Grupo Financiero
Scotiabank Inverlat, S. A. de C. V.
(A foreign-owned Mexican Holding Company)
and subsidiaries

Consolidated financial statements

December 31, 2018 and 2017

(With Independent Auditors' Reports Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish language original)

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

(Millions of Mexican pesos)

Opinion

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

In our opinion, the accompanying consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico issued by the National Banking and Securities Commission (the Banking Commission).

Basis for opinion

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

Key audit matters

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

(Continued)

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Cancún, Q. Roo.
Ciudad de México.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mérida, Yuc.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Allowance for loan losses $10,376 in the consolidated balance sheet	
See notes 3(j), and 10(e) to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The allowance for loan losses for the commercial loans portfolio involves significant judgement for the evaluation of the borrowers' ability to pay, considering the different factors in accordance with the methodologies for the credit portfolio rating process established by the Banking Commission, as well as to assess the reliability on the documentation and its update, which is used as input for the determination of the allowance for loan losses for all the loan portfolios.	The audit procedures applied to Management's determination of the allowance for loan losses and its effect on the year's results, included the assessment, on a sample basis, of both the inputs used and the calculation method for the different loan portfolios based on the methodology in force established by the Banking Commission for each type of loan portfolio.

Derivative financial instruments non-listed in recognized markets $19,441 (assets) and $20,130 (liabilities) and hedging transactions $979 (assets) and $19 (liabilities)	
See notes 3(g) and 9 to the consolidated financial statements.	
Key audit matter	**How the key audit matter was addressed in our audit**
Fair value determination as of the date of the consolidated balance sheet of some derivative financial instruments non-listed in recognized markets and hedging transactions, is carried out through the use of valuation techniques that involve a significant degree of judgement by Management, mainly when the use of inputs from various sources or data not observable in financial markets and complex valuation models is required. In addition, the requirements that must be met for accounting for financial instruments classified as hedges, as well as documentation and monitoring to prove their effectiveness, involves a certain degree of specialization applied by Management.	As part of our audit procedures, we obtained evidence of the approval by the Group's Risk Committee, of the valuation model for derivative financial instruments and hedging operations used by Management. Likewise, on a sample basis, we evaluated the reasonableness of those models and inputs used, through the involvement of our valuation specialists. In addition, on a sample basis, we evaluated the fair value determination of the derivative products and hedging operations, the proper compliance with the criteria and documentation to be considered as such, as well as their effectiveness.

(Continued)

Current income tax (IT) and employee statutory profit sharing (ESPS) $1,461 and $189, respectively, in the consolidated statements of income and deferred IT and ESPS, net for $4,838 and $145, respectively, in the consolidated balance sheet

See notes 3(s) and 19 to the consolidated financial statements.

Key audit matter	How the key audit matter was addressed in our audit
Determination of current and deferred income taxes is complex, mainly due to the interpretation of the legislation in force in the matter, requiring a significant degree of judgement mainly in the valuation of deferred tax assets to evaluate both current and future factors that allow to estimate the realization of such assets.	The audit procedures applied to assess the reasonableness of the calculations determined by Management for the recognition of current and deferred income taxes, included sample tests of both the inputs and the nature of the items used in the calculation, considering the legislation in force in tax matters. With the involvement of our tax specialists, we evaluated the reasonableness of the significant tax assumptions, the reversal period of the temporary differences and the expiration of the tax losses, as well as the reasonableness of the tax strategies applied by the Bank's Management. In addition we assessed the tax profit projections determined by the Bank's Management that support the probability of the realization of deferred income tax assets.

Risks related to Information Technology (IT)

Key audit matter	How the key audit matter was addressed in our audit
The Group carried out a migration process of its deposit and personal and mortgage loans products to a new operating system. This migration process implied the transfer of a high volume of data and new interfaces between the operating and accounting system. In addition, the general IT controls must be designed and operate effectively to ensure of the completeness and accuracy of the financial information produced.	In accordance to our methodology and with the involvement of our IT specialists, we evaluated the controls in place of the key systems processing the financial information of the Group in two aspects: (i) general IT controls; and (ii) automated controls in key processes of our audit. In addition, on a simple basis, we verified the transfer of data subject to the migration process, as well as the reconciliations between the operating and accounting systems of the migrated products.

(Continued)

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Ricardo Lara Uribe

Mexico City, February 28, 2019.

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and subsidiaries
(A foreign-owned Mexican Holding Company)
Lorenzo Boturini N° 202, Col. Tránsito, C. P. 06820, Mexico City

Consolidated balance sheets

December 31, 2018 and 2017

(Millions of Mexican pesos)

Assets	2018	2017
Cash and cash equivalents (note 6)	$ 46,269	32,318
Margin accounts	29	67
Investment securities (note 7):		
Trading	24,431	9,026
Available-for-sale	38,443	44,684
Held-to-maturity	4,804	4,678
	67,678	58,388
Derivatives (note 9):		
Trading purposes	20,905	18,466
Hedging purposes	6,729	5,115
	27,634	23,581
Valuation adjustment from hedging of financial assets (note 10c)	(562)	(530)
Current loan portfolio (note 10):		
Commercial loans:		
Business or commercial activity	152,231	124,089
Financial entities	35,239	32,504
Government entities	9,676	11,163
	197,146	167,756
Consumer loans	45,261	36,710
Residential mortgages:		
Medium and residential	116,584	103,092
Low income housing	121	138
Loans acquired from INFONAVIT	3,623	1,244
	120,328	104,474
Total current loan portfolio	362,735	308,940
Past due loan portfolio (note 10):		
Commercial loans:		
Business or commercial activity	3,454	3,170
Financial entities	110	110
Consumer loans	1,844	1,409
Residential mortgages:		
Medium and residential	2,982	2,750
Low income housing	17	23
Loans acquired from INFONAVIT	1	–
Total past due loan portfolio	8,408	7,462
Loan portfolio	371,143	316,402
Less:		
Allowance for loan losses (note 10e)	10,376	9,781
Total loan portfolio, net	360,767	306,621
Benefits receivable from securitization transactions (note 11)	–	75
Other accounts receivable, net	10,380	9,603
Foreclosed assets, net (note 12)	87	86
Premises, furniture and equipment, net (note 13)	4,124	3,983
Permanent investments (note 14)	113	112
Available-for-sale long-term assets	32	–
Deferred taxes and ESPS, net (note 19)	4,983	5,426
Other assets:		
Deferred charges, prepaid expenses and intangibles	7,187	4,442
Other short and long term assets	12	22
	7,199	4,464
Total assets	$ 528,733	444,194

Liabilities and stockholders' equity	2018	2017
Deposit funding (note 15):		
Demand deposits	$ 162,420	176,028
Time deposits:		
General public	111,515	92,351
Money market	53,075	24,072
Debt securities issued	25,778	26,254
Global account of deposits with no movements	594	509
	353,382	319,214
Banking and other borrowings (note 16):		
Due on demand	–	180
Short-term	4,804	6,845
Long-term	25,530	6,597
	30,334	13,622
Assigned securities to be settled (note 7b)	1,965	674
Creditors on repurchase/resell agreements (note 8)	31,650	16,572
Collaterals sold or pledged (note 8):		
Securities lending	45	34
Derivatives (note 9):		
Trading purposes	21,824	18,866
Hedging purposes	4,964	3,884
	26,788	22,750
Valuation adjustments from hedging financial liabilities (note 15b)	24	29
Other accounts payable:		
Income tax payable	618	1,045
Employee statutory profit sharing payable (note 19)	209	221
Creditors on settlement of transactions (notes 3c, 6, 7a, 8 and 9)	6,147	4,312
Creditors on margin account	234	31
Creditors on collateral received in cash	1,204	1,327
Sundry creditors and other accounts payable	12,323	9,013
	20,735	15,949
Subordinated debt issued (note 20)	9,044	2,101
Deferred credits and prepayments	1,573	1,341
Total liabilities	475,540	392,286
Stockholders' equity (note 21):		
Paid-in capital:		
Capital stock	4,507	4,507
Earned capital:		
Statutory reserves	901	901
Retained earnings	39,427	39,194
Result from valuation of available-for-sale securities	10	(13)
Result from valuation of cash flow hedge instruments	836	423
Remeasurements of defined employees' benefits (note 17)	(263)	(260)
Net income	7,775	7,156
	48,686	47,401
Total stockholders' equity	53,193	51,908
Commitments and contingent liabilities (note 24)		
Total liabilities and stockholders' equity	$ 528,733	444,194

(Continued)

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and subsidiaries
(A foreign-owned Mexican Holding Company)
Lorenzo Boturini N° 202, Col. Tránsito, C. P. 06820, Mexico City

Consolidated balance sheets, continued

December 31, 2018 and 2017

(Millions of Mexican Pesos)

Memorandum accounts (notes 10c and 22)

	2018	2017
Transactions on behalf of third parties		
Customer current accounts:		
Customer banks	$ 15	255
Settlement of customer transactions	(456)	(821)
Other current accounts	137	137
	(304)	(429)
Custody operations:		
Customer securities in custody	371,140	378,988
Transactions on behalf of customers:		
Securities on repurchase/resell agreements by customers	43,798	63,617
Secutities lending by customers	43	48
Collaterals received in guarantee by customers	22,470	32,062
Collaterals delivered in guarantee by customers	26,083	36,075
	92,394	131,802
Investment banking transactions on behalf of third parties	120,811	103,975
Total transactions on behalf of third parties	$ 584,041	614,336

	2018	2017
Transactions by own account		
Contingent assets and liabilities	$ 3	3
Assets in trust or under mandate:		
Trusts	191,912	190,785
Mandate	29,081	29,023
	220,993	219,808
Assets in custody or under management	979,673	1,068,537
Loan commitments	243,052	187,382
Collaterals received by the entity:		
Government debt	10,861	24,660
Bank debt	400	–
Net equity instruments	94	149
Other securities	28,316	28,214
	39,671	53,023
Collaterals received and sold or pledged by the entity:		
Government debt	55,401	23,172
Net equity instruments	45	34
	55,446	23,206
Interest earned but not collected arising from past-due loan portfolio	405	359
Other accounts	1,282,838	1,212,505
Total by own account	$ 2,822,081	2,764,823

"As of December 31, 2018 and 2017, the historical capital stock amounts to $3,111, in both years"

See accompanying notes to consolidated financial statements.

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

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Enrique Zorrilla Fullaondo General Director	Michael Coate Deputy General Director of Finance and Business Intelligence	Hiquingari Francisco Ortega Ortiz Interim Director Internal Audit Mexico	H. Valerio Bustos Quiroz Director of Group Accounting

"These consolidated balance sheets faithfully match with the consolidated balance sheets originals, which are properly signed and held by the Financial Group."

