	—
Margin accounts (derivatives)	—	9	Creditors under repurchase/resell agreements (note 8)	518	1,216
Investment securities (note 7):			Collateral sold or pledged (note 8):		
Trading securities	2,240	2,870	Securities lending	34	66
Derivatives (note 9):			Derivatives (note 9):		
Trading purposes	27	88	Trading purposes	307	358
Accounts receivable, net	767	495	Other accounts payable:		
Premises, furniture and equipment, net (note 10)	183	187	Income tax payable	—	111
Permanent investments (note 11)	3	3	Employees' statutory profit sharing payable	62	72
Deferred income taxes and ESPS, net (note 15)	42	32	Creditors on settlement of transactions (notes 6 and 7)	1,112	468
Other assets:			Sundry creditors and other accounts payable (note 12)	379	466
Deferred charges, prepaid expenses and intangibles	247	215			
			Total liabilities	2,667	2,757
			Stockholders' equity (note 14):		
			Paid-in capital:		
			Capital stock	554	554
			Earned capital:		
			Statutory reserves	111	111
			Retained earnings	411	259
			Remeasurements of defined employees' benefits	—	1
			Net income	309	432
				831	803
			Total stockholders' equity	1,385	1,357
Total assets	\$ 4,052	4,114	Total liabilities and stockholders' equity	\$ 4,052	4,114

See accompanying notes to financial statements.

"At December 31, 2017 and 2016, the historical capital stock amounts to \$389."

"These balance sheets were prepared in accordance with the accounting criteria for brokerage firms issued by the National Banking and Securities Commission based on Articles 205 last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory, nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Brokerage Firm through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

SIGNATURE

José Jaime Montemayor Muñoz
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These balance sheets faithfully match with the balance sheets originals, which are properly signed and held by the Brokerage Firm."

<http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx>
<http://www.cnby.gov.mx/paginas/default.aspx>

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of income

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

	<u>2017</u>	<u>2016</u>
Commission and fee income (note 18b)	\$ 1,016	894
Commission and fee expense (note 18b)	(92)	(92)
Financial advisory income (note 18b)	<u>289</u>	<u>225</u>
Income from services	<u>1,213</u>	<u>1,027</u>
Gain on purchase and sale of securities (note 18c)	701	1,647
Loss on purchase and sale of securities (note 18c)	(761)	(1,320)
Interest income (note 18c)	2,234	1,673
Interest expense (note 18c)	(1,983)	(1,476)
Valuation on securities at fair value (note 18c)	<u>3</u>	<u>(27)</u>
Intermediation financial margin	<u>194</u>	<u>497</u>
Other operating income (note 18d)	10	42
Administrative and promotional expenses	<u>(1,001)</u>	<u>(984)</u>
	<u>(991)</u>	<u>(942)</u>
Income before income taxes	<u>416</u>	<u>582</u>
Current income taxes (note 15)	(113)	(152)
Deferred income taxes, net (note 15)	<u>6</u>	<u>2</u>
	<u>(107)</u>	<u>(150)</u>
Net income	\$ <u>309</u>	<u>432</u>

See accompanying notes to financial statements.

"These statements of income were prepared in accordance with the accounting criteria for brokerage firms issued by the National Banking and Securities Commission based on Articles 205 last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the revenues and disbursements relating to the transactions carried out by the Brokerage Firm for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions".

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

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José Jaime Montemayor Muñoz
 General Director

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 Deputy General Director of
 Group Audit

SIGNATURE

Michael Coate
 Deputy General Director of Finance
 and Business Intelligence

SIGNATURE

H. Valerio Bustos Quiroz
 Director of Group of
 Accounting

"These statements of income faithfully match with the statements of income originals, which are properly signed and held by the Brokerage Firm".

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of changes in stockholders' equity

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Result from valuation of available-for-sale securities</u>	<u>Remeasure- ments of defined employees' benefits</u>	<u>Net income</u>	<u>Total stockholders' equity</u>
Balances as of December 31, 2015	\$ 554	106	468	162	-	171	1,461
Changes resulting from stockholders' resolutions:							
Appropriation net income and creation of statutory reserve	-	5	166	-	-	(171)	-
Dividends paid (note 14c)	-	-	(380)	-	-	-	(380)
	-	5	(214)	-	-	(171)	(380)
Changes related to recognition of comprehensive income (notes 14b and 15):							
Sale effects of available-for-sale securities, net of deferred income tax and employee statutory profit sharing of \$108	-	-	-	(162)	-	-	(162)
Remeasurements for defined employee benefits, net of deferred income tax and employees' statutory profit sharing of \$4 (notes 4 and 12)	-	-	5	-	1	-	6
Net income	-	-	-	-	-	432	432
	-	-	5	(162)	1	432	276
Balances as of December 31, 2016	554	111	259	-	1	432	1,357
Changes resulting from stockholders' resolutions:							
Appropriation net income and creation of statutory reserve	-	-	432	-	-	(432)	-
Dividends paid (note 14c)	-	-	(280)	-	-	-	(280)
	-	-	152	-	-	(432)	(280)
Changes related to recognition of comprehensive income (notes 14b and 15):							
Remeasurements for defined employee benefits	-	-	-	-	(1)	-	(1)
Net income	-	-	-	-	-	309	309
	-	-	-	-	(1)	309	308
Balances as of December 31, 2017	\$ 554	111	411	-	-	309	1,385

See accompanying notes to financial statements.

"These statements of changes in stockholders' equity were prepared in accordance with the accounting criteria for brokerage firms issued by the National Banking and Securities Commission, based on

SIGNATURE

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General Director

SIGNATURE

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Deputy General Director Finance of
and Business Intelligence

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Deputy General Director of
Group Audit

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H. Valerio Bustos Quiroz
Director of Group
Accounting

"These statements of changes in stockholders equity faithfully match with the statements of changes in stockholders equity originals, which are properly signed and held by the Brokerage Firm."

<http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx>
<http://www.cnbv.gob.mx/paginas/default.aspx>

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of cash flows

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

	<u>2017</u>	<u>2016</u>
Net income	\$ 309	432
Items not requiring (providing) cash flow:		
Depreciation of premises, furniture and equipment	14	13
Amortization of intangible assets	9	9
Provisions	44	81
Current and deferred income taxes	107	150
Valuation on securities at fair value	<u>(3)</u>	<u>27</u>
Subtotal	<u>171</u>	<u>280</u>
Operating activities:		
Change in margin accounts	9	(9)
Change in investment securities	891	2,307
Change in debtors on repurchase/resell agreements	-	1
Change in derivatives (asset)	78	(12)
Change in other operating assets (net)	(198)	(160)
Change in creditors on repurchase/resell agreements	(698)	(1,288)
Change in collaterals sold or pledged	(32)	1
Change in derivatives (liabilities)	(70)	(927)
Change in other operating liabilities	401	7
Payment of income taxes	<u>(224)</u>	<u>(51)</u>
Net cash flows from operating activities	<u>157</u>	<u>(131)</u>
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(9)	(21)
Payments for acquisition of intangible assets	<u>(20)</u>	<u>(35)</u>
Net cash flows from investing activities	<u>(29)</u>	<u>(56)</u>
Net cash flows from financing activities		
payment of dividends	<u>(280)</u>	<u>(380)</u>
Net increase (decrease) in cash and cash equivalents	328	145
Cash and cash equivalents at beginning of year	<u>215</u>	<u>70</u>
Cash and cash equivalents at end of year	\$ <u>543</u>	<u>215</u>

See accompanying notes to financial statements.

"These statements of cash flows were prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205 last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Brokerage Firm for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These statements of cash flows were approved by the Board of Directors under the responsibility of the following officers".

SIGNATURE

 José Jaime Montemayor Muñoz
 General Director

SIGNATURE

 Michael Coate
 Deputy General Director of Finance
 Business Intelligence

SIGNATURE

 Agustín Corona Gahbler
 Deputy General Director of
 Group Audit

SIGNATURE

 H. Valerio Bustos Quiroz
 Director of Group of
 Accounting

"These statements of cash flows faithfully match with the statements of cash flows originals, which are properly signed and held by the Brokerage Firm."

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Notes to financial statements

For the years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

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

(1) Description of business-

Scotia Inverlat Casa de Bolsa, S. A. de C. V. (“the Brokerage Firm”) is an entity incorporated under the Mexican legislation and is located at Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700 in Mexico City. The Brokerage Firm is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (“the Group”), which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia (“BNS”), which owns 97.4% of its capital stock. The Brokerage Firm acts as an intermediary in securities and financial transactions authorized under terms of the Securities Market Law (SML) and general provisions issued by the National Banking and Securities Commission (“the Commission”).

(2) Authorization and basis of presentation-

Authorization-

On February 22, 2018, José Jaime Montemayor Muñoz (Brokerage Firm’s General Director), Michael Coate (Deputy General Director of Finance and Business Intelligence), Agustín Corona Gahbler (Deputy General Director Group of Audit) and H. Valerio Bustos Quiroz (Director of Accounting Group); authorized the issuance of the accompanying financial statements and related notes.

The stockholders and the Commission are empowered to modify the financial statements after issuance. The 2017 financial statements will be submitted to the next Stockholders’ Meeting for approval.

Basis of presentation and disclosure

a) Statement of compliance

The accompanying financial statements have been prepared, based on the SML and in conformity with the current accounting criteria established by the Commission for Brokerage Firms in Mexico at the date of the balance sheet, which is responsible for the inspection and supervision of Brokerage Firms and for reviewing their financial information.

(Continued)

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Notes to financial statements

(Millions of Mexican pesos)

According to the accounting criteria, the Commission shall issue particular rules for specialized transactions and in the absence of an specific accounting criterion of the Commission for brokerage companies first and then for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF). The supplementary process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the supplementary application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the MFRS are met by that standard, with the requirements of criterion A-4 of the Commission. The supplementary application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravene the accounting criteria of the Commission.

b) Use of judgment and estimates

The preparation of the financial statements require management to make estimates and assumptions that affect to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation of financial instruments and derivatives, employees' benefits liabilities and deferred tax assets. The actual results could differ from those estimates and assumptions.

c) Functional and reporting currency

The aforementioned financial statements are presented in Mexican pesos, which is the same as the recording currency and to the functional currency.

For purposes of disclosure in the notes to financial statements, "pesos" or "\$" refers to millions of Mexican pesos, and when reference is made to "dollars" or "USD", it means millions of dollars of the United States of America.

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Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Notes to financial statements

(Millions of Mexican pesos, except UDI price)

d) Assets and liabilities recognition

The accompanying financial statements recognize the assets and liabilities arising from investments securities repurchase and resell agreements from transactions carried out for the Brokerage Firm's own account as well as those carried out on behalf of its customers at the trade date, rather than settlement date.

(3) Summary of significant accounting policies-

The accounting policies shown below have been uniformly applied in the preparation of the financial statements that are presented, and have been applied on a consistent basis by the Brokerage Firm.

(a) Recognition of inflation effects-

The accompanying financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

The years ended December 31, 2017 and 2016 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Brokerage Firm's financial information are not recognized. Should be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is as follows:

<u>December 31</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Acumulated</u>
2017	\$ 5.934551	6.68%	12.60%
2016	5.562883	3.38%	9.97%
2015	5.381175	2.10%	10.39%
	=====	=====	=====

(Continued)

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Notes to financial statements

(Millions of Mexican pesos)

(b) *Cash and cash equivalents-*

Cash and cash equivalents consist of cash in hand, local and foreign bank account balances and 24, 48, 72 and 96 hours foreign currency sales/purchases, and starting December 31, 2016, surpluses of plan assets derived from maximum obligation of employee's benefits according to FRS D-3 "Employees' benefits" are included.

The cash and cash equivalents are recognized at nominal value. For the currencies in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect is recognized in the results, as "Interest income" or "Interest expense", accordingly.

The foreign exchange currencies acquired in sales/purchase transactions to 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency for received), while the currency sold is recorded as cash outflow (foreign currency to delivery). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Accounts receivable, net " and "Creditors on settlement of transactions", respectively.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption "Sundry creditors and other accounts payable".

(c) *Margin accounts-*

The margin accounts in cash required to the Brokerage Firm to operate derivatives in recognized markets are recorder at par value and presented in the caption "Margin accounts." The value of the margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Brokerage Firm.