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Lorenzo Boturini N° 202, Col. Tránsito, C. P. 06820, Mexico City

Consolidated statements of income

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

		2018	2017
Interest income (note 23b)	$	45,301	36,458
Interest expense (note 23b)		(21,161)	(15,092)
Financial margin		24,140	21,366
Allowance for loan losses (notes 4 and 10e)		(4,289)	(4,520)
Financial margin adjusted for allowance for loan losses		19,851	16,846
Commissions and fee income (note 23c)		7,103	6,284
Commissions and fee expense		(1,187)	(916)
Financial intermediation income (note 23d)		129	199
Other operating income (note 23e)		2,177	1,670
Administrative and promotional expenses		(19,278)	(15,992)
		(11,056)	(8,755)
Net operating income		8,795	8,091
Equity method in the results of unconsolidated subsidiaries and associated companies		1	1
Income before income taxes		8,796	8,092
Current income tax (note 19)		(1,782)	(1,670)
Deferred income tax, net (note 19)		761	734
		(1,021)	(936)
Net income	$	7,775	7,156

See accompanying notes to consolidated financial statements.

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

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

SIGNATURE
Enrique Zorrilla Fullaondo
General Director

SIGNATURE
Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE
Hiquingari Francisco Ortega Ortiz
Interim Director
Internal Audit Mexico

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of income faithfully match with the consolidated statements of income originals, which are properly signed and held by the Financial Group."

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Consolidated statements of changes in stockholders' equity

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

			Earned capital						
		Capital stock	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from valuation of cash flow hedge instruments	Remeasurements of defined employee benefits	Net income	Total stockholders' equity
Balances as of December 31, 2016	$	4,507	901	34,178	(47)	337	71	5,018	44,965
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 27, 2017 Appropriation of 2016 net income		–	–	5,018	–	–	–	(5,018)	–
Changes related to the recognition of comprehensive income (note 21c):									
Net income		–	–	–	–	–	–	7,156	7,156
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $(59) and $(20), respectively (notes 7a, 9 and 19)		–	–	–	34	86	–	–	120
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for $53 and $19, respectively (note 17)		–	–	46	–	–	(331)	–	(285)
Result from application of new accounting criteria									
Result from application of new accounting criteria, net of deferred taxes and ESPS for $24 and $8, respectively		–	–	(48)	–	–	–	–	(48)
Total comprehensive income		–	–	(2)	34	86	(331)	7,156	6,943
Balances as of December 31, 2017		4,507	901	39,194	(13)	423	(260)	7,156	51,908
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2018 Appropriation of 2017 net income		–	–	7,156	–	–	–	(7,156)	–
Resolution passed at the Ordinary General Stockholders' Meeting of May 25, 2018 Dividends payment		–	–	(6,997)	–	–	–	-	(6,997)
		–	–	159	–	–	–	(7,156)	(6,997)
Changes related to the recognition of comprehensive income (note 21c):									
Net income		–	–	–	–	–	–	7,775	7,775
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $(165) and $69, respectively (notes 7a, 9 and 19)		–	–	–	23	413	–	–	436
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for $(37) and $35, respectively (note 17)		–	–	74	–	–	(3)	–	71
Total comprehensive income		–	–	74	23	413	(3)	7,775	8,282
Balances as of December 31, 2018	$	4,507	901	39,427	10	836	(263)	7,775	53,193

See accompanying notes to consolidated financial statements.

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

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Enrique Zorrilla Fullaondo General Director	Michael Coate Deputy General Director of Finance and Business Intelligence	Hiquingari Francisco Ortega Ortiz Interim Director Internal Audit Mexico	H. Valerio Bustos Quiroz Director of Group Accounting

"These consolidated statements of changes in stockholders' equity faithfully match with the consolidated statements of changes originals, which are properly signed and held by the Financial Group."

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Consolidated statements of cash flows

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

	2018	2017
Net income	$ 7,775	7,156
Items not requiring cash flow:		
Impairment allowance or impairment reversal to investment and financing activities	6	(18)
Depreciation of premises, furniture and equipment	490	460
Amortization of deferred charges, prepaid expenses and intangible assets	236	299
Provisions, mainly allowance for loan losses	6,307	5,722
Current and deferred income taxes	1,021	936
Equity in income of associated companies	(1)	(1)
Other, mainly valuation at fair value	1,328	(876)
Subtotal	9,387	6,522
Operating activities:		
Change in margin accounts	38	239
Change in investment securities	(7,647)	(7,984)
Change in derivatives (asset)	(2,940)	937
Change in loan portfolio (net)	(58,593)	(67,499)
Change in benefits receivable from securitization transactions	92	34
Change in foreclosed assets (net)	(7)	(15)
Change in other operating assets (net)	(2,978)	2,674
Change in deposit funding	34,169	64,726
Change in bank and other borrowings	16,712	(8,007)
Change in creditors on repurchase / resell agreements	15,077	9,516
Change in securities lending liability	1	–
Cahnge in collaterals sold or pledged	11	(32)
Change in derivatives (liabilities)	2,451	(868)
Change in subordinated debt issued	6,943	1
Change in other operating liabilities	2,645	(5,887)
Payments of income taxes	(576)	(677)
	5,398	(12,842)
Net cash flows provided by operating activities	22,560	836
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(631)	(611)
Proceeds from sale of permanent investments	(2)	(2)
Collections of cash dividends	2	–
Payments for acquisition of intangible assets	(981)	(930)
Net cash flows used in investing activities	(1,612)	(1,543)
Net cash flows used in financing activities due to cash dividends payment	(6,997)	–
Net increase (decrease) in cash and cash equivalents	13,951	(707)
Cash and cash equivalents at the beginning of the year	32,318	33,025
Cash and cash equivalents at the end of the year	$ 46,269	32,318

See accompanying notes to consolidated financial statements.

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

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

SIGNATURE
Enrique Zorrilla Fullaondo
General Director

SIGNATURE
Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE
Hiquingari Francisco Ortega Ortiz
Interim Director
Internal Audit Mexico

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

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

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/Paginas/index.aspx

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

(1) Description of business-

Grupo Financiero Scotiabank Inverlat, S. A. de C. V., a foreign owned Mexican Holding Company (the Group) located in Lorenzo Boturini 202, second floor, Col. Tránsito, 06820 in Mexico City, is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.4% of its capital stock and is authorized to acquire and manage voting right stocks issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

As at December 31, 2018 and 2017, the Group and its subsidiaries, which have been consolidated, are as follows:

– Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), which in accordance with the Credit Institutions Law and general provisions issued by the National Banking and Securities Commission (the Banking Commission) is authorized to carry out multiple-service banking transactions comprising, amongst other, accept deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services. The Bank has four consolidated subsidiaries (a real estate banking company, a company of complementary banking services, an operating company listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer), and a regulated multi-purpose financial company. The derivatives operating company also has two trusts that are clearing members and shareholders of the capital stock of MexDer (the MexDer Trusts)).

  On November 16, 2018, the Bank transferred all its active employees, except for the General Director, to its related party Servicios Corporativos Scotia, S. A. de C. V. (SECOSA), through an agreement of employer substitution; as well as the liabilities related to employee benefits and the funding of them.

– Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), is a company authorized to act as intermediary in securities and financial transactions in accordance with the applicable laws and general dispositions issued by the Banking Commission.

(Continued)

- Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat (the Fund Management Company), is a company authorized to act as the operator of a fund company in accordance with the applicable laws general dispositions issued by the Banking Commission.

  On June 13, 2018 and November 10, 2017 the Fund Management Company incorporated two debt security Funds named "Scotia Solución 9" and "Scotia Estrategia 6" Sociedad Anónima de Capital Variable, respectively, the Fund Management Company contributed in the capital stock by $1,000 in each one of the funds, such contribution is represented by minimum fixed portion of Class "A" representative shares without right for withdrawal. These mutual funds were presented to the general public on June 21 and January 23, 2018 with ticker symbol SCOTDL+ and MGINTL, respectively.

  On August 18 and July 17, 2017 the Fund Management Company incorporated the debt security Funds named "Scotia Estrategia 3" and "Scotia Estrategia 4" Sociedad Anónima de Capital Variable, respectively, The Fund Management Company contributed in the capital stock by $1,000 in each one of the funds, such contribution is represented by minimum fixed portion of Class "A" representative shares without right for withdrawal. These mutual funds were presented to the general public on November 15 and October 10, 2017 with ticker symbol SCOT-03 and SCOT-04, respectively.

  As of December 31, 2018, the Fund Management Company manages 14 mutual funds investing debt instruments and 24 mutual funds investing in equity.

- SECOSA is engaged in providing personnel and technical advisory services in areas such as: human resources, finance and legal, among others.

- Crédito Familiar, S. A. de C. V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero Scotiabank Inverlat (Crédito Familiar), which in accordance with the applicable laws general provisions issued by the Banking Commission, is engaged in granting consumer loans. Crédito Familiar has two consolidating subsidiaries (a service company and an asset management company).

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(2) Authorization and basis for presentation-

Authorization

On February 28, 2019, Enrique Zorrilla Fullaondo (General Director), Michael Coate (Deputy General Director of Finance and Business Intelligence), Hiquingari Francisco Ortega Ortíz (Interim Director Internal Audit Mexico) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Group's consolidated financial statements include those of its subsidiaries on which the Group exercises control: the Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar. Significant balances and transactions with the Group´s companies have been eliminated in preparing the consolidated financial statements.

The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2018 and 2017.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance.

Basis for presentation

a) Statement of compliance

The accompanying consolidated financial statements have been prepared, based on the applicable legislation, in conformity with the accounting criteria established by the Banking Commission (the Accounting Criteria), for financial group holding companies in Mexico. The Banking Commission is responsible for the inspection and supervision of financial group holding companies as well as reviewing their financial information.

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory 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 suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the FRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and then any other formal and recognized accounting standard, provided they do not contravene the accounting criteria A-4 of the Banking Commission.

(Continued)

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant financial statement captions subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses, employees' benefits and the future realization, and deferred taxes. The actual results may differ from those estimates and assumptions.

c) Functional and reporting currency

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

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

d) Recognition of assets and liabilities related to financial instruments

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

(3) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements, considering the accounting changes indicated in note 4:

(a) Recognition of the effects of inflation-

The accompanying consolidated 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.

(Continued)

Years ended December 31, 2018 and 2017 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 Group's financial information are not recognized. Should the Group 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 shown bellow:

		Inflation	
December 31,	**UDI**	**Annual**	**Accumulated**
2018	$ 6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%
2016	5.562883	3.38%	9.97%

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well foreign currency purchase and sale transactions not considered derivatives according to the applicable regulation established by Banco de Mexico (Central Bank). This caption also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money"), excess of plan assets for maximum obligation of employee benefits according to the MFRS D-3 "Employee benefits" and deposits in the Central Bank which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits lack term and bear interest at the average funding rate, which are recognized in the income statement as accrued.

The cash and cash equivalents are recognized at nominal value. For the case bank accounts denominated in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect and interests earned are recognized in the income statement, as interest income or interest expense, accordingly, on an accrual basis.

Immediate collection notes will be recorded as other cash equivalent according to what is mentioned as follows:

– Transactions with Mexican entities; two business days after the transaction took place.

(Continued)

– Transactions with foreign entities; five business days after the transaction took place.

When the notes mentioned in the preceding paragraph are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either "Other accounts receivable, net" or "Loan portfolio", and due consideration should be given to the provisions of criterion A-2, "Application of particular standards", and B-6 "Loan portfolio", respectively.