(Continued)

Scotia Inverlat Casa de Bolsa, S. A. de C. V.
Grupo Financiero Scotiabank Inverlat

Notes to financial statements

(Millions of Mexican pesos)

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under the caption "Interest income" and "Commissions and fee expenses", respectively. The partial or total amounts deposited or withdrawn in the clearing house owing to price fluctuations of derivatives are recognized in "Margin accounts".

(d) *Investment securities-*

Investment securities consist of equity shares, government securities, bank promissory notes and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of the Brokerage Firm on their ownerships.

Trading securities-

Trading securities are those acquired with the intention of selling them to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date. Subsequently, securities are valued at fair value provided by an independent price vendor, when the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this shall transfer the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises under the caption "Interest income".

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Valuation effects are recognized in the income statement under the caption “Valuation on securities at fair value”, and purchase or sale results are presented under the captions of “Gain on purchase and sale of securities” or “Loss on purchase and sale of securities”, as appropriate.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities (to be received) at the transaction date, while securities sold are deducted from investment securities (to be delivered). The counter entry is a credit or debit in a settlement, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type position (government, bank, equity and other debt securities), this is reflected as a liability under the caption “Assigned securities to be settled”.

(e) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Brokerage Firm acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at the amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption “Interest income” or “Interest expense”, as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption “Debtors under repurchase/resell agreements” and “Creditors under repurchase/resell agreements”, respectively.

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The Brokerage Firm acting as repurchasee recognizes the received collateral in memorandum accounts within the caption “Collaterals received by the entity”, in accordance with accounting criterion B-6 “Assets in custody and under management”. Financial assets granted as collateral, when the Brokerage Firm acting as repurchaser, the financial asset is reclassified on the balance sheet within the caption “Investments securities”, reporting it as restricted asset.

Should the Brokerage Firm, acting as repurchase sell or pledge the collateral, recognize the transaction proceeds and an account payable for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchaser agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when Brokerage Firm acting as repurchasee turns into repurchaser and the debit or credit balance is presented in the financial statement caption “Debtors on repurchase/resell agreements” or in “Collateral sold or pledged”, as applicable.

Additionally, the collateral received or sold is recognized in memorandum accounts under “Collaterals received and sold or pledged in guarantee by the entity”, in accordance with the valuation guidelines criterion B-6 “Assets in custody and under management”.

(f) *Securities lending-*

At the trade date of securities lending transactions, the Brokerage Firm acting as lender reclassifies securities subject to lending as restricted in the balance sheet under the caption “Investments securities”, while acting as borrower, securities are recognized in memorandum accounts under the caption "Collaterals received by the entity", according to the guidelines for valuation of criterion B-6 “Assets in custody and under management”. The accrued premium amount, acting the Brokerage Firm as a lender or borrower, is recognized in the income statement, through the effective interest method over the term of the transaction, under the caption "Interest income" or "Interest expense", respectively, against the caption "Securities lending" within asset or liability, as applicable.

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The financial assets received as collateral, whereby the Brokerage Firm acts as a lender, are recognized in memorandum accounts following the guidelines for valuation criterion B-6 "Assets in custody and under management," while acting as borrower, the financial assets delivered as collateral are presented as restricted under the caption "Investment securities".

In the case that the Brokerage Firm, as lender, prior to the maturity of the securities lending transaction sells the collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale for the obligation to return such collateral to the lender under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently at fair value. The valuation effect is presented in the income statement under the caption "Valuation gain (lost) on securities at fair value".

The difference between the price received and the fair value of the security subject to the transaction or the collateral received, if any at the time of the sale, is presented under the captions of "Gain on purchase and sale of securities" or "Loss on purchase and sale of securities", as applicable.

Regarding securities lending transactions wherein the financial assets granted as collateral or the value subject to the transaction, acting the Brokerage Firm as the borrower or lender, respectively, come from collateral received in other transactions, the control of such collaterals are recorded in memorandum accounts under "Collaterals received and sold or pledged in guarantee by the entity", following the valuation guidelines of criterion B-6 "Assets in custody or under management".

(g) Derivatives-

The Brokerage Firm enters into transactions with derivative financial instruments for trading purposes, which are recognized initially at fair value, which is presumed to be equal to the price agreed in the transaction.

The valuation effect of the derivatives for trading purposes is shown in the balance sheet and in statement of income under the captions of "Derivatives", in the assets or liabilities, accordingly, and "Valuation on securities at fair value", respectively.

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The effect of the derivatives credit risk (counterpart), is determined in accordance with the risk area methodology, and is recognized in the year's income in the period which it occurs against the supplementary account.

(h) *Accounts receivable-*

Accounts receivable related to identified debtors whose maturity is agreed from the origin to more than 90 calendar days term, are evaluated by Brokerage Firm's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance.

The balances of other debit items are reserved into in the year's income 90 days after their initial recording, if they correspond identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past-due and a provision is booked for the total amount.

(i) *Settlement of clearing accounts-*

Amounts receivable or payable from investment securities, securities repurchase/resell agreements, securities lending and/or derivatives, which have expired but have not been settled at the balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously. The clearing accounts are shown under the financial statement caption "Accounts receivable, net" or "Other accounts payable", as appropriate.

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(j) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost; and as of December 31, 2007 were adjusted by using factors based on the UDI. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation of premises, furniture and equipment is calculated under the straight-line method, based on the estimated useful lives by the Brokerage Firm's management of the corresponding assets. Depreciable amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Brokerage Firm periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

The Brokerage Firm evaluates periodically the net book values of premises, furniture and equipment to determine whether there is an indication that these values exceed their recoverable amount. The recoverable amount is the greater of the net selling price and book value. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(k) Permanent investments-

The permanent investments where there is no control, joint control or significant influence exists are classified as other investment, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in the statement of income caption "Other operating income", except if are from prior periods to the acquisition, in which case are decreased from the permanent investments.

(l) Other assets-

This caption includes mainly the contributions made to the self-regulatory reserve fund set up through the stock exchange members, which purpose is to support and contribute to the strengthening of the stock exchange market. The balance includes the contributions, valuation and interest earned, which are recognized under the caption "Other operating income" on the statement of income.

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The intangible assets related to internally developed software, are also included in this caption, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by through the straight-line method over the estimated useful life as determined by the Brokerage Firm's management.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount, the asset value is written down and the impairment loss is recognized in the results of operations for the year.

Additionally, this caption includes the projected net assets of the defined benefit plan (up to the amount of the ceiling of the plan assets, which is recognized in accordance with the provisions of MFRS D-3 "Employees' benefits" starting 2016). Surpluses of non-refundable resources provided by the Brokerage Firm to cover employee benefits, are recognized as restricted cash in "Cash and cash equivalents" caption (see notes 6 and 12).

(m) *Income taxes and employee statutory profit sharing (ESPS)-*

The income taxes and ESPS payable for the year are determined in conformity current tax provisions.

Income tax payable is presented as a liability in the balance sheet, when the tax pre-payments made exceed the income tax payable, the difference corresponds to an account receivable.

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of income taxes for operating loss carryforwards. Deferred ESPS and tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations in the period enacted.

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Current and deferred tax and ESPS are presented and classified in the year's results, except those that are originated from a transaction recorded directly in the equity.

(n) Capital leases-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the value of the asset leased. The asset is depreciated in the same way as other assets held in property when it is certain that at the end of lease contract, ownership of the leased asset is transferred otherwise is depreciated during the term of the contract (see note 10).

(ñ) Employees' benefits-

Short-term direct benefits

Short-term direct employees' benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Brokerage Firm has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Brokerage Firm's net obligation in relation to direct long-term benefits (except for deferred ESPS - see note Income taxes and employees' statutory profit sharing), and which the Brokerage Firm is expected to pay at least twelve months after the date of the most recent balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in the results of the year as accrued.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Brokerage Firm has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

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Post-employment benefits

Defined contribution plans

Obligations derived from contributions to defined contribution plans are recognized in the results as accrued, as the related services are rendered by the employees. Contributions paid in advance are recognized as an asset to the extent that such prepayment gives rise to a reduction in the future payments or to a cash reimbursement.

Defined benefit plans

The net obligation of the Brokerage Firm corresponding to the defined benefit plan for the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to life insurance for retirees, it is calculated in a separate way for each plan, estimating future benefits amount that employees have earned in the current and in previous periods, discounting such amount and deducting the fair value of the plan assets.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets, except for severance compensation.

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a possible asset for the Brokerage Firm, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Brokerage Firm determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

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Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements (formerly actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder's equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

(o) Revenue recognition-

Interest and premiums on investments in debt securities and repos, are recorded in the statement of income on accrual basis, using effective interest rate method.

The gain on sale of foreign currencies, trading securities and derivatives, is recorded in the statement of income when are sold.

The favorable effects of valuation (gain) of trading securities and derivatives, are recorded in the statement of income when the fair value is recognized.

The fees for financial transactions (placement of debt or shares), for transaction with investment companies and revenue from custody services, are recorded in the statement of income when the service is provided in "Commission and fee income".

Revenues from financial advisory services are recorded on income when the services are provided in "Financial advisory income".

(p) Provisions-

Based on Management estimates, the Brokerage Firm recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable, and arises as a consequence of past events.

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(q) *Foreign currency transactions-*

Foreign currency transactions are recognized at the exchange rate prevailing on the dates of execution for financial statement presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established in the Provisions applicable to Brokerage Firm, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year. At the year-end close date of the financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by the Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(r) *Memorandum accounts-*

Memorandum accounts correspond mainly to transactions in custody or under management.

Custody transactions-

Customer's securities in custody are valued at fair value, representing the amount for which the Brokerage Firm is obligated to its customers against any future eventuality and are presented in the caption "Customer securities in custody".

Management transactions-

The amount of the repurchase and resell agreements and securities lending on repurchase/resale agreements that the Brokerage Firm undertakes for its customers, is presented under the caption "Securities on repurchase/resell agreements by customers".

Securities lending conducted by the Brokerage Firm by customers, is presented under the caption "Security lending transaction by customers".

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In the case of collateral that the Brokerage Firm receives or delivers behalf by customers, for repurchase/resell agreements operations, securities lending, derivatives or other collateral received or delivered, are presented under the caption “Collaterals received in guarantee by customers” and/or “Collaterals delivered in guarantee by customers”, as appropriate.

The determination of the valuation of the estimated amount for the assets in management and operations on behalf of customers is made according to the operation carried out in accordance with the accounting criteria for Brokerage Firms.

The Brokerage Firm records transactions on behalf of customers, on the trade day and not on the settlement date.

(s) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenue, earnings or assets are not recognized until their realization is virtually certain.

(4) New accounting criteria-

2017 MFRS Improvements

In October 2016, the Mexican Board of Financial Reporting Standards (CINIF) issued the document referred to as “2017 FRS Improvements”, which contains precise modifications to some existing MFRS. The modifications that bring about accounting changes are listed below, which became effective on January 1, 2017, did not generate significant effects on the financial statements of the Brokerage Firm.

- MFRS B-13 “*Subsequent events as of the date of the financial statements*” and MFRS B-6 “*Statement of financial position*”
- MFRS C-11 “*Stockholders’ equity*”
- MFRS D-3 “*Employee benefits*”

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2016 accounting changes-

Accounting changes adopted by the Brokerage Firm in 2016, derived from the following MFRS issued by the CINIF.

MFRS D-3 “Employee benefits”

Progressive adoption of MFRS D-3 “Employee benefits”

Due to the relative significance and the non-practicality of reprocessing reports and financial statements already filed with regulators, management of the Brokerage Firm decided to adopt the new MFRS D-3 prospectively at January 1, 2016. Derived from that, accounting effects are as follows:

Plan modifications – recognized in “retained earnings” for \$9 with a deferred income tax and ESPS effect of \$4, generating a net effect for \$5.

Remeasurement of defined employee benefits (formerly actuarial gains or losses) – recognized in the equity under the “remeasurements of defined employee benefits” caption amounting \$1, net of deferred income tax and ESPS.

Plan assets ceiling – surpluses over the maximum obligation of the plan assets for \$32 are presented under the “cash and cash equivalents” caption.

2016 MFRS improvements-

The CINIF issued the following MFRS applicable to the Brokerage Firm operation, whose adoption does not generate important effects in the financial statement of the Brokerage Firm.

- MFRS C-1 “Cash and cash equivalents” and MFRS B-2 “Statement of cash flows”.
- Bulletin C-2 “Financial instruments” and its Improvements Document, MFRS B-10 “Inflation effects” and Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”

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- MFRS C-7 “Investments in associated entities, joint ventures and other permanent investments”.
- Bulletin C-10 “Derivative financial instruments and hedging transactions”.

(5) Foreign currency position-

Central Bank regulations require that the Brokerage Firm holds balanced positions in foreign currencies within certain limits. At December 31, 2017 and 2016, the maximum currency position (short or long) authorized by the Central Bank was \$174 and \$172, respectively, equivalent to 15% of the Brokerage Firm’s basic capital (\$1,157 and \$1,141, respectively, see note 14e).

The foreign exchange position, expressed in millions dollars is as follows:

	<u>2017</u>	<u>2016</u>
Assets	29	17
Liabilities	(29)	(15)
Long position	-	<u>2</u>
Equivalent in pesos	\$ -	<u>46</u>

The Brokerage Firm has a (short) long position in foreign currency at December 31, 2017 and 2016, respectively, which consists of 100% dollars. The exchange rate relative to the U.S. dollar was \$19.6629 and \$20.6194 (pesos), respectively, and as of February 22, 2018, date of authorization issuance of the financial statements, it was \$18.6574.

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Domestic banks	\$ 11	1
Restricted cash:		
Surpluses of maximum obligation for employee benefits (note 12)	15	24
Foreign currency receivable	<u>517</u>	<u>190</u>
	\$ <u>543</u>	<u>215</u>

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Foreign currency receivable and deliverable at December 31, 2017 and 2016, from purchases and sales to be settled within 24, 48, 72 and 96 hours are related to dollar transactions.

At December 31, 2017, the foreign exchange purchase/sale gain and (loss) amounted to \$36 and (\$73) (\$25 and (\$51) in 2016) these are recorded in the statement of income in “Gain on purchase and sale” or “Loss on purchase and sale”, as appropriate.

At December 31, 2017 and 2016, the Brokerage Firm maintained a liability balance, for transactions with foreign currencies payable on a date subsequent to the traded date of (\$468) and (\$68), respectively, which were recorded in clearing accounts within “Creditors on settlement of transactions”, as appropriate.

(7) Investment securities-

(a) At December 31, 2017 and 2016, the fair values of investment in securities were as follows:

<u>Trading securities:</u>	<u>2017</u>		<u>2016</u>	
Debt securities:				
Government securities:				
Unrestricted	\$ 758		666	
Restricted	<u>730</u>	<u>1,488</u>	<u>984</u>	<u>1,650</u>
Bank promissory notes				
Unrestricted	-	-	151	
Restricted	<u>9</u>	<u>9</u>	<u>240</u>	<u>391</u>
Other debt securities:				
Restricted	<u>19</u>	<u>19</u>	<u>179</u>	<u>179</u>
Equity share securities				
Unrestricted			151	
Restricted	<u>724</u>	<u>724</u>	<u>499</u>	<u>650</u>
Total trading securities	\$	<u>2,240</u>		<u>2,870</u>

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- (b) At December 31, 2017 and 2016, detail of the aforementioned trading and available for sale securities are as follow:

<u>Trading securities</u>	<u>2017</u>	<u>2016</u>
Debt securities, unrestricted:		
Government securities:		
BI CETES	\$ 724	550
M BONOS	<u>110</u>	<u>140</u>
	<u>834</u>	<u>690</u>
Value date sales:		
BICETES	-	(12)
M BONOS	<u>(76)</u>	<u>(12)</u>
	<u>(76)</u>	<u>(24)</u>
Government securities, unrestricted	<u>758</u>	<u>666</u>
Government securities, restricted:		
Pledged cetes in guarantee	133	150
(1) Repurchase/resell agreements:		
CTIM	418	796
LBON	<u>92</u>	<u>-</u>
	<u>643</u>	<u>946</u>
Value date purchases:		
BI CETES	-	21
BONDES	-	1
M BONOS	<u>87</u>	<u>16</u>
	<u>87</u>	<u>38</u>
Restricted government securities	<u>730</u>	<u>984</u>
Total government securities	\$ <u>1,488</u>	<u>1,650</u>

(1) See terms and conditions in note 8.

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<u>Trading securities</u>	<u>2017</u>	<u>2016</u>
Banking securities, unrestricted:		
BANOBRA	\$ -	151
Restricted securities		
⁽¹⁾ Repurchase/resell agreements:		
PRLV	<u>9</u>	<u>240</u>
Total banking securities	\$ <u>9</u>	<u>391</u>
Other debt securities, unrestricted		
JEAMX	19	-
Other debt securities, restricted		
⁽¹⁾ Repurchase/resell agreements:		
CBUR	<u>-</u>	<u>179</u>
Total other debt securities	\$ <u>19</u>	<u>179</u>
Equity share securities, unrestricted:		
SCOTIAG	-	372
NAFTRAC	-	52
Other equity share securities	-	57
Value date sales:		
IVV *	-	(86)
SHV *	-	(83)
NAFTRAC	-	(7)
HYS *	-	(40)
VWO *	-	(40)
ERJ N	-	(32)
LALA B	-	(2)
Other equity share securities	<u>-</u>	<u>(40)</u>
Total equity share securities unrestricted, to the next page	\$ <u>-</u>	<u>151</u>

(1) See terms and conditions in note 8.

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<u>Trading securities</u>	<u>2017</u>	<u>2016</u>
Total equity share securities unrestricted, from previous page	\$ <u>-</u>	<u>151</u>
Restricted equity share securities on securities lending:		
NAFTRAC	69	21
CEMEX CPO	11	12
MEXCHEM *	7	7
ALFA A	3	9
SIMEC B	3	4
NEMAK A	2	3
ASUR B	-	6
ALPEK A	-	1
GMEXICO B	-	1
Other equity share securities	<u>4</u>	<u>2</u>
	<u>99</u>	<u>66</u>
Restricted equity share securities (collateral):		
SCOTIAG	<u>37</u>	<u>72</u>
Value date sales:		
DFE *	231	-
EWC *	93	-
IVV *	91	86
ACWI	85	-
SHV	35	83
NAFTRAC	23	5
VWO *	-	40
HYS *	-	40
IVV PESO	-	33
ERJ N	-	32
Other equity share securities	<u>30</u>	<u>42</u>
Total value date equity share securities, restricted	<u>588</u>	<u>361</u>
Total equity share securities, restricted	<u>724</u>	<u>499</u>
Total equity share securities	\$ <u>724</u>	<u>650</u>

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As of December 31, 2017 and 2016, the Brokerage Firm held asset (liability) balance for transactions with securities settled on a date subsequent to the traded date for \$638 (\$644) and \$355 (\$400), respectively, which were recorded in clearing accounts under the caption “Accounts receivable, net” and “Creditors on settlement of transactions”, as appropriate.

For the years ended December 31, 2017 and 2016, interest on securities earned amounted to \$281 and \$256, respectively.

For the years ended December 31, 2017 and 2016, net gains from interest income, gain or losses from purchase and sale transactions, and valuation income from investments in securities are as follows:

		<u>2017</u>	<u>2016</u>
Trading securities	\$	278	260
Available for sale securities		-	333
		===	===

At December 31, 2017, the Brokerage Firm does not hold investments in non-government debt securities from the same issuer exceeding 5% of the Brokerage Firm’s net capital.

At December 31, 2016, investments in non-government debt securities from the same issuer and exceeding 5% of the Brokerage Firm’s net capital are as follow:

<u>2016</u>	<u>Issuer</u>	<u>Number of securities</u>	<u>Annual average rate</u>	<u>Average term (days)</u>	<u>Amount</u>
	BANOBRA	<u>150,817,771</u>	<u>5.30%</u>	<u>2</u>	\$ <u>151</u>

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- (c) At December 31, 2017 and 2016, fair value of securities classified as assigned securities to be settled, are analyzed as follows:

<u>Assigned securities to be settled</u>	<u>2017</u>	<u>2016</u>
Other debt securities, unrestricted		
Value date sales		
JEAMX	\$ (19)	-
Equity share securities unrestricted:		
SCOTIAG	344	-
NAFTRAC	9	-
Other equity share securities	<u>3</u>	<u>-</u>
Value date sales:		
DFE *	(231)	-
EWC *	(93)	-
IVV *	(91)	-
IACWI *	(85)	-
SHV *	(35)	-
NAFTRAC	(26)	-
Other equity share securities	<u>(31)</u>	<u>-</u>
(Assigned securities to be settled unrestricted)	\$ (255)	-

(8) Securities on repurchase/resell agreements and securities lending-

Repurchase/resell agreements-

At December 31, 2017 and 2016, the “Debtors on repurchase/resell agreements” and “Creditors on repurchase/resell agreements” balances in which the Brokerage Firm acts as repurchasee and repurchaser, are analyzed as shown in the following page.

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	<u>2017</u>	<u>2016</u>
Debtors under repurchase:		
LBON	\$ 27,517	17,943
MBON	2,252	2,567
BG91	705	419
IPAS	569	1,076
CTIM	189	1,794
BPAG	-	75
UDIB	<u>317</u>	<u>307</u>
	<u>31,549</u>	<u>24,181</u>
Collaterals sold or pledged in guarantee (creditors):		
LBON	(27,516)	(17,943)
MBON	(2,252)	(2,567)
BG91	(705)	(419)
IPAS	(570)	(1,076)
CTIM	(189)	(1,794)
BPAG	-	(75)
UDIB	<u>(317)</u>	<u>(307)</u>
	<u>(31,549)</u>	<u>(24,181)</u>
Total debtors on repurchase	\$ <u>-</u>	<u>-</u>
Creditors on repurchase/resell agreements:		
CTIM	\$ 417	796
CBUR	-	179
LBON	92	-
PRLV	<u>9</u>	<u>241</u>
Creditors on repurchase/resell agreements	\$ <u>518</u>	<u>1,216</u>

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At December 31, 2017, the term of repurchase/resell agreements is for 4 days (3 days at December 31, 2016), with annual weighted rates of 7.37% when acting as repurchasee, and 7.06% when acting as repurchaser (5.46% and 5.72% at December, 31, 2016, respectively).

During the years ended December 31, 2017 and 2016, premiums collected amounted to \$1,943 and \$1,410, respectively; premiums paid amounted to \$1,968 and \$1,471, respectively, and are included in the statement of income under the captions “Interest income” and “Interest expense”, respectively.

Securities lending-

At December 31, 2017 and 2016, the Brokerage Firm held securities lending transactions as lender and borrower, in which values object of these transactions were received and transferred.

As of December 31, 2017 and 2016, the obligation to repay the lender values derived from the purchase of these securities are analyzed as follows:

<u>2017</u>	<u>Number of securities</u>	<u>Fair value</u>
NAFTRAC ISHRS	1,410,000	\$ 69
CEMEX CPO	766,612	11
MEXCHEM *	138,375	7
ALFA A	130,000	3
FCX *	5,000	3
NEMAK A	150,000	2
SIMEC B	40,000	2
VALE N	4,000	1
SANMEX B	50,000	<u>1</u>
		\$ <u>99</u>

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<u>2016</u>	<u>Number of securities</u>	<u>Fair value</u>
ALFA A	375,000	\$ 10
ALPEK A	35,000	1
ASUR B	20,000	5
CEMEX CPO	737,127	12
MEXCHEM *	138,375	7
NAFTRAC ISHRS	450,000	20
NEMAK A	150,000	3
SIMEC B	40,000	4
GMEXICO B	14,600	1
AAPL *	500	1
FCX *	5,000	1
IENOVA *	3,158	<u>1</u>
		\$ <u>66</u>

At December 31, 2017 and 2016, the right to demand the securities to the borrower, derived from the sale of such securities, are analyzed as follows:

<u>2017</u>	<u>Number of securities</u>	<u>Fair value</u>
CEMEX CPO	766,612	\$ 11
MEXCHEM *	138,375	7
ASUR B	12,000	4
ALFA A	130,000	3
SIMEC B	40,000	3
FCX *	5,000	2
NEMAK A	150,000	2
SANMEX B	50,000	1
VALE N	4,000	<u>1</u>
		\$ <u>34</u>

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<u>2016</u>	<u>Number of securities</u>	<u>Fair value</u>
NAFTRAC	450,000	\$ 21
ALFA A	375,000	9
ALPEK A	35,000	1
SIMEC B	40,000	4
GMEXICO B	14,600	1
AAPL *	500	1
FCX *	5,000	1
MEXCHEM *	138,375	7
NEMAK A	150,000	3
ASUR B	20,000	6
CEMEX CPO	737,127	<u>12</u>
		\$ <u>66</u>

The term range of securities lending transactions at December 31, 2017 and 2016, where the Brokerage Firm acts as a lender is 28 days, in each date, and acting as a borrower is between 6 and 28 days, for such dates.