Transactions transferred to sundry debtors under the caption "Other accounts receivable", not settled within fifteen days following the transfer date will be classified as past-due debts and an allowance for their total amount recorded will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption "Other accounts".

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". Likewise, the offset balance of receivable currencies against deliverable currencies, in case this results a credit balance.

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

(c) Margin accounts-

Financial assets granted in cash required to the Group to operate derivatives in recognized markets are recorded at face value and presented in the caption "Margin accounts". The value of 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 Group.

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in the results of operations for the year as accrued under "Interest income" and "Commission and fee expense", respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in "Margin accounts". At December 31, 2018 and 2017, the balance in "Creditors on settlement of transactions" derived from the margin accounts amount to $234 and $48, respectively.

(Continued)

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trusts based on the open agreements recorded in their accounts and of the minimum initial contributions required by Asigna. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents”.

(d) Investment securities-

Investment securities consist of equities, 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 management of the Group on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling 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 for 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, and on every reporting date, securities are valued at fair value provided by an independent price vendor; valuation effects and results of the buy/sell are recognized in the year’s income, within the caption “Financial intermediation income”. When the securities are sold, the result of purchase/sale is determined by the difference between purchase price and the sale price, this shall reclassify the result of valuation that has been previously recognized in the income statement, to the buy/sell result caption.

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 in the financial statement caption "Interest income".

(Continued)

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold until maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities", and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

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

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

Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold to maturity. These securities are initially recognized at fair value, which is presumably the price paid, and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under "Interest income". Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Securities' impairment-

Where sufficient objective evidence exists that an available for sale or held to maturity security has been impaired as a result of one or more events that occurred subsequent to initial recognition of the security, the carrying amount of the security is modified and the impairment is recognized in the year-end results under the caption "Financial intermediation income". Regarding available-for-sale securities, the amount of loss recognized in equity is canceled.

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year´s results, except if it is an equity instrument.

(Continued)

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, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under "Traded securities to be settled".

Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale category, provided that the Group does not have the intention or the ability to hold them until maturity. Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission. Likewise, in the case of sales of held-to-maturity securities, this has to be informed to the Banking Commission. For the years ended December 31, 2018 and 2017, the Group did not carry out any transfer between categories, nor sales of held-to-maturity securities.

(e) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Group 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 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.

(Continued)

The Group acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”. Financial assets granted as collateral, when the Group acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of “Investment securities”, reporting it as a restricted asset.

Should the Group, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable is recorded 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 the Group acting as repurchasee turn becomes as repurchaser and the debit or credit balance is presented in the consolidated financial statement caption "Debtors under repurchase/resell agreements" or in "Collaterals sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts whitin the caption “Collateral received and sold or pledged by the entity”, in accordance with accounting criterion B-9 “Assets in custody and under management”.

(f) Securities lending-

At the trade date of securities lending transactions, the Group 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 criteria B-6 “Assets in custody and under management”. The accrued premium amount, acting the Group as a lender or borrower, is recognized in the consolidated 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 the asset or liability, accordingly.

The financial assets received as collateral, whereby the Group acts as a lender, are recognized in memorandum accounts following the guidelines for valuation of 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". The collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale as well as the obligation to return such collateral to the lender or the transaction value to the borrower under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently marked to market, the valuation effect is recorded in the consolidated income statement under the caption “Financial intermediation income”.

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 recorded under the caption "Financial intermediation income", as applicable.

In the case that the Group, 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".

Regarding securities lending transactions wherein the financial assets granted as collateral or the value matter of the transaction acting the the Brokerage Firm as the borrower or lender, respectively, come from collateral received in other transactions, the control of such collaterals is 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-

Transactions with derivative financial instruments comprise those carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under "Derivatives", in the assets or liabilities, accordingly, and "Financial intermediation income", respectively. The effect of the derivatives credit risk (counterparty), must be determined according to the risk area methodology, and must be recognized in results in the period in which it occurs against the supplementary account.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity under the caption "Unrealized result from valuation of cash flow hedge instruments", while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under "Financial intermediation income", and the counter-account with such effect are presented in the consolidated balance sheet under "Derivatives".

(Continued)

The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under "Derivatives" and in the consolidated statement of income in "Interest income" and "Financial intermediation income", since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under "Valuation adjustments from hedging of financial assets" and recognized in the year's income in the case of loan portfolio, in "Interest income", while for investments securities classified as available-for-sale, in "Financial intermediation income".

Collaterals pledged and received in over-the-counter derivate transactions

The collateral is a security obtained to ensure payment of the price agreed in contracts with derivative financial instruments on over-the- counter transactions.

The granting of collateral pledged in cash in over-the-counter derivative transactions are recorded as account receivable under the caption "Other accounts receivable, net", while collateral received in cash are recorded as "Other accounts payable".

The collaterals pledged in securities are recorded as restricted securities by guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

(Continued)

(h) Settlement of clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated 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 "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(i) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in suspense accounts, under "Loan commitments". The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under "Loan commitments" which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Loans pledged as collateral, are recognized as restricted credit loans.

INFONAVIT Portfolio-

The portfolio under extension includes housing credits originated by the National Workers Housing Fund Institute (INFONAVIT) acquired by the entities, and that, under the terms of the INFONAVIT Law, have any extension in force in the payment of the amortization for capital and ordinary interest, at the end of the extension, the portfolio will receive the corresponding treatment of: Ordinary Amortization Regimen (ROA) or Special Amortization Regimen (REA), provided that the entity is contractually obliged to respect said extension under the same terms as the reference agencies.

(Continued)

REA is the form of payment to INFONAVIT of credits whose rights were acquired by the Group, provided for by the "Rules for granting credits to entitled workers of the INFONAVIT", which indicate the methodology to make payments on such credits.

ROA is the form of payment to INFONAVIT of credits whose rights were acquired by the Group, whereby it is agreed that the workers make payments on their credits through salary discounts made by the employer, entity or office.

Past-due loans and interest-

Outstanding loans and interest balances are classified as past-due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

   An exemption exist from the rule mentioned, for those loans that continue receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided in the following numeral 2, they will be recorded as past-due loan portfolio.

2. Its installments have not been fully settled on the terms originally agreed, considering the following:

   a) If the debts consist in loans with a single payment of principal and interest at maturity and have 30 or more calendar past-due days;

   b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment has 90 or more calendar past-due days, or principal is 30 or more calendar past-due days;

   c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, have 90 or more calendar past-due days;

   d) If debts consist of revolving loans, and unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when have 60 or more calendar past-due days; and

   e) Overdrafts from checking accounts of clients that has credit lines, and immediate payment notes receivable, upon occurrence of such event.

(Continued)

3. Regarding portfolio "in extension" and mortgage loans, when installments have not been settled in the terms originally agreed and are 90 or more days past-due:

   a) Payments related to loans that the Group acquired from INFONAVIT or the Housing Fund of the Social Security and Services Institute of the State Workers (FOVISSSTE) in accordance with the corresponding payment method (REA and ROA), as well as letter "b" as follows.
   b) loans granted to individuals and aimed at housing remodeling or enhancement, without trading purpose and that are backed by the borrower's housing saving account.

The transfer of a loan such as those mentioned in number 3 of the preceding page to the past-due portfolio shall be subjected to an exceptional term of 180 or more days past-due from the date in which:

a) Loan resources are available for the purpose for which they were granted;
b) The borrower starts a new job hence having a new employer, or
c) The Group has received a partial payment for the corresponding amortization. This exception only applies for ROA loans, and each of the payments made during the period represent at least 5% of the agreed amortization.

The aforementioned exceptions in sections a), b) and c), shall not be mutually exclusive.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts; also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under "Interest income". Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be considered as past-due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is relased when there is evidence of sustained payment.

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.) except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

(Continued)

Sustained payments

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

In the cases of credits that the Group acquires from INFONAVIT, in which it is obligated to respect the terms that the reference organisms contracted with the borrowers, it is considered that there is a sustained payment of the credit, when the borrower has covered without delay the total amount payable of principal and interest, at least one amortization in credits under ROA and three amortizations for credits under REA.

In loans with periodic payments of principal and interest whose amortizations are less than or equal to 60 days in which the periodicity of payment to minor periods is modified due to the application of a restructuring, a sustained payment of the loan is considered, when the borrower shows payment of amortizations equivalent to three consecutive amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loans originate the reclassification to the caption "Past-due loan portfolio", in order to determine the three consecutive amortizations required for the existence of a sustained payment, the original loan repayment scheme should be considered, whose repayments equivalent to the longer term.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, it is considered that there is a sustained payment of the loan when any of the following assumptions occur:

a) the borrower has covered at least 20% of the original amount of the loan at the moment of the restructuring or renewal or,

b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days had been covered.

Prepayment of an amortization of restructured or renewed loan (amortization of restructured or renewed loan that have been paid without the occurrence of natural days equivalent to three consecutive amortizations of the loan amortization schedule or in the case of loans with amortization covering longer periods than 60 calendar days, the payment of an exhibition), other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at the maturity, is not considered as a sustained payment.

(Continued)

In any case, in order for the Group to show that there is sustained payment, in addition to ensuring that the borrower complies with the guidelines for sustained payment indicated in the preceding paragraphs, it must have evidence, at the disposal of the Banking Commission, to justify that the borrower has the payment capacity at the time the restructuring or renewal takes place to respond to the new credit conditions. The minimum evidence to be obtained is outlined bellow:

i. Probability of intrinsic noncompliance by the borrower,
ii. The guarantees granted to the restructured or renewed credit,
iii. The priority of payment against other creditors and,
iv. The liquidity of the borrower before the new financial structure of the financing.

Restructuring and renewals

A loan is considered restructured when the borrower makes any of the following requests to the Group:

1) Loan guarantee extension or,

2) Changes to the loan original conditions or payment scheme, among which are:

   a) change in the interest rate for the remaining term of the loan contract;
   b) change in the currency or account unit, (for example VSM (number of minimum wages) or UDI);
   c) granting of a waiting period for the compliance of payment obligations agreed upon in the original terms of the contract, or
   d) credit term extension.

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due loan portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past-due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

(Continued)

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

i) fully paid the total interest accrued;
ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving which have been restructured or renewed, will be considered, as current when the borrower had paid off the totality of accrued interest, there are no invoicing periods past-due and there is evidence to prove the debtor's repayment capability.

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured:

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructurings or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed individually.

The Group periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off is recognized in the year's results.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

(Continued)

Fees

Fees charged for loan origination are recorded as a deferred credit, which shall be amortized against the current year results as interest income, under the linear method during the life of the loan, except those originated by revolving loans which shall be amortized over a 12-month period.

Regarding fees charged for restructurings or renewals, they shall be added to the fees that would have been originated on the basis of the previous section and recognized as deferred credit amortized against the current year results as interests income, under the linear method during the new lifetime of the loan.

In this category the fees recognized after the loan origination, those generated as part of loan maintenance or charged for loans not underwritten shall not be included. In the case of fees charged for credit card annuity, whether it be the first annuity or the followings for renewal, they shall be recognized as a deferred credit and amortized over a 12-month period against the current year results in the caption of "fees and rates charged".