For the years ended December 31, 2017 and 2016, premiums collected and (paid) in securities lending transactions, amounted to \$9 and (\$3) as well as \$7 and (\$3), respectively, and are included in the statement of income under the captions “Interest income” and “Interest expense”, respectively.

As of December 31, 2017 and 2016, the Brokerage Firm received equity financial instruments as guarantees in securities lending transactions for \$34 and \$66, respectively, such guarantees are managed in memorandum accounts (see note 16).

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(9) Derivatives-

At December 31, 2017 and 2016, the fair value of derivative financial instruments for trading is analyzed as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Futures	\$ -	-	64	63
OTC options	27	13	24	31
Listed options*	<u>-</u>	<u>294</u>	<u>-</u>	<u>264</u>
	\$ <u>27</u>	<u>307</u>	<u>88</u>	<u>358</u>

* Represents the market value of premiums.

Net gain (loss) on financial assets and liabilities related to derivatives for trading purposes, included in income for the years ended December 31, 2017 and 2016 amounted to \$14 and \$23, respectively. The valuation gain (loss) effect of trading derivatives amounted to \$1 and \$32 at December 31, 2017 and 2016, respectively, and are presented in the “Valuation on securities at fair value” caption in the income statement.

(10) Premises, furniture and equipment-

At December 31, 2017 and 2016, the premises, furniture and equipment are analyzed as follows:

	<u>2017</u>	<u>2016</u>	<u>Annual depreciation rates</u>
Land	\$ 22	22	-
Office premises	153	153	2.5%
Transportation equipment	4	1	25% and 35%
Computer equipment	31	25	Several
Computer equipment in capital lease	30	30	20%
Office furniture and equipment	45	44	10%
Installation improvements	<u>51</u>	<u>51</u>	Several
	336	326	
Accumulated depreciation	<u>(153)</u>	<u>(139)</u>	
	\$ <u>183</u>	<u>187</u>	

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The amount recognized in the results of 2017 and 2016 from depreciation amounted to \$14 and \$13, respectively.

According to assessment carried out by the Brokerage Firm, the residual value (except land) of office premises is minimum.

(11) Permanent investments-

At December 31, 2017 and 2016, the Brokerage Firm has permanent investments in Impulsora del Fondo Mexicano, S. A. de C. V. and Cebur, S. A. de C. V. for the amount of \$2 and \$1, respectively, which represents 3.65% and 2.97%, respectively of the share capital of the entities.

For the years ended December 31, 2017 and 2016, the Brokerage Firm did not receive dividends from its associated entities.

(12) Employees' benefits-

The Brokerage Firm has in place a defined contribution plan for pension and post-retirement benefits plan. Such plan provides for pre-established contributions by the Brokerage Firm, which may be fully withdrawn by employees' upon retirement if aged at least 55 years or partially on employment termination in accordance with specific rules for vesting rights. Additionally, contributions are made of the employees, who will be entitled to withdraw those contributions upon employment termination.

For the years ended December 31, 2017 and 2016, the charge to results for the Brokerage Firm's contributions to the defined contribution plan amounted to \$9 and \$10, respectively, under the caption "Administrative and promotional an expenses" in the statement of income.

The Brokerage Firm has also a defined benefit pension plan, post-retirement benefits covering those employees who elected not to change to the defined contribution plan. The benefits are based on years of service and the employees' compensation during the last year.

The cost, obligations and the defined benefit pension plan, seniority premiums and life insurance were determined based on computations prepared by independent actuaries as of December 31, 2017 and 2016.

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The contributions and benefit paid, are shown below:

		Contributions to funds		Benefits paid from funds	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Pension plan	\$	9	10	1	1
Other post-retirement benefits		-	-	<u>9</u>	<u>6</u>
Total	\$	<u>9</u>	<u>10</u>	<u>10</u>	<u>7</u>

The components of the defined benefit cost, for the years ended December 31, 2017 and 2016, are shown below:

		<u>Pension plan</u>		<u>Seniority premium</u>		<u>Life insurance</u>		<u>Termination benefits</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current service labor cost (CSLC)	\$	-	-	-	-	1	1	1	1
Net Interest on the DBNL		-	-	-	-	-	-	2	1
Past services labor cost of the year		-	-	-	-	-	-	6	4
Remeasurements of DBNL to be recognized in equity		-	-	-	-	-	-	1	-
Net cost of the year		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>10</u>	<u>6</u>
Remeasurements generated during the year		-	-	-	-	-	-	(1)	-
Defined benefits cost		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>9</u>	<u>6</u>
Beginning balance of DBNL		(2)	1	-	(1)	(1)	(3)	(19)	(16)
Defined benefits cost		-	-	-	-	(1)	(1)	(10)	(6)
Contributions to the plan		(9)	(10)	-	-	-	-	-	-
Payments deducted from DBNL		-	-	-	-	-	-	9	5
Other adjustments:									
Gain and loss recognized in equity		<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>1</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>(2)</u>
Restricted investments		<u>9</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Final balance of DBNL	\$	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>-</u>	<u>(2)</u>	<u>(1)</u>	<u>(20)</u>	<u>(19)</u>

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Financing position of the defined benefits liability as of December 31, 2017 and 2016, is as follows:

	<u>Pension plan</u>		<u>Seniority premium</u>		<u>Life insurance</u>		<u>Termination benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Present value of the total obligation (PVTO)	\$ (10)	(9)	(9)	(8)	(15)	(15)	(26)	(26)
Defined benefits liability (DBL)	\$ (9)	(9)	(6)	(5)	(9)	(9)	(20)	(19)
Plan assets	<u>7</u>	<u>7</u>	<u>5</u>	<u>5</u>	<u>8</u>	<u>8</u>	-	-
Financial situation of the obligation	(2)	(2)	(1)	-	(1)	(1)	(20)	(19)
	\$ ==	==	==	==	==	==	==	==

During 2017, the Brokerage Firm transferred resources from the defined benefits plan to cover contributions to the defined contribution plan.

It is not expected to make contributions to the defined benefits fund during 2018, additionally, it is expected to make withdrawals from the pension defined benefits for \$8 to cover contributions to the defined contributions plan. For 2018, it is expected to make payments from the reserve for \$15.

Rates and inputs used in actuarial calculations for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	9.30%	9.00%
Salary increase rate	4.50%	4.50%
Minimum wage incremental rate	3.50%	3.50%
Long-term inflation rate	3.50%	3.50%
Average remaining labor life	9 years	10 years
	=====	=====

Fund assets covering liabilities from pension benefits, seniority premium, medical expenses, food coupons, and insurance life of retired personnel are comprised of 60% debt securities and 40% equity securities, affected by a trust and managed by a Committee designated by the Brokerage Firm.

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Following it is presented the effect that would have the Defined Benefits Liability by an increase or decrease on actuarial significant assumptions as of December 31, 2016:

	<u>(+)</u>	<u>(-)</u>
Discount rate (0.50%)	\$ (2)	\$ 2
Long-term inflation rate (0.25%)	<u>1</u>	<u>(1)</u>

(13) Related-party transactions-

During the normal course of business, the Brokerage Firm carries out transactions with related parties such as loans, investments, services, etc., most of which originates income and expenses to another. According to the Brokerage Firm's policies, the Board of Directors authorizes all operations with related parties, which are granted at market rates, guarantees and terms in accordance with sound practices.

Transactions carried out with related parties for the years ended December 31, 2017 and 2016 are shown below:

	<u>2017</u>	<u>2016</u>
Income:		
Premium and interests	\$ 1,757	1,256
Commissions	535	427
Intermediation financial result	69	107
Rents and maintenance	17	13
Bonds placement fee	16	-
Financial advisory	<u>46</u>	<u>51</u>
Expenses:		
Premium and interests on repos	\$ 838	687
Intermediation financial result	56	101
Financial advisory	32	29
Interest paid	11	3
Commissions	5	6
Rents and maintenance	<u>12</u>	<u>12</u>

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For the years ended December 31, 2017 and 2016, the Brokerage Firm earned the 57% and 54%, of their related parties, respectively from the operating income.

Balances receivable from and payable to related parties as of December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
<u>Receivable:</u>		
Cash and cash equivalents	\$ 478	68
Margin accounts	-	8
Debtors on repurchase/resell agreements	26,547	23,181
Derivatives	27	24
Other accounts receivable	<u>178</u>	<u>161</u>
<u>Payable:</u>		
Collateral sold or pledged	\$ 14,418	8,756
Derivatives	13	29
Other accounts payable	<u>517</u>	<u>219</u>

For the years ended December 31, 2017 and 2016, there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for these transactions necessary any reserve for losses on such transactions.

For the years ended December 31, 2017 and 2016, the benefits granted to senior management amounted to \$9 and \$6, respectively.

(14) Stockholders' equity-

The main characteristics of the stockholders' equity accounts are detailed in the next page.

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(a) *Structure of capital stock-*

The Brokerage Firm' capital stock at December 31, 2017 and 2016, is represented by 22,193 common shares, divided into two series: 22,190 "F" series shares and 3 "B" series shares, fully subscribed and paid, 11,205 of these shares correspond to the capital stock's minimum fixed portion and 10,988 shares correspond to the variable portion. At any time, the variable portion of capital stock may exceed the fixed paid-in capital and may not be subject to withdrawal.

At December 31, 2017 and 2016, the minimum fixed capital stock is fully subscribed and paid and amounts to \$389 for both years.

According to article 10 of the general dispositions for Brokerage Firms, the capital stock shall amount to the equivalent in local currency to 12,500,000 UDI's, at least. At December 31, 2017, capital stock and global capital amounted \$1,157 and \$554, respectively (\$1,141 y \$554 in 2016).

(b) *Comprehensive income-*

The comprehensive income reported in the statement of changes in stockholders' equity represents the results of the total performance of the Brokerage Firm's during the year, and includes the net income and the remeasurement of defined employee benefits, net of deferred tax.

(c) *Dividends declared-*

On March 30, October 31, and November 30, 2017, the Brokerage Firm decree and paid dividends for \$200, \$40 and \$40, respectively. As of December 31, 2017, there are no dividends pending of payment.

On August 31, November 30, 2016, the Brokerage Firm decree and paid dividends for \$200 and \$180, respectively. As of December 31, 2016, there are no dividends pending of payment.

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(d) Restrictions on stockholders' equity-

The Commission requires that Brokerage Firms maintain a minimum capitalization percentage of risk-based assets, which is calculated according to the level of risk assigned.

Five percent of net income for the year must be appropriated to the 5% statutory reserve, until it reaches an amount of 20% of the paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. As of December 31, 2017, the Stock contribution account (Cuenta de Capital de Aportación or CUCA) net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN), amount to \$325 and \$2,315, respectively.

The retained earnings of subsidiaries may not be distributed to the Brokerage Firm's stockholders until these are received by way of dividends from the subsidiaries, but may be capitalized through a Stockholders' Meeting.

The dividends paid to individuals and corporation's resident abroad shall be subject to an additional tax of 10%, which is considered final. The rule solely applies to dividends payment from earnings generated beginning January 1, 2014.

(e) Capitalization (unaudited)-

The Commission requires Brokerage Firms to maintain a minimum capital as a percentage of risk-based assets. The percentage is calculated by applying certain percentages according to the level of risk assigned to the rules established by the Central Bank. The capitalization required by the Commission has been fulfilled by the Brokerage Firm. Below is the Brokerage Firm's capitalization information (non-audited).

<u>Capital as of December 31⁽¹⁾:</u>	<u>2017</u>	<u>2016</u>
Net capital	\$ <u>1,157</u>	<u>1,141</u>
Market risk requirements	159	212
Credit risk requirements	35	55
Operational risk requirements	<u>63</u>	<u>76</u>
Total capitalization requirements	<u>257</u>	<u>343</u>
Total weighted assets	<u>3,210</u>	<u>4,282</u>
Rate of capital consumption (ICAP)	<u>36.04%</u>	<u>26.65%</u>

(1) Previous figures before Banxico's approval

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Assets at risk as of December 31, 2017:

	<u>Equivalent Assets at risk</u>	<u>Capital requirement</u>
<u>Market risk:</u>		
Transactions in Mexican pesos at nominal interest rates	\$ 99	8
Transactions in Mexican pesos at premium nominal interest rates	-	-
Transactions in Mexican pesos at real interest rates or denominated in UDIS	-	-
Foreign currency positions or with return indexed to exchange currency	1	-
Equity positions or with returns indexed to the price of a single share or group of shares	<u>1,890</u>	<u>151</u>
Total market risk	\$ <u>1,990</u>	<u>159</u>
<u>Credit risk:</u>		
Derivatives	11	1
Debt instrument position	-	-
Borrowings and deposits	<u>422</u>	<u>34</u>
Total credit risk	<u>433</u>	<u>35</u>
<u>Operational risk:</u>		
Total operational risk	<u>787</u>	<u>63</u>
Total market, credit and operational risk	\$ <u><u>3,210</u></u>	<u><u>257</u></u>

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Assets at risk as of December 31, 2016:

	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Transactions in Mexican pesos at nominal interest rates	\$ 143	11
Transactions in Mexican pesos at premium nominal interest rates	8	1
Transactions in Mexican pesos at real interest rates or denominated in UDIS	-	-
Positions in UDIS or with returns related to National Consumer Price Index (INPC Spanish abbreviation)	-	-
Foreign currency positions or with return indexed to exchange currency	69	5
Equity positions or with returns indexed to the price of a single share or group of shares	<u>2,435</u>	<u>195</u>
Total market risk	<u>2,655</u>	<u>212</u>
<u>Credit risk:</u>		
Derivatives	7	1
Debt instrument position	257	21
Borrowings and deposits	<u>408</u>	<u>33</u>
Total credit risk	<u>672</u>	<u>55</u>
<u>Operational risk:</u>		
Total operational risk	<u>955</u>	<u>76</u>
Total market, credit and operational risk	\$ <u>4,282</u>	<u>343</u>

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The capital sufficiency, under normal operating conditions, of the Brokerage Firm is evaluated on a monthly basis through the Capitalization Index, which at the same time is presented to the Risk Committee and to the Board of Directors for following up and monitoring, on a quarterly basis.

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and the Capitalization Index.

At the closing of 2017, the capitalization index is within the legal limits established ($\geq 10.5\%$).

The ICAP had a rise of 9.39%, from 26.65% to 36.04%, due to the diminution of assets subject to market risk, decreasing from \$2,655 to \$1,990 from December 2016 to December 2017, this decrease derived from a shorter investment in shares, as well as to less capital requirements in transactions with shares and over shares and less requirements in debt securities. Additionally Net Capital went up from \$1,141 to \$1,157.

Based on the aforementioned, it is determined that the Brokerage Firm has the ability to face situations which might impair their situation, also to raise sufficient capital to absorb potential losses in order to continue with the brokerage operation.

General description of the results obtained in the sufficiency evaluation of its net capital regarding credit, market and operation risks requirements

Starting 2016, stress testing is performed on an annual basis as established by the Commission under various scenarios, with the objective of making sure that the Brokerage Firm has enough capital levels to continue its operation under adverse macroeconomic scenarios.

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The Brokerage Firm performed during 2017 its annual exercise of capital sufficiency evaluation, this exercise was carefully planned and executed to evaluate capital sufficiency under stressed conditions in regulated scenarios. The result of the exercise allowed to conclude that the Brokerage Firm's capital will be sufficient to face risks derived from the defined stress scenarios, keeping its capital levels above the minimum required levels. On that basis, it is not necessary a capitalization plan for the Brokerage Firm since all minimum levels are met under all scenarios, including sensitivity scenarios.

(15) Income taxes and employees' statutory profit sharing (ESPS)-

Income Tax (IT) law effective as of January 1, 2014 imposes an IT rate of 30% for 2014 and thereafter. The current ESPS rate is 10%, for the years 2017 and 2016.

Since 2014, the basis for the ESPS and IT calculation is homogeneous with some differences regarding the reduction of tax loss carry forwards, paid ESPS and expenses that correspond to non-taxable income for employees.

The current and deferred IT and ESPS expense are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
Current	\$ (110)	(41)	(149)	(52)
Reverse of prior years' provision	(3)	(1)	(3)	3
Deferred taxes	<u>6</u>	<u>3</u>	<u>2</u>	<u>5</u>
	\$ <u>(107)</u>	<u>(39)</u>	<u>(150)</u>	<u>(44)</u>

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The analysis of the effective rate of the years ended December 31, 2017 and 2016, is analyzed as follows:

	<u>Income Tax</u>		
	<u>Basis</u>	<u>Tax rate</u> <u>30%</u>	<u>Effective</u> <u>rate</u>
<u>December 31, 2017</u>			
Income before income taxes	\$ 416	(125)	(30%)
<i><u>Allocation to current tax:</u></i>			
Effects of inflation	(93)	28	7%
Financial instruments, repurchase resell agreements and derivative net result	(1)	-	-
Difference between book and tax depreciation	3	(1)	-
Nondeductible expenses	22	(6)	(1%)
Provisions	23	(7)	(2%)
Net warrants effect	12	(3)	(1%)
ESPS paid in the year	(53)	16	4%
Current and deferred ESPS	39	(12)	(3%)
Dividends on investment securities	<u>(1)</u>	<u>-</u>	<u>-</u>
Current tax	367	(110)	(26%)
<i><u>Allocation to deferred tax:</u></i> <i><u>(tax at 30%)</u></i>			
Valuation of trading securities	5	(2)	-
Deductible ESPS	10	(3)	1%
Net warrants effect	(2)	1	-
Expense accruals and others	<u>(34)</u>	<u>10</u>	<u>2%</u>
Deferred tax	<u>(21)</u>	<u>6</u>	<u>3%</u>
Income taxes	\$ <u>346</u>	<u>(104)</u>	<u>(23%)</u>

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	<u>ESPS</u>		
	<u>Basis</u>	<u>Tax rate</u> <u>10%</u>	<u>Effective</u> <u>rate</u>
<u>December 31, 2017</u>			
Income before income taxes	\$ 416	(42)	(10%)
<i><u>Allocation to current tax:</u></i>			
Effects of inflation	(93)	9	2%
Financial instruments, repurchase resell agreements and derivative net result	(1)	-	-
Difference between book and tax depreciation	3	-	-
Nondeductible expenses	15	(1)	-
Provisions	23	(2)	(1%)
Net warrants effect	12	(1)	-
Current and deferred ESPS	39	(4)	(1%)
Dividends on investment Securities	<u>(1)</u>	<u>-</u>	<u>-</u>
Current ESPS	\$ <u>413</u>	<u>(41)</u>	<u>(10%)</u>
	<u>Income Tax</u>		
	<u>Basis</u>	<u>Tax rate</u> <u>30%</u>	<u>Effective</u> <u>rate</u>
<u>December 31, 2016</u>			
Income before income taxes	\$ 582	(175)	(30%)
<i><u>Allocation to current tax:</u></i>			
Effects of inflation	(66)	20	3%
Financial instruments, repurchase resell agreements and derivative net result	33	(10)	(2%)
Difference between book and tax depreciation	7	(2)	-
Nondeductible expenses	17	(5)	(1%)
Provisions	27	(8)	(1%)
Net warrants effect	(96)	29	5%
ESPS paid in the year	(24)	7	1%
Current and deferred ESPS	44	(13)	(2%)
Dividends on investment securities	(2)	1	-
Non taxable income	<u>(24)</u>	<u>7</u>	<u>1%</u>
Current tax	\$ <u>498</u>	<u>(149)</u>	<u>(26%)</u>

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	<u>Income Tax</u>		
	<u>Basis</u>	<u>Tax rate</u> <u>30%</u>	<u>Effective</u> <u>rate</u>
Current tax, from previous page	\$ 498	(149)	(26%)
<i>Allocation to deferred tax:</i>			
<i>(tax at 30%)</i>			
Valuation of trading securities	(31)	9	2%
Deductible ESPS	(25)	7	1%
Net warrants effect	83	(25)	(4%)
Expense accruals and others	<u>(36)</u>	<u>11</u>	<u>2%</u>
Deferred tax	<u>(9)</u>	<u>2</u>	<u>1%</u>
Income taxes	\$ <u>489</u>	<u>(147)</u>	<u>(25%)</u>
	<u>ESPS</u>		
<u>December 31, 2016:</u>	<u>Basis</u>	<u>Tax rate</u> <u>10%</u>	<u>Effective</u> <u>rate</u>
Income before income taxes	\$ 582	(58)	(10%)
<i>Allocation to current tax:</i>			
Effects of inflation	(66)	7	1%
Financial instruments, repurchase resell agreements and derivative net result	33	(3)	(1%)
Difference between book and tax depreciation	7	(1)	-
Nondeductible expenses	11	(1)	-
Provisions	27	(3)	-
Net warrants effect	(96)	9	2%
Current and deferred ESPS	44	(4)	(1%)
Dividends on investment securities	(2)	-	-
Non taxable income	<u>(24)</u>	<u>2</u>	<u>-</u>
Current ESPS	\$ <u>516</u>	<u>(52)</u>	<u>(9%)</u>

Deferred IT and ESPS:

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2017 and 2016, respectively, are detailed in the next page.

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	2017		2016	
	IT	ESPS	IT	ESPS
Pre-payments	\$ (7)	(2)	(8)	(2)
Valuation of financial instruments and derivatives	1	-	3	1
Remeasurements of employee benefits	(3)	(1)	(3)	(1)
Remaining balance to be taxed premises, furniture and equipment	(23)	(8)	(24)	(8)
Deductible ESPS	19	-	22	-
Provisions and others	<u>48</u>	<u>18</u>	<u>39</u>	<u>13</u>
	\$ <u>35</u>	<u>7</u>	<u>29</u>	<u>3</u>
Deferred IT and ESPS in Balance sheet		\$ <u>42</u>		<u>32</u>

The deferred IT and ESPS in the statement of income for the years ended December 31, 2017 and 2016, is as follows:

	2017		2016	
	IT	ESPS	IT	ESPS
Deferred income tax in income statement:				
Prepayments	\$ 1	-	-	-
Valuation of financial instruments and derivatives	(2)	(1)	9	3
Remaining balance to be taxed premises, furniture and equipment	1	-	4	1
Deductible ESPS	(3)	-	8	-
Losses on warrants	-	-	(25)	(2)
Provisions and others	<u>9</u>	<u>5</u>	<u>6</u>	<u>3</u>
	\$ <u>6</u>	<u>4</u>	<u>2</u>	<u>5</u>
Deferred IT and ESPS in the Income statement		\$ <u>10</u>		<u>7</u>
<i>Deferred tax in equity:</i>				
Remeasurements of employee benefits	\$ -	-	(3)	(1)
Valuation of available-for-sale securities	<u>-</u>	<u>-</u>	<u>81</u>	<u>27</u>
Deferred IT and ESPS in stockholders' equity		\$ <u>-</u>		<u>104</u>

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Other considerations:

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

According to the IT law, corporation carrying out transactions with related parties, whether domestic or foreign, are subject to limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(16) Memorandum accounts-

Transactions on behalf of third parties-

The funds managed by the Brokerage Firm for investing in various instruments on behalf of its customers, are recorded in memorandum accounts. At December 31, 2017 and 2016, the resources from these operations are analyzed as follows:

Customer securities received in custody	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 89,707	63,182
Government securities	51,761	61,384
Equity shares and others	<u>237,520</u>	<u>177,413</u>
	\$ <u>378,988</u>	<u>301,979</u>

Management transactions

Securities on repurchase/resell agreements on behalf of customers-

At December 31, 2017 and 2016, the securities on repurchase/resell agreements by customers, are shown on the following page.