Fees charged for a credit line origination not yet available shall be recognized as a deferred credit at the date, and amortized against current year´s results as interest income under the linear method over a 12-month period. In the case that the credit line be canceled before the 12- month period, the balance pending to amortize shall be recognized directly in the current year's results under the caption of "fees and rates charged", at the date of cancelation of the credit line.

Fees and rates others than those charged for loan origination shall be recognized against the current year's results in the caption "fees and rates charged", at the date of accrual. In the case that one part or the full compensation received for the collection of the corresponding fee or rate be obtained before the accrual of the related income, said prepayment shall be recognized as a liability.

Costs and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to the income statement under the caption "Interest expense" during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

(Continued)

For preceding paragraph purposes, costs and expenses associated with the origination of loans, are only those that are incremental and related directly to activities performed by the entities to grant the loan, for example, credit evaluation of the debtor, evaluation and recognition of guarantees, credit terms negotiations, and closing of cancellation of the operation, including the proportional expense, based on time spent, related to employee benefits of those individuals working on such activities.

Acquisitions of credit portfolio

On the of portfolio acquisition date, the contractual value of the portfolio acquired must be recognized in credit portfolio, according to the type of portfolio that the originator has classified; the difference arising from the purchase price will be recorded as shown below:

a) When the acquisition price is lower than the contractual value thereof, in the income statement under other operating income, for up to the amount of preventive estimate for credit risks that, if applicable, is constituted according to the indications of the following paragraph and the excess as a deferred credit, which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

b) When the purchase price of the portfolio is greater than the contractual value, as a deferred charge which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

c) When it comes from the acquisition of revolving credits, the difference will be carried directly to the income statement of the year on the acquisition date.

(j) Allowance for loan losses-

Allowance for loan losses represents Group's management best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments.

Commercial loans– The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission.

Commercial loans shall be subject to credit rating without including those loans with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using risk analysis of the investment project according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure at default.

For the loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS, the Group uses the methodology set on Appendix 22 of the Provisions issued by Banking Commission.

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales less than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For financial institutions loans, the methodology set forth on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure at default.

The estimates carried out at December 31, 2018 and 2017, were determined based on the risk levels and allowance percentage according to the following table:

Grade of risk	Range of allowance percentages
A1	0.000 – 0.9%
A2	0.901 – 1.5%
B1	1.501 – 2.0%
B2	2.001 – 2.5%
B3	2.501 – 5.0%
C1	5.001 – 10.0%
C2	10.001 – 15.5%
D	15.501 – 45.0%
E	Higher than 45.0%

(Continued)

Mortgage loans including those originated and acquired from INFONAVIT-

Allowance for loans losses of mortgage loans is determined using the corresponding balances as of the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation. Additionally, for the loans acquired from INFONAVIT factors, such as viii) ROA, ix) REA and x) PRO, are considered. The total amount to reserve for each assessed loan is the result of multiplying the probability of default for the loss given default and exposure at default.

In determining the loss given default the loan recovery rate components is used, which is affected if the loan has a guarantee trust or judicial agreement, classifying by regions at the federal boroughs in which such courts reside.

The risk grades and percentages of allowance for loan losses on December 31, 2018 and 2017, are as shown below:

Grade of risk	Range of allowance percentages		
A1	0.000	-	0.50%
A2	0.501	-	0.75%
B1	0.751	-	1.00%
B2	1.001	-	1.50%
B3	1.501	-	2.00%
C1	2.001	-	5.00%
C2	5.001	-	10.00%
D	10.001	-	40.00%
E	40.001	-	100.00%

Consumer loans-

To calculate the allowance, the consumer loan portfolio is segregated into two groups: a) credit card transactions and other revolving loans, and b) non-revolving loans. The allowance for losses regarding credit card and other revolving loans is calculated on a loan by loan basis, using the figures of the latest known payment period of each loan and other revolving loan and considering the following factors: i) balance due, ii) payment made, iii) credit line, iv) minimum payment requirement, v) payment default, vi) amount payable to the Institution, vii) amount due reported to credit information institutions as well as, viii) borrower's seniority in the Group.

In addition, the calculation of allowance for loan losses corresponding to the non-revolving consumer loan portfolio takes into account the following: (i) amount due, (ii) payment made, (iii) days past-due, (iv) total term, (v) remaining term, (vi) original loan amount, (vii) original value of the asset, (viii) loan balance and (ix) credit type.

(Continued)

The risk grades and percentages of provision for loan losses at December 31, 2018 and 2017, are shown as follows:

	Ranges of allowance percentages			
Grade of risk	**Non-revolving**		**Credit cards and other revolving loans**	
A1	0.00	2.0%	0.00	3.00%
A2	2.01	3.0%	3.01	5.00%
B1	3.01	4.0%	5.01	6.50%
B2	4.01	5.0%	6.51	8.00%
B3	5.01	6.0%	8.01	10.00%
C1	6.01	8.0%	10.01	15.00%
C2	8.01	15.0%	15.01	35.00%
D	15.01	35.0%	35.01	75.00%
E	35.01	100.0%	Higher than	75.01%

Impaired loan portfolio – For consolidated financial statement disclosure purposes, the Group considers impaired loans to those commercial loans for which it is determined that there is a considerable probability that they could not be recovered in full, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves– Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization is considered to result in a loss to the Group, as well as reserves maintained as prescribed by regulations.

Write-offs– The Group has policies of write-offs for consumer and residential mortgages loans, according to established terms (6 and 35 months, respectively) that determine the practical impossibility of recovery; the write-offs cancel the loan balance against the allowance for loan losses previously recorded. When the loan to be written-off exceeds the balance of its related allowance, before making the write-off, the allowance should be increased up to the amount of the difference. Any amount recovered from previously written-off loans is recognized in income.

(Continued)

(k) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, the Bank had adopted until December 31, 2017, the International Financial Reporting Interpretations Committee "IFRIC13" "Customer loyalty program". Beginning on January 1, 2018, IFRS 15 "Revenue from contracts with customers" incorporates revenue recognition of loyalty programs with customers, and so, IFRIC13 is superseded. According to IFRS 15, a portion of revenue from exchange fees is deferred until the point of time when obligations are entitled, that is to say, when the deliverance of the rewards to which customers are entitled are incurred and amortized to income once that obligation is satisfied.

(l) Other accounts receivable-

Collection rights and the accounts receivable related to debts, whose maturity is agreed from origin to more than 90 calendar days term, are evaluated by Group´s management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 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.

Overdrafts on checking accounts of customers which do not have a loan facility for such purposes, shall be classified as past-due debts and credit institutions must simultaneously create a reserve for such classification for the total amount of the overdraft, at the time when such event occurs.

(m) Securitization transactions-

Until July 25, 2018, the residual benefits on the securitization transactions are recognized in caption "Benefits receivable on securitization transactions" and are marked to market. Valuation adjustments are recognized in income under "Other operating income". Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

(Continued)

Until July 25, 2018, the Trust where the securitization is recorded is not consolidated with the Group in accordance with the established in paragraph 21 of transitory dispositions of accounting criteria C-5 "Consolidation of specific purpose entities" issued by the Banking Commission on September 19, 2008 (see note 11).

(n) Foreclosed assets or assets received in lieu of payment-

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure) as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in consolidated income statement caption "Other operating income". Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption "Other operating income" The Group creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year's results of operations under "Other operating income", which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as shown on the next page.

(Continued)

Months elapsed from the date of foreclosure or received in lieu of payment	Allowance percentage	
	Real Estate	**Receivables, furniture, and equipment and investment securities**
Over 6	0%	0%
More than 6 to 12	0%	10%
More than 12 to 18	10%	20%
More than 18 to 24	10%	45%
More than 24 to 30	15%	60%
More than 30 to 36	25%	100%
More than 36 to 42	30%	100%
More than 42 to 48	35%	100%
More than 48 to 54	40%	100%
More than 54 to 60	50%	100%
More than 60	100%	100%

(o) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the financial information was suspended according to the MFRS. 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 is calculated using the straight-line method, based on the estimated useful lives determined by the Group's management of the corresponding assets.

Depreciation 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 Group periodically evaluates residual values of premises, furniture and equipment to determine amounts to be depreciated.

The Group 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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. 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.

(Continued)

(p) Available-for-sale long-term assets-

Long-term assets are classified as available for sale if all the requirements listed below are met:

a) The approving department of the Bank has formally committed to a sales plan.

b) Assets are available for its immediate realization, in its current condition, subject exclusively to the usual and customary terms for the sale of those assets and its sale is highly probable.

c) Actions to find a client and other activities to execute the sales plan are initiated. If no client has been found, it has been identified a potential market, at least.

d) It is expected that the sales plan will be executed in a less than a year term. This requirement is not applicable for those cases where the Bank holds agreements that are in substance purchase options and sale and lease back agreements. An extension to the less than a year period to conclude the sale does not impede the available for sale classification of the asset, as long as the delay is caused for facts and circumstances out of the control of the Bank, and there is sufficient evidence that the Bank is still committed to a sales plan to dispose the asset.

e) There is an adequate estimate of the price of the asset or group of assets.

f) Significant changes or cancellation of the original sales plan are not probable.

Available for sale long term assets that met the mentioned criteria, are valued as of the date of approval of the sales plan at the net book value or at the net sales price, the lowest. Impairment loss must be recognized in the income statement of the year, as applicable.

(q) Permanent investments-

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

(Continued)

(r) Other assets-

This caption includes mainly the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, using the straight-line method over the estimated useful life as determined by the Group.

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.

Furthermore, in this caption, the projected net assets of the defined benefit plan are recognized and are recorded (up to the amount of the plan asset ceiling, in accordance with the provisions of MFRS D-3 "Employee benefits"). The excess of non-reimbursable resources provided by the Group to cover employee benefits are recognized as restricted cash and cash equivalents under the caption "Cash and cash equivalents" (see notes 6 and 17).

(s) Income taxes and employee statutory profit sharing (ESPS)-

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

Income taxes payable are presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference is booked as 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 IT for operating loss carryforwards. Deferred tax and ESPS 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 for the period enacted.

The deferred income tax asset is periodically valuated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

Current and deferred ESPS are shown under the caption "Administrative and promotional expenses", in the consolidated statement of income.

(t) 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 market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income" The asset is depreciated in the same way as other assets held in property when it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise these are depreciated over the term of the contract.

(u) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding, the placement of debt certificates and bank bonds and the global account of deposits without movements. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(v) Provisions-

Based on management's estimates, the Group 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.

(w) Banking and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted borrowings with agencies specializing in financing economic, production or development activities. Interest is recognized on an accrual basis under the caption "Interest expense".

(Continued)

(x) Employees' benefits-

Short-term direct benefits

Short-term direct employee 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 Group 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 Group's net obligation in relation to direct long-term benefits and which the Group is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that retired employees have obtained in exchange for their service in previous periods. This benefit is discounted to its present value.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Group 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 wholly settled within twelve months after the date of the most recent balance sheet presented, then they are discounted. Remeasurements are recognized in the results as accrued.