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	<u>2017</u>		<u>2016</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
LBON	551,092,650	\$ 55,125	359,854,632	\$ 35,888
CTIM	82,141,551	796	444,987,327	4,387
MBON	46,346,462	4,504	52,753,700	5,128
CBUR	14,100,000	1,412	1,794,435	180
IPAS	11,118,132	1,138	21,260,586	2,153
PRLV	8,904,646	9	241,071,385	240
UDIB	1,059,138	633	1,059,138	614
BG91	-	-	8,384,906	838
BPAG	-	-	1,500,000	150
		\$ <u>63,617</u>		\$ <u>49,578</u>

Securities lending transactions on behalf of costumers-

At December 31, 2017 and 2016, the securities lending transactions by customers, are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
NAFTRAC	410,000	\$ 20	450,000	\$ 21
CEMEX	766,612	11	737,127	12
MEXCHEM	138,375	7	138,375	6
ALFA	130,000	3	130,000	3
NEMAK	150,000	2	150,000	3
SIMEC	40,000	2	40,000	4
FCX	5,000	2	5,000	1
VALE	4,000	1	-	-
OMA	-	-	300,000	27
PINFRA	-	-	103,170	17
ALPEK	-	-	35,000	1
GMEXICO	-	-	14,600	1
AAPL	-	-	500	<u>1</u>
		\$ <u>48</u>		\$ <u>97</u>

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Collaterals delivered in guarantee by customers-

Collaterals delivered in guarantee by customers at fair value at December 31, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Government securities	\$ 31,545	24,231
Equity shares and holding companies certificates	55	61
Margin loans	<u>4,475</u>	<u>3,880</u>
	\$ <u>36,075</u>	<u>28,172</u>

Income earned on assets under custody during the years ended December 31, 2017 and 2016 amounted to \$69 and \$60, respectively.

Collaterals received in guarantee by customers-

Collaterals represented by government debt, banking and private securities on behalf of its customer in guarantee for the Brokerage Firm at December 31, 2017 and 2016, at fair value are analyzed as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
Government:				
LBON	276,002,091	\$ 27,603	179,927,316	\$ 17,944
MBON	23,173,231	2,254	26,376,850	2,567
CTIM	62,459,131	606	262,975,588	2,591
BPAG	7,050,000	706	750,000	75
IPAS	5,559,066	566	10,630,293	1,077
UDIB	529,569	318	529,569	307
BG91	-	-	4,192,453	419
CBUR	-	<u>-</u>	1,794,435	<u>179</u>
To the next page		\$ <u>32,053</u>		\$ <u>25,159</u>

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	2017		2016	
	Number of securities	Fair value	Number of securities	Fair value
From previous page		\$ <u>32,053</u>		\$ <u>25,159</u>
Banking:				
PRLV	8,904,646	<u>9</u>	241,071,385	<u>240</u>
		\$ <u>32,062</u>		\$ <u>25,399</u>

Collaterals received and sold or pledged in guarantee by the entity-

Collaterals represented by government debt securities received and sold or delivered in guarantee by the Brokerage Firm at December 31, 2017 and 2016, are analyzed as follows:

	2017		2016	
	Number of securities	Fair value	Number of securities	Fair value
Government:				
LBON	275,090,559	\$ 27,512	179,927,316	\$ 17,944
MBON	23,173,231	2,254	26,376,850	2,567
CTIM	19,682,420	189	182,011,739	1,795
BPAG	7,050,000	706	750,000	75
IPAS	5,559,066	566	10,630,293	1,077
UDIB	529,569	317	529,569	307
BG91	-	<u>-</u>	4,192,453	<u>419</u>
To the next page		\$ <u>31,544</u>		\$ <u>24,184</u>

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	2017		2016	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
From previous page		\$ <u>31,544</u>		\$ <u>24,184</u>
Equity shares ⁽¹⁾ :				
CEMEX	766,612	11	737,127	12
MEXCHEM	138,375	7	138,375	7
ASUR	12,000	4	20,000	5
ALFA	130,000	3	375,000	10
SIMEC	40,000	3	40,000	4
FCX	5,000	2	5,000	1
NEMAK	150,000	2	150,000	3
NAFTRAC	-	-	450,000	21
ALPEK	-	-	35,000	1
GMEXICO	-	-	14,600	1
AAPL	-	-	500	1
VALE N	4,000	1	-	-
1SANMEXB	50,000	<u>1</u>	-	<u>-</u>
		<u>34</u>		<u>66</u>
		\$ <u>31,578</u>		\$ <u>24,250</u>

⁽¹⁾ Corresponds to securities lending transactions (note 8)

(17) Commitments and contingencies-

(a) *Trials, contingencies and litigation-*

In the normal course of operations, the Brokerage Firm is involved in some trials, contingencies and litigations, which are not expected to have an important negative effect in the future and in the results of its operation financial situation. In such cases that represent a probable loss or make a cash outflow, the Brokerage Firm has made necessary provisions.

(b) *Leases-*

Leases provide for periodic rental adjustments based on changes in various economic Factors. Total rental expenses to leases for the years ended December 31, 2017 and 2016 amounted to \$23 and \$25, respectively.

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(18) Additional information on operations and segments-

(a) Segment information

The Brokerage Firm has identified operating segments in which their activities are divided, considering each one as an identifiable component of its internal structure. Following is presented the statement of income classified by income segment, for the years ended December 31, 2017 and 2016.

<u>2017</u>		<u>For own behalf</u>	<u>Investments companies</u>	<u>On behalf of costumers</u>	<u>Financial advisory</u>	<u>Total</u>
Commission and fee income	\$	-	519	497	-	1,016
Commission and fee expense		(9)	(48)	(35)	-	(92)
Financial advisory income		<u>-</u>	<u>-</u>	<u>-</u>	<u>289</u>	<u>289</u>
Income from services		<u>(9)</u>	<u>471</u>	<u>462</u>	<u>289</u>	<u>1,213</u>
Gain (loss) on purchase and sale of securities, net		(60)	-	-	-	(60)
Interest income (expense), net		251	-	-	-	251
Valuation gain on securities at fair value		<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
Intermediation financial margin		<u>194</u>	<u>-</u>	<u>-</u>	<u>-</u>	194
Other operating income						10
Administrative and promotional expenses						(1,001)
Operating income						<u>416</u>
Current and deferred income tax, net						<u>(107)</u>
Net income						\$ <u>309</u>
<u>2016</u>		<u>For own behalf</u>	<u>Investments companies</u>	<u>On behalf of costumers</u>	<u>Financial advisory</u>	<u>Total</u>
Commission and fee income	\$	-	427	467	-	894
Commission and fee expense		(11)	(52)	(29)	-	(92)
Financial advisory income		<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>	<u>225</u>
Income from services		<u>(11)</u>	<u>375</u>	<u>438</u>	<u>225</u>	<u>1,027</u>
Gain (loss) on purchase and sale of securities, net		327	-	-	-	327
Interest income (expense), net		197	-	-	-	197
Valuation gain on securities at fair value		<u>(27)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27)</u>
Intermediation financial margin		<u>497</u>	<u>-</u>	<u>-</u>	<u>-</u>	497
Other operating income						42
Administrative and promotional expenses						(984)
Operating income						<u>582</u>
Current and deferred income tax, net						<u>(150)</u>
Net income						\$ <u>432</u>

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(b) *Income for services*

Commission and fee income-

For the years ended as of December 31, 2017 and 2016, the commissions and fee income, are integrated as follows:

	<u>2017</u>	<u>2016</u>
Purchase and sale of securities	\$ 293	318
Custody or management asset	69	60
Issuance of commercial bonds	135	89
Distribution and co-distribution	<u>519</u>	<u>427</u>
	\$ <u>1,016</u>	<u>894</u>

Commission and fee expense-

For the years ended December 31, 2017 and 2016, the commissions and fee expense, are integrated as follows:

	<u>2017</u>	<u>2016</u>
Mexican Stock Exchange	\$ -	1
Issuance	1	5
Indeval fees	34	23
Contraparte central de valores de México	6	5
Referencer (investment funds)	48	3
Others fees	<u>3</u>	<u>55</u>
	\$ <u>92</u>	<u>92</u>

Financial advisory income-

For the years ended December 31, 2017 and 2016, the financial advisory income, is integrated next page.

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	<u>2017</u>	<u>2016</u>
Scotiabank Inverlat	\$ 72	22
Scotia Fondos	16	11
Scotia Mcleod	39	46
Other the financial advisory income	<u>162</u>	<u>146</u>
	\$ <u>289</u>	<u>225</u>

(c) ***Intermediation financial margin-***

Gain (loss) on purchase and sale of securities, net-

For the years ended as of December 31, 2017 and 2016, the gain (loss) on purchase and sale of securities, net is integrated as follows:

	<u>2017</u>	<u>2016</u>
Investment securities	\$ (9)	331
Trading securities transactions	(14)	23
Brokerage result of foreign currencies and precious metals, net	<u>(37)</u>	<u>(27)</u>
	\$ <u>(60)</u>	<u>327</u>

Interest income (expense), net-

For the years ended as of December 31, 2017 and 2016, the interest income (expense), net are integrated as follows:

	<u>2017</u>	<u>2016</u>
Investment securities	\$ 281	256
Repurchase/resell agreements and securities lending transactions	(19)	(56)
Management account fee	<u>(11)</u>	<u>(3)</u>
	\$ <u>251</u>	<u>197</u>

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Valuation on securities at fair value-

For the years ended December 31, 2017 and 2016, the valuation result at fair value is integrated as follows:

	<u>2017</u>	<u>2016</u>
Investment securities	\$ 6	5
Derivatives for trading purposes	(1)	(32)
Foreign currencies and precious metals	(2)	-
	\$ <u>3</u>	<u>(27)</u>

(d) Other operating income-

For the years ended December 31, 2017 and 2016, other operating income is integrated as follows:

	<u>2017</u>	<u>2016</u>
Lease income	\$ 17	13
Deposits not identified	12	8
Others, mainly tax recoveries	8	23
Write-offs	(27)	(2)
	\$ <u>10</u>	<u>42</u>

(e) Financial ratios (non-audited)-

Following are the main quarterly financial ratios of the Brokerage Firm for the years ended December 31, 2017 and 2016.

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	2017			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Solvency (<i>total assets / total liabilities</i>)	1.52	1.32	1.34	1.36
Liquidity (<i>liquid assets/liquid liabilities</i>)	1.34	1.21	1.23	1.24
Leverage (total liabilities-liquidation of the entity (creditor) / stockholders' equity)	1.0	1.8	1.6	1.8
ROE (annualized net income for the quarter/ average stockholders' equity)	18.2%	24.6%	16.4%	33.1%
ROA (annualized net income for the quarter / average total assets)	7.8%	9.5%	6.2%	13.2%
ICAP (Capitalization Index)	36.04%	39.08%	36.23%	22.99%
Financial margin / Total operating income	13.1%	14.4%	14.2%	13.0%
Income before income taxes / Total operating income	24.7%	30.7%	23.4%	37.9%
Net income / Administrative expenses	132.8%	144.2%	130.6%	161.0%
Administrative expenses / Total operating income	75.3%	69.3%	76.6%	62.1%
Net Income / Expense Management	23.1%	33.4%	21.5%	47.5%
Personnel expenses / Total operating income	<u>54.9%</u>	<u>49.5%</u>	<u>54.2%</u>	<u>47.6%</u>
	2016			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Solvency (<i>total assets / total liabilities</i>)	1.49	1.39	1.23	1.13
Liquidity (<i>liquid assets/liquid liabilities</i>)	1.33	1.27	1.17	1.10
Leverage (total liabilities-liquidation of the entity (creditor) / stockholders' equity)	1.6	1.3	2.7	5.5
ROE (annualized net income for the quarter/ average stockholders' equity)	14.6%	17.0%	12.3%	70.3%
ROA (annualized net income for the quarter / average total assets)	6.2%	5.8%	2.3%	12.5%
Capital requirement / Global capital	30.02%	37.13%	31.76%	42.82%
ICAP (Capitalization Index)	26.65%	21.54%	25.19%	18.68%
Financial margin / Total operating income	16.7%	13.1%	10.7%	60.3%
Income before income taxes / Total operating income	14.8%	27.5%	22.1%	61.7%
Net income / Administrative expenses	117.4%	137.8%	128.4%	260.9%
Administrative expenses / Total operating income	85.2%	72.5%	77.9%	38.3%
Net Income / Expense Management	19.0%	27.0%	20.9%	113.8%
Personnel expenses / Total operating income	<u>57.9%</u>	<u>50.7%</u>	<u>51.8%</u>	<u>30.2%</u>

Notes

- The indicators related to results correspond to annualized quarterly nominal cash flows.
- The Solvency, Liquidity and Leverage indicators are stated in number of times.
- The ICAP figures were not rating by Banxico, only T4 2015 figures has been rated, since Banxico used to rate the ICAP. In October 2015 Banxico started to rate the ICAP figures.

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(19) Comprehensive risk management (non-audited)-

The purpose of the comprehensive risk management function is to identify and measure risks, follow up on their impact that these risks may have on the operations, and control their effects on income and shareholder value, by applying the best mitigation strategies available and the incorporation of the risk culture in daily transactions.