Defined contribution plans

The Group has a defined contribution pension plan, where the amounts contributed by the Group are recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 17).

Defined benefit plans

In addition, the Group has a defined benefit plan in place that covers 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 plans medical benefits, food coupons and life insurance for retirees.

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 Group, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or 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 Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by multiplying the discount rate used to measure the defined benefit obligation by the beginning balance of the 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.

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 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.

According to the resolution published on December 31, 2015 by the Banking Commission, modifications to the plans and remeasurements accumulated until December 31, 2015, are gradually recognized during five years that conclude in 2020, however, derived from the employer substitution between the Bank and SECOSA, plan modifications and remesurements to be recognized until November 15, 2018 for active employees, are recognized in the income statement of the year (see note 17).

(y) Subordinated debt issued-

The subordinated debt is recorded at contractual value and the interest are recognized on accrual basis in the consolidated income statement under the caption "Interest expense".

(z) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance, origination loan fees and credit card annual fees are recorded within "Deferred credits and prepayments", and applied to the year's results of operations in "Interest income" and "Commission and fee income", respectively, as accrued, in the term of the loan or during a year (12 months for credit cards), as applicable.

The commissions from assets in custody or under management as well as commissions from services related to derivative transactions are recognized in income when the service is rendered in "Commission and fee income" caption.

Fees on trust transactions are recognized in income as accrued in "Commission and fee income". Such revenues are not accrued when fees are 90 or more calendar days past-due, and are recorded in memorandum accounts. When accrued revenues are collected, they are reported directly in income for the year.

Fees collected for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in "Interest income" using the straight-line method during the new term of the loan.

Income from commissions collected on transactions in the derivative market are recorded in the consolidated statements of income as the service is provided under the caption "Commission and fee income".

Income from leasing is recognized in results as accrued.

(aa) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statement presentation purposes. Currencies other than dollars are translated into dollars at the exchange rates as established in the Provisions applicable to credit institutions, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank.

(Continued)

At the year-end date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by the Central Bank and foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(ab) Contributions to IPAB-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual, corporation or credit institution. The contributions to IPAB are recorded in income statement within the caption "Administrative and promotional expenses".

(ac) Memorandum accounts-

Memorandum accounts corresponds mainly to assets and operations under custody or management and trust transactions.

Securities or transactions in custody or under management and trust operations-

Customer's securities in custody, warranty or under management are valued at fair value or in accordance with applicable accounting principles, representing the maximum amount expected for which the Group is obligated to its customers against any future eventuality and are presented in the captions "Customer securities in custody" or "Assets in custody or under management", as appropriate.

Trust operations are presented in the caption "Assets in trust or under mandate".

Transactions on behalf of customers-

The amounts of securities repurchase/resell agreements and securities lending in repurchase/resell agreements that the Group undertakes for its customers is presented under the "Securities on repurchase/resell agreements by customers" caption.

Securities lending conducted by the Group on behalf of its customers are presented under the "Securities lending by customers" caption.

In the case of collaterals that the Group receives or delivers on behalf of its customers from repurchase/resell agreements, 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.

(Continued)

The determination of the valuation of the estimated amount for the assets in management and transactions on behalf of its customers is made according to the operation carried out in accordance with the accounting criteria for brokerage firms and accounting criteria for credit institutions.

The Group records transactions on behalf of its customers, on the trade date, regardless of its settlement.

(ad) 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 consolidated financial statements. Contingent income, earnings or assets are not recognized until their realization is virtually certain.

(4) Accounting changes-

Accounting changes-

(a) Changes in the Provisions of the Banking Commission-

On December 27, 2017, various modifications to the Accounting Criteria were published in the Official Federal Gazette. According to such issuance, modifications will be effective on January 1, 2019, early adoption is allowed on January 1, 2018 for the following Criterion:

Accounting Criterion B-6 "Loan portfolio" and D-2 "Income statement"

Accounting Criteria applicable is modified to allow credit institutions to offset, in the occurrence period, excess in the balance of the allowance for loan losses, as well as to recognize the recovery of loans previously written-off against the caption "Allowance for loan losses" in the consolidated income statement.

Derived from the resolution mentioned in the preceding paragraph, the Group early adopted the criterion described on January 1, 2018.

(Continued)

Reclassification-

The consolidated income statement for the year ended December 31, 2017 was reclassified in accordance to the early adoption of the Accounting Criterion B-6 "Loan portfolio" and D-2 "Income statement", to conform it to the presentation used in the consolidated income statement for the year ended December 31, 2018, as shown below:

	Figures previously reported	**Accounting change**	**Reclassified figures**
Allowance for loan losses	$ (4,912)	392	(4,520)
Commissions and fee income	6,000	284	6,284
Other operating income	2,346	(676)	1,670

(b) 2018 MFRS Revisions-

In December 2017, the CINIF issued the document referred to as "2018 MFRS Revisions", which contains precise modifications to some current MFRS. MFRS Revisions mentioned below that entered into force for the years beginning after January 1, 2018 did not generate important effects in the consolidated financial statements of the Group:

- MFRS B-10 "Inflation effects"
- MFRS C-6 "Property plant and equipment" and MFRS C-8 "Intangible assets"
- MFRS C-14 "Transfer and derecognition of financial assets"

(5) Foreign currency position-

Central Bank regulations require that banks and brokerage firms maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital of the Bank computed as of the third immediately preceding quarter, and 15% of the net capital of the Brokerage Firm. At December 31, 2018 and 2017, the Bank and the Brokerage Firm maintain a position within the authorized limits. The foreign currency position is analyzed as follows:

	Millions of dollars			**Equivalent in pesos**	
	2018	**2017**		**2018**	**2017**
Assets	4,569	4,350	$	89,782	85,534
Liabilities	(4,525)	(4,323)		(88,926)	(85,003)
Long position	**44**	**27**	**$**	**856**	**531**

At December 31, 2018, the position in foreign currency consists of 94.44% in U.S. dollars (88.23% in 2017) and 5.56% in other foreign currencies (11.77% in 2017).

The exchange rate relative to the U.S. dollar at December 31, 2018 and 2017, was $19.6512 pesos per dollar and $19.6629 pesos per dollar, respectively, and on the authorization issuance date of the accompanying consolidated financial statements, was $19.2607 pesos per dollar.

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2018 and 2017 are as follows:

		2018	2017
Cash hand	$	6,925	6,213
Banks:			
Domestic		7,321	1,482
Foreign		12,974	8,004
Call money		6,502	3,652
24, 48, 72 and 96 hour foreign currency sales		(3,059)	-
Other funds available (due on demand)		6	3
Restricted funds:			
Excess of maximum obligation for employee's benefits		127	250
Compensation fund to operate derivatives		587	720
Deposits with the Central Bank		11,579	11,575
24, 48, 72 and 96 hour foreign currency purchases		3,215	419
Other restricted funds		92	-
	$	**46,269**	**32,318**

As of December 31, 2018 and 2017, deposits in the Central Bank correspond to monetary regulation deposits for $11,566, in both years, which have no defined maturity date, for what the Central Bank will inform in advance the date and the procedure for the withdrawal of the funds. The interest generated by deposits in the Central Bank at December 31, 2018 and 2017, were $13 and $9, respectively. The provisions in force issued by the Central Bank for the monetary regulation deposit, which may be comprised of cash, securities or both, at December 31, 2018 and 2017, the Group keeps Reportable Monetary Regulation Bonds (BREMS-R) that amount to $3,092 and $3,091, respectively, which are part of the monetary regulation deposit (see note 7a).

At December 31, 2018 the Group had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed for $2,989 and ($3,141), respectively, ($4,211 and ($3,994), respectively, at December 31, 2017), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

At December 31, 2018 and 2017, the Group had the following "call money" with maturity terms minor or equal to four days:

		2018				**2017**		
		Amount	**Anual rate**	**Term**		**Amount**	**Anual rate**	**Term**
HSBC México, S. A.	$	2,001	8.25%	2 days	$	2,001	7.25%	4 días
Banco Nacional de Obras y Servicios Públicos, S. N. C.		2,000	8.25%	2 days		-	-	-
Nacional Financiera S. N. C.		2,501	8.25%	2 days		1,501	7.25%	4 días
Industrial and Commercial Bank of China México, S. A.		-	-	-		150	7.25%	4 días
	$	**6,502**			**$**	**3,652**		

At December 31, 2018 and 2017, foreign currency receivable and deliverable, translated into pesos, in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

		Foreing currency receivable		**Foreing currency deliverable**	
		2018	**2017**	**2018**	**2017**
Dollar translated	$	3,147	5,383	(2,995)	(5,163)
Other currencies		68	160	(64)	(98)
	$	**3,215**	**5,543**	**(3,059)**	**(5,261)**

According to the Accounting Criteria, when the offset balance of the foreign currency to be delivered is greater than the foreign currency to be received, this balance is presented within the caption "Sundry creditors and other accounts payable". As of December 31, 2017, the net balance of ($137), is presented within the mentioned caption.

At December 31, 2018 and 2017, earnings from operations of buy/sell currencies amounted to $1,041 and $314, respectively, also, the valuation result amounts to $349 en 2018 and $1,970 in 2017, which are recorded under the "Financial intermediation income" caption.

(Continued)

(7) Investment securities-

(a) At December 31, 2018 and 2017, the investment securities at fair value, except held to maturity, are as follows:

		2018	2017
Trading securities:			
Debt securities:			
Government securities	$	21,988	6,983
Bank promissory notes		44	652
Others		1,045	19
Equity shares		1,354	1,372
Total trading securities		**24,431**	**9,026**
Available-for-sale securities:			
Debt securities:			
Government securities		24,473	37,845
Bank promissory notes		12,537	6,503
Others		1,433	336
Total available-for-sale securities		**38,443**	**44,684**
Held-to-maturity securities:			
Special CETES		1,712	1,587
Bonds		3,092	3,091
Total held-to-maturity securities		**4,804**	**4,678**
Total investment securities	**$**	**67,678**	**58,388**

(Continued)

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At December 31, 2018 and 2017, the detail of the securities classified as trading, available-for-sale and held-to-maturity are analyzed as follows:

		2018	2017
Trading securities:			
Government securities:			
Unrestricted securities:			
Own position:			
BI CETES	$	794	724
M BONOS		173	110
		967	834
Value date sales			
M BONOS		-	(76)
		967	758
Restricted securities:			
CETES delivered as collateral		148	133
Under repurchase/resell agreements:			
LD BONDESD		11,695	3,430
BI CETES		2,233	805
IM BPAG		1,705	21
IS BPA		1,419	217
IQ BPAG		988	829
S UDIBONO		355	3
M BONOS		200	453
		18,595	5,758
Value date purchases			
BI CETES		1,675	4
LD BONDESD		390	-
M BONOS		213	330
		2,278	334
Total government securities		**21,988**	**6,983**
Bank promissory notes:			
Restricted securities:			
Under repurchase/resell agreements:			
BANOBRA – PRLV		44	652
Total bank promissory notes		**44**	**652**
Subtotal trading securities, carried forward	$	22,032	7,635

(Continued)