According to the General Provisions applicable to Brokerage Firms in terms of risk management issued by the Commission, the Board of Directors assumes responsibility over the Brokerage Firm risk management objectives, guidelines and policies. At least once a year, the Board of Directors should approve the policies and procedures, as well as the limit structure for the various types of risk.

Pursuant to the policies in force, the Board of Directors entrusts the implementation of the risk policies and the setting of specific limits by risk factor as well as the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR, for its abbreviation in Spanish).

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. Likewise, the UAIR has policies for reporting and correcting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The UAIR of the Brokerage Firm is represented by the Risk General Deputy Direction (DGA Risks) and is helped mainly by the Risks Vice-presidency to manage risks (credit, liquidity, interest rate, market and operational, among others); this vice-presidency is organized in six directions focused on monitoring and mitigating the Brokerage Firm's risks; with the purpose of guarantying an adequate risk management to be able to comply with the risks profile required and defined by the Board of Directors, as well as to improve the quality, diversification and composition of the different portfolios, optimizing in this way, the risk-return relation.

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The UAIR is also responsible of reviewing and presenting for approval before the Risk Committee and/or the Board of Directors, the various methodologies used for risk management of the institution so as the risk framework, management risk policies for the different types of risks, specific global limits of the exposure and corresponding risk tolerance levels. Additionally it provides the General Direction with timely and trustable information for the business decision making, monitoring and management.

Finally, the risk management is in line with the international best practices, since the Brokerage Firm has a framework that complies with the local regulation and with standards and corporate rules established by BNS.

(a) Credit risk-

Credit risk results from potential non-compliance by the issuer of a financial instrument or counterparty of the Brokerage Firm, in any of the terms of the purchase/sale agreement or prospectus of any financial instrument.

The Brokerage Firm has implemented and adapted to Mexican market conditions, the CreditMetrics® methodology for measuring and controlling the credit risk of its various portfolio segments of money market. This methodology allows estimating expected and unexpected losses through measurements of the probability of occurrence of credit events (transition matrix), including the probability of default.

Particularly, credit risk associated to money market positions derived from the holding of securities and corresponds to the expected loss that represents an estimate of the non-compliance impact or impairment in instruments or portfolio qualifications, and additionally loss severity scenarios are performed.

The expected loss represents an estimate of the impact of probability of default, loss given default and exposure at default over a 12-month period.

The unexpected loss is a measurement of dispersion from the expected loss, which is calculated based on adjusted risk parameters for obtaining capital.

Additionally, stress testing assuming extreme conditions is performed both for the expected and the unexpected loss, which are presented and analyzed in the Risk Committee.

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As of December 31, 2017 and 2016, the expected and the unexpected loss over the total portfolio of the Brokerage Firm, is as follows:

	<u>2017</u>		<u>2016</u>
	<u>December¹</u>	<u>Average¹</u>	<u>December¹</u>
Expected loss	0.004%	0.01%	0.01%
Unexpected loss	<u>1.67%</u>	<u>3.01%</u>	<u>5.1%</u>

^{1/} Measurement; includes Trading, Available-for-sale and Held to maturity securities, excludes On Direct and Value date sales.

In order to understand the expected and unexpected loss as an example, the average expected loss during the fourth quarter of 2017 was 0.01% of the total exposure of the portfolio, which represents the amount that the Brokerage Firm is expected to loss (in average) during the following twelve months for non-compliance items, given the characteristics of its position; on the other hand, the unexpected loss was 3.01% of the total exposure of the portfolio and represents the necessary economic capital to maintain solvent the Brokerage Firm in case of an adverse event of high magnitude that have a great impact in the positions of the portfolio.

As of December 31, 2017 and 2016, the total exposure of the investments instruments portfolio, is as follows:

<u>Exposure of the financial instruments portfolio</u>	<u>December 2017</u>	<u>Average 2017</u>	<u>December 2016</u>
Corporate	\$ -	-	179
Banking	9	57	391
Government	1,487	2,180	1,650
Other*	<u>489</u>	<u>622</u>	<u>650</u>
	\$ <u>1,985</u>	<u>2,859</u>	<u>2,870</u>

* Includes equity shares and investment funds.

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Credit risk in the investments securities– Following is a summary of the exposures as of December 31, 2017 and 2016, the credit quality and the concentration by credit risk of the investments securities:

<u>December 2017</u>	<u>Trading securities</u>	<u>Total risk</u>	<u>% Concentration</u>
mxAAA	\$ 1,496	1,496	75%
Not rated*	<u>489</u>	<u>489</u>	<u>25%</u>
	\$ <u>1,985</u>	<u>1,985</u>	<u>100 %</u>
Concentración	<u>100%</u>	<u>100%</u>	
 <u>December 2016</u>			
mxAAA	\$ 2,220	2,220	77%
Not rated*	<u>650</u>	<u>650</u>	<u>23%</u>
	\$ <u>2,870</u>	<u>2,870</u>	<u>100 %</u>
Concentration	<u>100%</u>	<u>100%</u>	

* Corresponds to investment funds and equity shares.

Credit risk in the derivatives operations – At December 31, 2017 and 2016 the counterparty credit risk exposure in operations with derivative financial instruments is solely with financial institutions.

	<u>December 2017</u>	<u>December 2016</u>
Exposure	\$ <u>26</u>	<u>33</u>

Credit risk for derivative transactions is measured, controlled and monitored, on a daily basis by calculating potential future exposure (PFE) through specialized tools, incorporating mitigating risk elements such as netting agreements, collateral agreements and collateral. There are counterparty risk policies and monitoring of established limits that contemplate the process to be followed in the event of excesses occurring in them.

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(b) Market risk-

The purpose of the market risk management function is to identify, measure, monitor and control risks arising from interest rates, stock market prices and index fluctuations and other risk factors that are present in the money, foreign exchange currencies, capitals and derivative instruments markets, in which the Brokerage Firm maintains business positions for its own account.

The Brokerage Firm's risk positions include fixed and floating rate money market instruments, stocks, foreign exchange positions and derivatives such as interest rates futures, futures, foreign exchange forwards and options, interest rates swaps, interest rates options and foreign currency swaps. For each portfolio, limits have been established and approved.

The market risk limits framework contemplates notional or volumetric amounts for value at risk, sensitivity, concentration, stress limits and due dates, among others.

Market risk management includes monitoring that the risks mitigants are up to date and accurate. In this regard the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Models used to manage market risk are reviewed at least biannually and, additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits and the Market Risk indicators. Limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

Market risk management is managed through specialized systems to make estimated with, such as risk value, sensitivity and stress tests.

The Brokerage Firm's securities trading activities are directed primarily to providing services to its customers, accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds an inventory of equity and interest rate financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. In addition, the Brokerage Firm has treasury positions invested in the money market so that surplus cash generates the maximum yields. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis. Such information is included daily in the corresponding reports.

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Value at Risk (VaR)

It is an estimate of the potential loss, in accordance to a determined statistical confidence level during a specific period of time (the holding period) under normal market conditions. The VaR is calculated daily on all of the Brokerage Firm risk-exposed financial instruments and portfolios, using the Risk-watch risk management software.

The VaR is calculated using the historical simulation method, with a 300-working day time span. To conform to the measurement methodologies used by the Group calculates the VaR considering a 99% confidence level and a 1 day holding period.

The day average global VaR during the fourth quarter of 2017 and 2016 was \$2 and \$2, as a percentage of the net capital (\$1,175 at November 2017, latest available figure) at the period's end is equal to 0.18%. The global VaR at the end of December 31, 2017 was \$1.81.

The disaggregated average VaR by risk factor during the fourth quarter of 2017 and 2016, is as follows:

<u>Risk factor</u>	<u>December 2017</u> <u>Average VaR 1 day</u>	<u>December 2016</u> <u>Average VaR 1 day</u>
Interest rate	1.24	1.13
Equity shares	1.39	2.12
Total non diversified	2.63	3.25
Diversification cash	(0.63)	(1.25)
Total	<u>2.00</u>	<u>2.00</u>

<u>Risk factor</u>	<u>Position</u> <u>Closing dec-17</u>	<u>Position</u> <u>Average Q4-17</u>
Interest rate	\$ 529	1,574
Equity shares	695	1,248
Total	\$ <u>1,224</u>	<u>2,822</u>

Interest rates

The Brokerage Firm is authorized to operate listed future transactions in the Mexican Derivatives Markets (MexDer-Spanish acronym) for its trading portfolio, however, during the fourth quarter of 2017 and 2016, no position was presented.

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Equity shares

During 2017, the Brokerage Firm did not hold IPC futures position with MexDer for the equity shares and the equity shares derivatives position. Likewise, during 2017 did not hold transactions with options over IPC futures of MexDer.

It is important to mention that the futures and options of the IPC future are primarily used to hedge the market risk of the options and warrants positions that are issued to the clients. The Brokerage Firm issued referred IPC warrants and a basket of shares at the close of the fourth quarter of 2017 was \$688.

Given that the VaR measure is used to estimate potential losses under normal market conditions, stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits. The stress testing during last quarter of 2017 was \$219.2, the limit is \$1,000. Scenarios used for stress testing are the 1994 and 1998 crises as well as hypothetical scenarios.

The back testing from October to December 2017, shows efficiency levels in green under the approach established by the International Payment Bank.

The limits structure mainly considers volumetric and notionals amounts, VaR, concentration, sensitivity and stress limits, among others.

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price supplier "Valuación Operativa y Referencias de Mercado, S. A. de C. V." ; the criteria adopted are determined based on technical and statistical aspects and in valuation models authorized by the Commission.

Sensitivity analysis-

Qualitative information on sensitivities

The Brokerage Firm has an area that specializes on trading risk analysis, which maintains systematic and continuous oversight of the valuation and risk measurement processes as well as of the sensitivity analysis. Such area has permanent contact with responsible traders in the different markets.

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The risk area calculates on a daily basis the market risk sensitivities for each portfolio to which the Brokerage Firm is exposed. During the quarter, no changes were made to the assumptions, methods or parameters used for this analysis.

A description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products is presented below.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value in response to a change in the market interest rates.

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument. In all cases, there are 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 basis point (bp) (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 basis points (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 basis point.

The values estimated based on the duration and convexity methodology are a good approximation to the values obtained using the complete or full-valuation methodology.

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread.

In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

Interest rate derivatives

Below is a brief explanation of sensitivity modeling for the interest rate derivatives:

TIIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

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Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIEE swaps a 1 basis point change is made in each of the relevant points in the yield curve and 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes.

Stock portfolio and IPC derivatives

Stock equity: for stock position purposes, the sensitivity is obtained calculating the Delta by issue within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Equity derivatives

Currently, the Brokerage Firm opted for carrying out equities derivatives transactions through the IPC futures traded at the MexDer. Their sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

Delta is defined as the change of value of a derivative with respect to changes in the underlying. The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant. In the case of futures, the sensitivity calculation is Delta, defined as the change of value of a derivative with respect to changes in the underlying.

In the case of non-linear products such as warrants and options, the Delta and the "Greek" measures are deemed as sensitivity measures. The calculation of sensitivities is based on the formula for modeling options on futures known as the Black (1976) Option Pricing Formula.

The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock), and maintaining all other parameters constant.

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound dividend rate. Dividends, however, are an estimate and, therefore, an unknown variable, which represents a risk factor for valuation and the resulting analysis of gains and losses from transactions with options.

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There is no Greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock the measurement is made by increasing the dividend rate 1% (i.e. from 1% to 1.01%).

Quantitative information of sensitivities

Quantitative information of interest rate sensitivities

The following table shows the sensitivity of 1 bp at December 31, 2017 and 2016:

<i>Sensitivity 1bp</i>	December <u>2017</u>	December <u>2016</u>
Fixed rate	0.019	0.030
Floating rate	<u>0.000</u>	<u>0.001</u>
Total	<u>0.019</u>	<u>0.031</u>

As of December 31, 2017, the Brokerage Firm presents an interest rate sensitivity of \$0.019, which indicates that for each basis point that the interest rate decreases, the Brokerage Firm would generate a loss of \$0.019. The position presented a decrease compared to the last year. At December 31, 2017, the Brokerage Firm did not celebrate transactions with interest rate derivatives.

The following table shows statics for the fourth quarter of 2017, taking into account the change in 1 bp: maximum, minimum and average. In average, the sensitivity was \$0.05.