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		2018	2017
Subtotal trading securities, brought forward	$	22,032	7,635
Other debt securities:			
Unrestricted securities:			
51 SCOTIAG		1,039	-
1I XLF		4	-
1 GSANBORNB		2	-
JE AMEX		-	19
Total other debt securities		**1,045**	**19**
Equity shares:			
Unrestricted securities:			
51 SCOTIAG		628	435
1B NAFTRAC		89	-
1A FCX		-	3
1A TZ		-	2
1I EWZ		-	6
1I GXG		-	2
1I TWM		-	2
Other equity shares		4	-
		721	450
Value date sales			
1B NAFTRAC		(26)	-
Equity shares, net of value date sales		695	450
Restricted securities:			
Securities lending:			
1B NAFTRAC		17	69
1 CEMEX		8	11
1 MEXCHEM		4	7
1 NEMAK		3	2
1A VALE		3	-
1 ALFA		3	3
1 SIMEC		2	3
Other equity shares		6	4
		46	99
Subtotal trading securities, carried forward	$	23,818	8,203

(Continued)

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		2018	2017
Subtotal trading securities, brought forward	$	23,818	8,203
Guarantees:			
51 SCOTIAG		44	234
Value date purchases:			
1I CSPXN		90	-
1I HEZU		79	-
1I SHV		60	-
1I FLOT		37	-
1I HEWG		32	-
1I EWJ		31	-
1I QQQ		30	-
1I VGK		28	-
1I IEMG		25	-
1I XLK		25	-
1I DFE		-	231
1I EWC		-	93
1I IVV		-	91
1I ACWI		-	85
I1 SHV		-	35
1B NAFTRAC		4	23
Other equity shares		128	31
		569	589
Total equity shares		**1,354**	**1,372**
Total trading securities	**$**	**24,431**	**9,026**
Available-for-sale:			
Debt securities:			
Domestic government securities:			
LD BONDESD	$	5,926	3,408
95 FEFA		186	186
BI CETES		-	5,171
		6,112	8,765
Foreign government securities:			
DI BRAZE97		212	225
TBILN51		-	3,930
TBILC15		-	1,475
		212	5,630
Subtotal available-for-sale securities, carried forward	$	6,324	14,395

(Continued)

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		2018	2017
Subtotal available-for-sale securities, brought forward	$	6,324	14,395
Restricted securities:			
Under repurchase/resell agreements:			
LD BONDESD		16,087	21,437
M BONOS		1,466	1,687
S UDIBONO		596	318
BI CETES		-	8
		18,149	**23,450**
Total government debt		**24,473**	**37,845**
Banking notes:			
Own position:			
I BANSAN		8,514	6,503
F BANORTE		4,023	-
Total banking notes		**12,537**	**6,503**
Other debt securities:			
Own position:			
D1 NAFIA		351	-
91 GMFIN		302	-
JI CABEI		300	100
D1 UMS		197	-
91 UFIN		171	200
91 ENCAP		77	-
91 UNFIN		35	36
Total other debt securities		**1,433**	**336**
Total available-for-sale securities	**$**	**38,443**	**44,684**

	Maturity		2018	2017
Held-to-maturity:				
Government securities (special CETES*):				
CETES B4 270701	Jul 01, 2027	$	1,263	1,171
CETES B4 220804	Aug 04,2022		2	2
CETES B4 220707	Jul 07, 2022		447	414
Total special CETES			1,712	1,587
BONOS XR BREMSR (restricted, note 6)			3,092	3,091
Total held-to-maturity securities		**$**	**4,804**	**4,678**

* Corresponds to special CETES held by the Bank derived from support programs for debtors of mortgage loans, signed on July 15 and 16, 2010 with the Federal Government.

(Continued)

At December 31, 2018 and 2017, BREMS-R amounts to $3,092 and $3,091, respectively and are classified as securities held-to-maturity. The amount of these securities is part of monetary regulation deposit, thus these instruments may only be decreased as the monetary regulation deposit in cash increases.

As of December 31, 2018, the Group held an asset (liability) balance for transactions with securities settled on a date subsequent to the trade date of $2,003 and ($2,999), respectively, ($1,057 and ($891), respectively, as of December 31, 2017), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions" captions, as appropriate.

The valuation result from available-for-sale securities as of December 31, 2018 and 2017, recognized in other comprehensive income within stockholders' equity amounted to $34 less deferred income tax for ($9) and deferred ESPS for ($2) (($58) less deferred income tax for ($18) and deferred ESPS for ($6) en 2017).

For the years ended December 31, 2018 and 2017, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investments in securities were as shown as follows:

		2018	2017
Trading securities	$	1,284	875
Available-for-sale		2,551	2,436
Held-to-maturity		366	340
	$	4,201	3,651

(b) At December 31, 2018 and 2017, the fair value of the securities classified as traded securities to be settled are analyzed as follows:

		2018	2017
Traded securities to be settled:			
Debt securities:			
Government securities (unrestricted):			
BI CETES	$	(1,279)	-
M BONOS		(137)	(419)
Subtotal, carried forward	$	(1,416)	(419)

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		2018	2017
Subtotal, brought forward	$	(1,416)	(419)
Other debt securities (unrestricted):			
JE AMEX		-	(19)
Equity shares (unrestricted):			
51 SCOTIAG		-	344
1B NAFTRAC		-	9
Other equity shares		-	3
		-	356
Value date sales:			
1I CSPX		(90)	-
1I HEZU		(79)	-
1I SHV		(60)	(35)
1I FLOT		(37)	-
1I HEWG		(32)	-
1I EWJ		(31)	-
1I QQQ		(30)	-
1I VGK		(28)	-
1I IEMG		(25)	-
1I XLK		(25)	-
1I DFE		-	(231)
1I EWC		-	(93)
1I IVV		-	(91)
1I ACWI		-	(85)
1B NAFTRAC		-	(26)
Other equity shares		(112)	(31)
		(549)	(592)
Traded securities to be settled, unrestricted securities	**$**	**(1,965)**	**(674)**

(Continued)

(c) Issuers over 5% of the Group's net capital-

Bank-

At December 31, 2018 and 2017 investment in non-goverment debt securities and exceeding 5% of the Bank's net capital are analyzed as follows:

Issuer	Series	Number of securities	Annual average rate	Term		Amount
2018						
BANORTE	18011	40,000,000	8.36%	3	$	4,023
BANSAN	19011	8,527,105,535	8.20%	14		8,514
		8,567,105,535			$	12,537
2017						
BANSAN	18012	6,505,236,129	7.25%	4	$	6,503

Brokerage Firm-

At December 31, 2018 and 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.

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

Repurchase/resell agreements-

At December 31, 2018 and 2017, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Group acts as repurchasee, are analyzed in the next page.

		Debtors on repurchse/resell agreements		Creditors on repurchse/resell agreements	
		2018	**2017**	**2018**	**2017**
LD BONDESD	$	10,595	53,650	(26,420)	(12,232)
IS BPA		10,258	500	(503)	(217)
M BONOS		4,203	4,535	(1,666)	(2,139)
BI CETES		2,116	189	(2,222)	(805)
IM BPAG		1,648	-	-	-
IQ BPAG		984	2,001	(37)	(829)
S UDIBONO		802	317	(802)	(320)
IPAS		-	1,274	-	-
IQ BPAG		-	1,001	-	(21)
CBIC		-	100	-	-
PRLV		-	-	-	(9)
		30,606	63,567	(31,650)	(16,572)
Collateral sold or pledged (under repurchase/resell agreements)					
LD BONDESD		(10,595)	(26,415)	-	-
IS BPA		(10,258)	(3,691)	-	-
M BONOS		(4,203)	(4,253)	-	-
BI CETES		(2,116)	-	-	-
IM BPAG		(1,648)		-	-
IQ BPAG		(984)	-	-	-
S UDIBONO		(802)	(317)	-	-
IPABONOS		-	(1,275)	-	-
LBON		-	(27,516)	-	-
CBIC		-	(100)	-	-
		(30,606)	(63,567)	-	-
Collateral sold or pledged (creditors on repurchse/resell agreements)	**$**	**-**	**-**	**(31,650)**	**(16,572)**

At December 31, 2018, for the Bank, the terms of resell/repurchase agreements vary between 2 and 28 days (4 and 28 days in 2017), with annual weighted rates of 7% acting as repurchasee, and 8% acting as repurchaser (7% and 6% in 2017). At December 31, 2018 for the Brokerage Firm, the terms of the repurchase/resale agreements is 2 days (4 days at December 31, 2017) with annual weighted rates of 8.28% when acting as repurchaser and 7.94% when acting as repurchasee (7.37% and 7.06% at December 31, 2017, respectively).

(Continued)

During the years ended December 31, 2018 and 2017, premiums collected by the Group amounted to $1,623 and $1,641, respectively; premiums paid amounted to $3,016 and $2,842, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 23b).

At December 31, 2018 and 2017, the Group did not deliver additional collaterals in repurchase/ resell agreements.

At December 31, 2018, the Group kept a debit (credit) balance on repurchase/resell agreements to be settled at a subsequent date for $8 and ($5), respectively, ($49 and ($48), respectively in 2017), which were recognized within the "other accounts receivable, net" caption and "creditors on settlement of transactions" caption, as it corresponds.

Securities lending-

At December 31, 2018 and 2017, the Group held securities lending transactions as lender and borrower in which the values object of the transactions were sold and acquired.

At December 31, 2018 and 2017, the fair vlue of restricted securities derived from securities lending operation, acting as lender, are as shown as follows:

2018	**Number of securities**		**Fair value**
1B NAFTRAC	410,000	$	17
1 CEMEX	828,612		8
1 NEMAK	220,000		3
1 ALFA	130,000		3
1 MEXCHEM	70,375		3
1A VALE	12,000		3
1 ALPEK	50,000		2
1 SIMEC	40,000		2
1 FEMSA	13,200		2
1A FCX	10,000		2
		$	**45**

(Continued)

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

At December 31, 2018 and 2017, the right to demand the securities to the borrower, derived from the sale of such securities, are analyzed as follows:

2018	**Number of securities**		**Fair value**
1A AAPL	5,250	$	16
1 CEMEX	828,612		8
1 ALFA	130,000		3
1 NEMAK	220,000		3
1 MEXCHEM	70,375		3
1A VALE	12,000		3
1 SIMEC	40,000		2
1 FEMSA	13,200		2
1A FCX	10,000		2
1 ALPEK	50,000		1
1 LACOMER	206		1
1 GMEXICO	100		1
		$	**45**

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

The range of term of the securities lending transactions as of December 31, 2018 and 2017 whereby the Group acts as a lender is 15 and 28 days, respectively, and acting as a borrower is 6 and 30 days, and 6 and 28 days for such dates.

For the years ended December 31, 2018 and 2017, premiums collected and (paid) in securities lending transactions amounted to $10 and ($2) as well as $9 and ($3), respectively, and are included in the consolidated statement of income under the captions of "Interest income" and "Interest expense", respectively.

At December 31, 2018 and 2017, the Group received equity shares securities as collateral in the securities lending transactions for $45 and $34, respectively. These securities are managed in memorandum accounts (see note 22).

(9) Derivatives-

At December 31, 2018 and 2017, the valuation of derivative financial instruments for trading and hedging purposes recognized under the caption "Derivatives", is analyzed as follows:

		2018		**2017**	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:					
Forwards	$	293	344	879	472
Options		1,305	1,581	766	881
Swaps		19,307	19,899	16,560	17,241
Package of derivative instruments		-	-	261	272
Total trading purposes derivatives, carried forward	$	20,905	21,824	18,466	18,866

(Continued)

		2018		2017	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Total trading purposes derivatives, brought forward	$	20,905	21,824	18,466	18,866
Hedging purposes:					
Fair value hedges		710	174	590	58
Cash flow hedges		6,019	4,790	4,525	3,826
		6,729	4,964	5,115	3,884
	$	**27,634**	**26,788**	**23,581**	**22,750**

The gain, for the years ended December 31, 2018 and 2017, derived from the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $11 and $2, respectively.

The effect of gain from valuation relating to the effective hedge portion at December 31, 2018, amounts to $498 less deferred income tax for ($156) and deferred ESPS for $71.

For the year ended December 31, 2017, the gain from valuation relating to the effective hedge portion was $139 less deferred income tax for ($40) and deferred ESPS for ($13), which are presented in equity. At December 31, 2018 and 2017, the amount of the impairment charge, of the hedging instruments amount to ($2) and ($1), respectively.

For the year 2018, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was $36 and ($270), respectively, ($8 and ($167), respectively, for the year 2017).

The net estimated effect, based on the results of January 2019 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months is $75.

At December 31, 2018 and 2017, the (loss) gain from valuation of fair value hedging derivatives was $6 and ($56) , respectively; while the gain (loss) from valuation of the hedged item related to the hedged risk was ($1) and ($41), respectively.

(Continued)

At December 31, 2018 and 2017, the net valuation result on financial assets and liabilities related to trading derivatives amounted to $989 and $580, respectively. These amounts include the impairment reversal or (debit) for credit risk in the counterparty for $7 and $16, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains from buy/sell transactions and valuation results for the year 2018 amounted to $1,041 and 349, respectively (($359) and ($1,962), respectively in 2017) and are presented in "Financial intermediation income".

For the years ended December, 31 2018 and 2017, the Group foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2018, the Group had assets (liabilities) transactions settled on a date subsequent to the traded date for $12 and ($2). At December 31, 2017, the Group had liabilities transactions settled on a date subsequent to the traded date for $23.

The Group may reduce or modify the market risk mainly through two activities: converting fixed to variable rate financial assets and floating-rate to fixed rate financial liabilities. Both transformations are achieved using interest rate swaps and foreign exchange swaps related to different rates of interest.

At December 31, 2018, the Group holds a total of 216 hedge derivative contracts (197 agreements in 2017), 131 of these agreements (132 agreements in 2017) totaling $31,172 ($29,175 in 2017) are classified as hedges under the cash flow methodology; the remaining contracts relate to hedges under the fair value methodology $17,266 ($12,085 in 2017).

The Group uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment on securities and on repurchase/resell agreements, all of which are characteristic of commercial banking.

The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Group assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(10) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2018 and 2017, the classification of loans into current and past-due by currency (valued in local currency), is analyzed as follows:

		2018		2017	
		Current	**Past-due**	**Current**	**Past-due**
In assets:					
Local currency:					
Business or comercial activity	$	122,629	3,166	105,301	2,882
Financial institutions		35,197	82	32,415	81
Government entities		9,676	-	11,163	-
Consumer loans		45,261	1,844	36,710	1,409
Medium and residential [(1)]		116,550	2,895	103,007	2,699
Social interest housing		121	17	138	23
Loan portfolio acquired from INFONAVIT		3,623	1	1,244	-
	$	333,057	8,005	289,978	7,094
Foreign currency translated:					
Business or comercial activity	$	29,602	288	18,788	288
Financial institutions		42	28	89	29
Medium and residential		34	87	85	51
		29,678	403	18,962	368
	$	362,735	8,408	308,940	7,462
		371,143		316,402	
Memorandum accounts:					
Loan commitments (ver nota 22a)		29,048		27,092	
	$	**400,191**		**343,494**	

(1) Includes $187 and $215 loans denominated in UDIS, in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the restricted balance of medium and residential portfolio is for $6,479 and $1,138, respectively (see note 16).

(b) Classification of loan portfolio by economic sector-

At December 31, 2018 and 2017, credit risk including loans, guarantees and loan commitments, classified by economic sector and the percentage of concentration are analyzed as follows:

		2018		**2017**	
		Amount	**%**	**Amount**	**%**
Agriculture, forestry and fishing	$	9,456	2	9,448	3
Commerce and tourism		41,878	11	35,966	10
Construction and housing**		135,983	34	120,816	35
Manufacturing		66,378	17	53,659	16
Consumer loans and credit cards		47,105	11	38,119	11
Community, social and personal services mainly government entities		31,186	8	29,596	9
Financial, insurance and real estate services		66,646	17	54,744	16
Transportation, warehousing and communication		1,559	-	1,146	-
	$	**400,191**	**100**	**343,494**	**100**

* Includes mortgage loan portfolio for $123,328 in 2018 and $107,247 in 2017.

(c) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2018 and 2017, non-audited, were as follows:

	2018	**2017**
Commercial loans*	6.70%	7.78%
Personal loans	15.71%	15.52%
Credit cards	30.10%	29.50%
Residential mortgages	10.22%	9.87%

* Includes commercial, financial and government entities loans.

(Continued)

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2018 and 2017, the amount of loans granted under these programs totaled $9,568 and $8,777, respectively, and the related liability is included in "Bank and other borrowings" (see note 16).

Restructured loans:

At December 31, 2018 and 2017, restructured and renewed loans are analyzed as follows:

		Current loans	Past-due loans	Total
2018				
Commercial loans	$	6,493	749	7,242
Residential mortgages		4,368	271	4,639
Consumer loans		1,501	316	1,817
	$	**12,362**	**1,336**	**13,698**
2017				
Commercial loans	$	4,534	1,072	5,606
Residential mortgages		4,978	297	5,275
Consumer loans		50	115	165
	$	**9,562**	**1,484**	**11,046**

During 2018 and 2017, the Group carried out some modifications (exchange of better qualified guarantees, currency and partial payment dates) to the original terms of loans classified as commercial loans for $1,819 and $1,772, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Group during 2018 and 2017, which continue being current, amount to $4,296 and $587, respectively; for mortgage portfolio were $275 and $172, respectively.

During the years 2018 and 2017, the Group recorded restructuring from past-due commercial loans which remained as past-due for $83 and $437, respectively. Also, in 2018 the Group made restructure from past-due mortgages loans for $27 ($22 in 2017).

(Continued)

The restructuring consumer loans current and past-due made by the Group during 2018 amount to $4 and $49, respectively ($32 and $44, respectively in 2017).

During the years 2018 and 2017 no interest capitalization was carried out.

Risk concentration (the Bank):

At December 31, 2018, the Group, has ten economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $61,423 and represents 145% of the basic capital at September 2018. At December 31, 2017, the Group, had nine economic group debtors that exceeded such limit totaling $58,553 and represents 149% of the basic capital at September 2017. The total balance of the loans granted to the three largest borrowers as of December 31, 2018 and 2017, amounts to $28,151 and $28,884, respectively.

Loan portfolio acquired from INFONAVIT

As of December 31, 2018 and 2017, the analysis of the loan portfolio, current and in extension, is presented below:

Type of loan		Current portfolio	Portfolio in extension[1]	Total
2018				
Acquired from INFONAVIT	$	3,578	46	3,624
2017				
Acquired from INFONAVIT	$	1,244	-	1,244

(1) Extension scheme, is the period of time during which an extension is granted to a mortgage loan to make loan payments of a result of having lost salary income.

On May 17, 2017, the Group was selected through an auction process to acquire the co-participation rights in the origination of the credit loans denominated "Segundo Crédito (second loan)" that will be granted to INFONAVIT beneficiaries. On August 15, 2017, the Group and INFONAVIT entered into an assignment contract to manage mortgage loans. INFONAVIT continues with management and collection of the loans assigned to the Group, and is responsible for the actions needed to collect due loans.

At December 31, 2018 and 2017, 4,205 and 2,215 credit loans were acquired from INFONAVIT, respectively; amounting $2,407 and $1,221, respectively.

(Continued)

As of December 31, 2018, loans acquired from INFONAVIT of the past-due portfolio amount $1. As of December 31, 2017, there are no credit loans with 180 days past-due or more that were not transferred to the past-due loan portfolio, applying the exceptions according to the accounting criteria in force (ROA and REA).

As of December 31, 2018, mortgage loans granted under the program "Second mortgage" classified by category REA or ROA, are as follows:

Category	**Number of loans**		**Amount**
REA	156	$	86
ROA	6,048	$	3,491

As of December 31, 2017, there were no mortgage loans granted under such program.

REA – Applies to the beneficiaries that lost their jobs and the payments are being made directly by the debtor.

ROA – Applies to the beneficiaries with formal employment and payments are made by the employer through payroll discounts.

Past-due loan portfolio:

An analysis of past-due loans at December 31, 2018 and 2017, from the date the loans were considered past-due, are summarized below:

		1 to 180 days	**181 a 365 days**	**1 to 2 years**	**Over 2 years**	**Total**
2018						
Commercial*	$	722	443	588	1,811	3,564
Consumer		1,745	99	-	-	1,844
Residential morgages		1,306	528	769	397	3,000
	$	**3,773**	**1,070**	**1,357**	**2,208**	**8,408**
2017						
Commercial*	$	726	506	420	1,628	3,280
Consumer		1,338	58	8	5	1,409
Residential morgages		1,304	544	547	378	2,773
	$	**3,368**	**1,108**	**975**	**2,011**	**7,462**

* Includes commercial loans, loans to financial institutions and government entities.

The movement in the past-due loan portfolio for the years ended December 31, 2018 and 2017, is summarized below:

		2018	2017
Balance at beginning of the year	$	7,462	6,438
Settlements		(2,218)	(2,779)
Write-offs and write-downs		(3,508)	(2,493)
Net increase, for transfers from and to current loans		6,671	6,215
Foreign exchange fluctuation		1	81
Balance at the end of the year	**$**	**8,408**	**7,462**

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2018 amounted to $406 ($359 in 2017), which are recorded in memorandum accounts.

For the years ended December 31, 2018 and 2017, the Group recorded write-offs from those past-due loans that had been fully reserved for $3,403 and $1,614, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2018 and 2017, the Group obtained recoveries from written-off loans for $264 and $236, respectively.

Additional guarantees

At December 31, 2018 and 2017, the Group has no additional guarantees for the restructured loans.

Impaired loans:

At December 31, 2018, the balance of impaired commercial loans is $3,456 ($3,397 in 2017), from which $100 are recorded in current loans ($118 in 2017), and $3,356 are recorded in past-due loans ($3,279 in 2017).

Adjustment from valuation of financial asset hedging:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial assets.