Sensitivity 1 bp		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Interest rates	\$	<u>0.05</u>	<u>0.28</u>	<u>(0.06)</u>

For comparison purposes, following is a sensitivity table of the fourth quarter of 2016:

Sensitivity 1 bp		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Interest rates	\$	<u>0.02</u>	<u>0.20</u>	<u>(0.24)</u>

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Sensitivities of the shares and derivatives portfolio.

Following is a sensitivity table as of December 31, 2017 and 2016:

<i>Sensitivity Ibp</i>	December <u>2017</u>	December <u>2016</u>
Warrants	\$ <u>(0.013)</u>	<u>(0.014)</u>

As of December 31, 2017, the Brokerage Firm presented a sensitivity to IPC of zero, due to the fact the position is equal to zero at that date.

With regard to the position over IPC, the Brokerage Firm continues with a hedging strategy over the new warrants issuances and arbitrating between the capital portfolio and IPC futures.

The Brokerage Firm's capital portfolio is composed by shares and derivatives over the IPC. The following table presents the average of the fourth quarter, which amounted to (\$0.03).

<i>Sensitivities Ibp</i>	<u>Average</u> <u>2017</u>	<u>Maximum</u> <u>2017</u>	<u>Minimum</u> <u>2017</u>
Warrants	\$ <u>0.03</u>	<u>2.33</u>	<u>(0.02)</u>
Total	\$ <u>0.03</u>	<u>2.33</u>	<u>(0.02)</u>

The following table presents are the figures corresponding to the fourth quarter of 2016:

<i>Sensitivities Ibp</i>	<u>Average</u> <u>2016</u>	<u>Maximum</u> <u>2016</u>	<u>Minimum</u> <u>2016</u>
Warrants	\$ <u>(0.01)</u>	<u>0.09</u>	<u>(0.03)</u>
Total	\$ <u>(0.01)</u>	<u>0.09</u>	<u>(0.03)</u>

The table on the next page presents the sensitivity measures for the non-linear instruments as of December 31, 2017 (this sensitivities refer not only to the Brokerage Firm, they are presented for information purposes)

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Sensitivities for warrants and IPC options, “Greeks”

	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Dividend Risk</u>	<u>Rho</u>
Minimum	1.55	0.42	0.02	-	-
Maximum	14.56	1.90	0.28	0.02	0.01
Average	<u>3.99</u>	<u>1.03</u>	<u>0.15</u>	<u>=</u>	<u>=</u>

As of December 31, 2017, the Brokerage Firm presents a Delta average value of \$3.99, which indicates that face to an increase of 1% in the underlying price, the Brokerage Firm would generate an income of \$3.99.

(c) Liquidity and interest rates risk-

The Brokerage Firm assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the firm will be able to meet the totality of its obligations as they become due and payable. To such end, the Brokerage Firm applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Brokerage Firm manages exposure to liquidity risk and interest rate risk according with the applicable regulatory provisions and the best market practices.

For liquidity risk and interest rates management, it has been established limits which are periodically monitored. Among the applicable limits are those related with liquid assets, liquidity gasps, margin sensitivity and economic value sensitivity. These limits are reviewed annually in order to validate that they are aligned with the institution’s risk.

The structure of liquidity and interest rate risk limits contemplates volumetric or notional amounts.

Liquidity and interest rate risk is management through specialized systems that conduct the estimate related to the liquidity risk.

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Additionally, it is important to indicate that there are prospective metrics for liquidity and interest rate risk management, which are incorporated in the annual exercise of the Institution's Exposure Plan.

The liquidity risk is monitored and controlled through accumulated liquidity gaps. These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, creating thus a daily gap corresponding to the differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Brokerage Firm (incoming and outgoing cash / interest receipt).

Interest rate risk arises as a result of funding activities, placement and investment of the Brokerage Firm and is derived from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, and occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities. It materializes before to a change in interest rates such as a variance in financial margin.

Indicators such as sensitivity of economic value and margin sensitivity are used to measure interest rate risk. To calculate such indicators, repricing gaps are used, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date. The methodology for calculating the indicators considered assumptions of stability of demand deposits and prepaid mortgages. The first is an analysis of crops while the second considers credit recency segmentation to assign it a prepaid rate.

Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points (bp) on interest rates and considers the maximum loss expected by currency. This measurement is taken weekly and reported to the members of the Assets and Liabilities Committee, the Risk Committee and the Board of Directors in their respective sessions.

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a window of 20 years and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

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<u><i>Economic value</i></u>	December <u>2017</u>	<u>Average</u>⁽²⁾
Financial Group ⁽¹⁾	\$ 602	672
Bank	592	657
 <u><i>Margin Sensitivity</i></u>		
Financial Group ⁽¹⁾	\$ 434	447
Bank	478	476
Brokerage Firm input	4	3

(1) It includes Bank, Brokerage Firm, Scotia Fondos, Credito Familiar and Global Card. Sensitivities base on the new interest rate model approved by the Risk Committee in August 2017.

(2) Average figures from the period August-December 2017, considering that during August there were new approved models.

Available-for-sale securities treatment

At the closing date of 2017, the Brokerage Firm did not hold available-for-sale securities position.

The available-for-sale securities, to be an integral part of the balance sheet's manage, are monitored under the aforementioned sensitivity measures (economic value and margin sensitivity).

The liquidity risk limits structure considers volumetric and notional amounts, sensitivity, liquid assets, concentration of deposits and liquidity gaps.

(d) Operational risk-

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

The Brokerage Firm has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are described as follows.

The Brokerage Firm determines its capital requirements using the basic indicator method.

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Policies for operational risk management

These policies are intended to establish the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout the Brokerage Firm.

Operational Risk Assessment

The Brokerage Firm has a structured methodology for assessing operational risk, which allows the Brokerage Firm to identify, assess and mitigate, the inherent risks in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of the inherent operational risk, assessing of the effectiveness of controls in such risks, on which is determined a level of residual risk from which actions are set to mitigate the identified risks.

Manual for Operational Risk Data Gathering and Classification

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics.

At the closing of 2017, the Brokerage Firm recorded operational risk losses for \$1.8, \$1.7 shorter compared to 2016 \$3.5. Likewise, at the closing of 2017, the material operational risks that, in case of materialization, would cause an impact on the results of the entity amount \$12.7, out of which \$10.7 corresponds to operational risk and \$2 to legal risk, both amounts are fully reserved.

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Brokerage Firm's area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

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Key risk indicators

This process allows the Brokerage Firm to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator's values over time. Admissible thresholds are established for each of the selected indicators.

Estimate of legal risk losses

The Brokerage Firm has a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

Technological risk

The technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other channel for transmitting of information in rendering services to the Brokerage Firm's customers.

In order to attend the requirements of regulations in terms of the related technological risk, the Group has technological risk management policies. These policies describe the guidelines and methodology for assessing risk. Additionally, the DGA of Information Technology Officer has policies, procedures and systems that contribute to compliance with the requirements in terms of the rioted requirements.

The technological risk methodology, which assesses vulnerabilities, considers the criticality of the information in terms of completeness, confidentiality, availability and continuity to identify the inherent risks in the technological applications and infrastructure, assess the controls in place and obtain the residual risk. As a result, the methodology sets forth a proposal of controls for mitigating the technological risk at an acceptable level.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

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(20) Recently issued financial reporting standards-

The CINIF has issued the following MFRS and improvements to MFRS mentioned below. Management estimates that the new MFRS and its improvements will not generate significant effects, since there is specific regulation applicable to the Brokerage Firm determined by the Commission.

MFRS B-17 “*Determination of fair value*”- effective for years beginning on or after January 1, 2018, allowing for early adoption, providing that its adoption is together with MFRS C-2, C-3, C-10, C-16, C-19 and C-20. If applicable, changes in valuation or disclosure should be recognized prospectively. This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS.

MFRS C-2 “*Investment in financial instruments*”- it establishes specific rules for the accounting recognition of investments in financial instruments, primarily those held for trading purposes, as well as the classification of financial instruments based on the business model an entity has for all instruments as a whole. This is effective for periods beginning on or after January 1, 2018, with retrospective effects and supersedes Bulletin C-2 “*Financial instruments*” and the Bulletin C-2 Application guidance. Early adoption is allowed starting January 1, 2016, provided that it is done concurrently with the FRS related to financial instruments whose effective date and possibility for early adoption are under the same terms.

Among the principal changes presented are:

- Classification of financial instruments in which investments are made, discarding the concept of intention to acquire and use an investment in a financial instrument to determine such classification, adopting instead, the business management model of investments in financial instruments for obtaining cash flows. This change eliminates the held-to-maturity and available-for-sale categories of instruments.
- Establishing the valuation of investments in financial instruments also according to the business model, indicating that each model will have a different line item in the statement of comprehensive income.

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- Not allowing the reclassification of investments in financial instruments among the categories of financial instruments receivable, debt instruments at fair value and negotiable financial instruments, unless the entity's business model changes, which is considered highly unlikely.
- Adopting the principle that all financial instruments are valued upon initial recognition at fair value.
- Limiting certain disclosures to entities that conduct financial operations.

MFRS C-3 "Accounts receivable"- It is effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of FRS related to financial instruments whose effective date and possibility for early adoption are under the same terms as those indicated in this FRS. Some of the primary changes presented are the following:

- It provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.
- It provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.
- It provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.
- It requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

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MFRS C-9 “Provisions, Contingencies and Commitments”- MFRS C-9 is effective for years beginning on or after January 1, 2018; early adoption is allowed provided that it takes place concurrently with the initial adoption of MFRS C-19 “Financial instruments payable”. MFRS C-9 supersedes Bulletin C-9 “Liabilities, Provisions, Contingent Assets and Liabilities and Commitments”. The first-time adoption of this MFRS does not produce accounting changes in the financial statements. Some of the main points covered by this MFRS include the following:

- Its scope is reduced by moving the subject concerning the accounting treatment of financial liabilities to MFRS C-19 “Financial instruments payable”.
- The definition of “liability” is changed by eliminating the qualifier “virtually unavoidable” and including the word “probable”.
- The terminology employed throughout the standard is updated to standardize its presentation to the rest of the MFRS.

MFRS C-16 “Impairment of financial instruments receivable”- It is effective for years beginning on January 1, 2018 with retrospective effects and early adoption is allowed as of January 1, 2017 provided that it takes place concurrently with the adoption of FRS related to financial instruments whose effective date and early adoption are in the same terms. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this MFRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.
- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

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MFRS C-19 “Financial instruments payable”- It is effective for years beginning on or after January 1, 2018 with retrospective effects and early adoption allowed provided that they it takes place concurrently with the adoption of MFRS C-9 and the FRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main points covered by this MFRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.
- Long-term liabilities are initially recognized at present value.
- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.
- It includes the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, which was not provided for by the existing standard.
- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.
- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

MFRS C-20 “Financing instruments receivable”- It shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

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- The valuation effect of investments in financial instruments is also focused on the business model.
- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable financial instruments, unless the entity changes its business model.
- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

2018 MFRS Revisions

In December 2017, CINIF issued a document called “2018 MFRS Revisions” containing precise modifications to some of the existing FRS. The main revisions that bring about accounting changes are the following:

MFRS B-2 “Statement of cash flows” - Requires new disclosures about liabilities associated with financing activities, whether or not, they have required the use of cash or cash equivalents, preferably through a reconciliation of the initial and final balances thereof. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.

MFRS B-10 “Effects of inflation”- Requires disclosing the percentage of accumulated inflation for the three previous fiscal years that served as the basis to describe the economic environment in which the entity operated in the current year as inflationary or non-inflationary, and the cumulative inflation percentage of three years, including the two previous years and that of the period itself, which will serve as a basis for rating the economic environment in which the entity will operate in the following year. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.

MFRS C-6 “Property, plant and equipment” and MFRS C-8 “Intangible assets”- Establishes that a method of depreciation and amortization of an asset based on the generation of economic benefits associated with its use is not appropriate, given that said amount may be affected by factors other than the pattern of consumption of economic benefits of the asset. Clarifies the meaning of the concept of consumption of future economic benefits of an asset. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized prospectively.

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MFRS C-14 “*Transfer and derecognition of financial assets*”- Eliminates the requirement to recognize in earnings the effects of the subsequent recognition at fair value of a transferred asset and of the associated liability since it represented a contradiction with the requirement in the same standard that said recognition be made based on the relative rules, depending on the type of asset in question. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.