At December 31, 2018 and 2017, the adjustment to the carrying value of the loan portfolio from the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for ($562) and ($530), respectively.

(Continued)

(d) Sale of loan porfolio-

Sale of written-off personal consumer loans and credit card transfer of Credito Familiar on 2017-

On October 18, 2017, Crédito Familiar sold a portfolio of personal loans and credit cards, that was fully written-off, to Inversiones Firpo, S. A. de C. V., at a price of $4, the book value of such loan portfolio at that date was $1,043; as a result, Credito Familiar recognized an income and a gain in the consolidated statement of income in the “Other operating income (expenses)” caption for $4.

In order to consolidate the credit card operations into a single financial institution and strengthen the commercial alliances and operational synergies inside the Group, on May 31, 2017, Crédito Familiar signed an agreement with the Bank to transfer its clients, obtaining a commission for $800 pesos for each client getting a credit card with the Bank. Derived from this transaction, Crédito Familiar booked an income of $4 under the caption "Other operating income (expenses)", corresponding to 5,206 referenced clients. The outstanding balance of these clients with Crédito Familiar at the the time of the transfer was paid by the Bank through a debt transfer transaction. As of June 30, 2017, Crédito Familiar canceled 2,764 loans, which at that date amounted to $11 and had an allowance for loan losses for $4. Due to the aforementioned, Crédito Familiar recognized a debit to the consolidated statement of income for $6 and subsequently applied the write-off of these loans. The subsequent collection of these loans is recognized as recoveries within “Other operating income (expenses)” caption.

(e) Allowance for loan losses-

As of December 31, 2018 and 2017, as a result from the application of the new allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average (unaudited) from the exposure at default of the Bank, Crédito Familiar and Globalcard, are as follows:

Type of loan portfolio	Probability of default	Loss given default		Exposure at default
2018				
Bank				
Commercial	4.09%	42.46%	$	235,054
Residential morgages	5.09%	15.55%		123,318
Personal loans	5.19%	71.83%		29,434
Revolving	9.78%	72.56%		5,660

Type of loan portfolio	Probability of default	Loss given defauld		Exposure at default
Crédito Familiar				
Personal loans	23.46%	71.15%	$	3,632
Globalcard				
Credit card	10.92%	73.54%	$	24,072
Personal loans	64.19%	72.70%		64

Type of loan portfolio	Probability of default	Loss given defauld		Exposure at default
2017				
Bank				
Commercial	4.31%	37.59%	$	210,591
Residential morgages	5.06%	17.46%		107,594
Personal loans	5.70%	71.79%		23,989
Revolving	11.90%	72.84%		4.142
Crédito Familiar				
Personal loans	26.25%	71.19%	$	3,393
Globalcard				
Credit card	10.84%	73.54%	$	19,558
Personal loans	63.32%	72.51%		41

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes credit commitments.

At December 31, 2018, the credit rated loan portfolio and the allowance for loan losses are analyzed in the next page.

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Grade of risk		Commercial	Financial institutions	Goverment Entities	Consumer	Residential morgages	Total
A-1	$	98,502	28,184	8,026	25,246	99,532	259,490
A-2		49,126	9,351	564	8,476	7,144	74,661
B-1		8,985	7,986	-	2,601	2,899	22,471
B-2		2,703	306	-	2,434	3,157	8,600
B-3		5,185	4,320	366	1,130	3,951	14,952
C-1		730	334	720	1,815	2,676	6,275
C-2		505	-	-	2,121	1,886	4,512
D		1,472	-	-	1,426	1,737	4,635
E		2,283	110	-	1,856	346	4,595
Total	**$**	**169,491**	**50,591**	**9,676**	**47,105**	**123,328**	**400,191**

Grade of risk		Commercial	Financial institutions	Goverment Entities	Consumer	Residential morgages	Total
A-1	$	576	127	46	526	206	1,481
A-2		565	103	6	352	43	1,069
B-1		150	123	-	133	25	431
B-2		60	7	-	136	39	242
B-3		171	156	17	93	74	511
C-1		52	22	44	182	74	374
C-2		62	-	-	318	166	546
D		536	-	-	611	391	1,538
E		2,172	108	-	1,318	182	3,780
Subtotal	**$**	4,344	646	113	3,669	1,200	9,972
Reserves for residential mortgages past-due loans							21
Operational risk reserve							25
Reserves for accrued interest on past-due loans							261
Specific reserves authorized by the Banking Commission							97
Total allowance for loan losses						**$**	**10,376**

(Continued)

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At December 31, 2017, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

Grade of risk		Commercial	Financial institutions	Goverment Entities	Consumer	Residential morgages	Total
A-1	$	76,840	21,509	8,970	20,668	89,393	217,380
A-2		35,659	5,771	835	5,026	4,634	51,925
B-1		14,113	8,510	542	2,014	2,014	27,193
B-2		6,625	293	352	2,052	2,807	12,129
B-3		6,255	2,744	464	1,109	1,998	12,570
C-1		672	1,323	-	1,759	2,437	6,191
C-2		1,394	966	-	2,419	1,991	6,770
D		1,985	-	-	1,412	1,568	4,965
E		2,196	110	-	1,660	405	4,371
Total	**$**	**145,739**	**41,226**	**11,163**	**38,119**	**107,247**	**343,494**

Grade of risk		Commercial	Financial institutions	Goverment Entities	Consumer	Residential morgages	Total
A-1	$	428	114	53	455	157	1,207
A-2		394	78	10	223	29	734
B-1		244	140	9	102	17	512
B-2		154	8	-	114	35	311
B-3		192	107	17	86	34	436
C-1		44	103	26	170	69	412
C-2		180	109	-	337	171	797
D		640	-	-	538	359	1,537
E		2,074	108	-	1,125	228	3,535
Subtotal	**$**	4,350	767	115	3,150	1,099	9,481

Reserves for residential mortgages past-due loans		30
Operational risk reserve		14
Reserves for accrued interest on past-due loans		159
Specific reserves authorized by the Banking Commission		97
Total allowance for loan losses	**$**	**9,781**

(Continued)

The movement in the allowance for loan losses for the years ended December 31, 2018 and 2017 is summarized below:

		2018	2017
Balance at the beginning of the year	$	9,781	7,750
Provisions charged to results of operations		4,553	4,762
Provisions charged to retained earnings		-	80
Applications, write-downs and others		(3,763)	(2,725)
Foreclosure		(181)	(64)
Exchange rate fluctuations		(14)	(22)
Balance at the end of the year	**$**	**10,376**	**9,781**

Credit loan origination program with INFONAVIT-

On April 4 and September 4, 2018, the Group increased its participation in the credit loan origination program of INFONAVIT by $1,000 on each date.

On August 15, 2017, the Group, as assignee, and INFONAVIT, as assignor, entered into an assignment contract to manage mortgage loans originated under the program denominated "Segundo Crédito" for $1,500 (see note 10c).

(f) Special accounting criteria for natural disasters support program-

Through official letters No. P-071/2018, dated March 5, 2018, the Banking Commission authorized the application of special accounting criteria referred to in the official Letter No. 320-1/14057/2017 regarding guaranteed mortgage loans for up to 4 additional months.

Through official letters No. P-290/2017, dated September 15, 2017 and No. 320-1/14057/2017, dated October 17, 2017, the Banking Commission authorized the application of special accounting criteria regarding consumer, mortgage and commercial loans, with the purpose of helping the economic recovery of the clients living or working in the locations declared as "disaster zone" derived from the disasters caused by the hurricanes "Lidia" and "Katia" and the earthquakes occurred on September 7 and 19, 2017. The special criteria establishes that the credit loans of the affected clients is considered as "current portfolio".

The Group applied mentioned criteria to its clients, as such, the total amount of the payments past-due from those clients is for $4, for both 2018 and 2017.

(Continued)

(11) Benefits receivable on securitization transactions-

On March 13, 2008, the Group securitized a mortgage portfolio, through a trust that issued debt securities for $2,500 with maturity in 20 years and an annual interest rate of 9.15%.

On July 25, 2018, the Group executed its right of total reacquisition of the equity of the Trust, and recognized a net income of $55 in the caption "Other operating income" in the consolidated statement of income.

At December 31, 2017, the amount of the portfolio assigned receivable amounted to $333, and the amount payable on the debt securities amounted to $271.

As part of the agreed transaction of the securitization, the Group received a trust certificate, which was reported under the caption "Benefits receivable on securitization transactions" on the consolidated balance sheet, and was recorded at fair value, which was determined based on the expectations for recovery of the trust assets and the remaining cash flows once all obligations to bondholders were met. The fair value of benefits receivable on securitization transactions at December 31, 2017 were $75, the valuation effect was recognized in "Other operating income" in the consolidated statement of income.

For the year ended December 31, 2017, the assigned portfolio received prepayments for $27.

The Group received servicing fees from the trust, which were recognized in earnings when the services were provided, which for the year ended December 31, 2017, amounted to $3.

(12) Foreclosed assets-

At December 31, 2018 and 2017, foreclosed assets are analyzed below:

		2018	**2017**
Properties	$	100	100
Furniture, securities and foreclosing rights		1	11
		101	111
Allowance for impairment		(14)	(25)
	$	**87**	**86**

The movement of the allowance for impairment for the years ended December 31, 2018 and 2017 is analyzed below:

		2018	2017
Balance at beginning of year	$	(25)	(30)
Additional provisions due to aging charged to operations for the year		(6)	(7)
Credit to income on sale of foreclosed assets		17	12
	$	**(14)**	**(25)**

(13) Premises, furniture and equipment-

Premises, furniture and equipment and leasehold improvements at December 31, 2018 and 2017 are analyzed below:

		2018	2017	Annual depreciation rate
Lands	$	546	546	-
Office premises		1,424	1,423	Various
Transportation equipment		5	5	25% and 33%
Transportation equipment in capital lease		11	52	33%
Computer equipment		1,832	1,612	Various
Computer equipment in capital lease		67	52	20%
Furniture and equipment		1,556	1,495	10%
Leasehold improvements		3,092	2,825	Various
		8,533	8,010	
Accumulated depreciation		(4,409)	(4,027)	
	$	**4,124**	**3,983**	

Depreciation charged to results of operations for the years ended December 31, 2018 and 2017 amounted to $490 and $460, respectively.

For the years ended December 31, 2018 and 2017, there was not an effect from impairment of leasehold improvements.

According to assessment carried out by the Group, the residual value (except land) at December 31, 2018 and 2017, is minimum.

(Continued)

(14) Permanent investments-

At December 31, 2018 and 2017, the Group´s permanent investments in equity and associate classified by activity, are analyzed as follows:

		2018	2017
Banking related services	$	47	47
Derivatives market operators		59	57
Security and protection		-	1
Other permanent investments		106	105
Derivatives market operators (associate)		7	7
	$	**113**	**112**

(15) Deposit funding-

At December 31, 2018 and 2017, the deposit funding caption, is analyzed as follows:

		2018			2017		
		Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Demand deposits:							
Non-interest bearing	$	73,222	49	73,271	71,143	155	71,298
Interest bearing		53,801	35,348	89,149	59,591	45,139	104,730
		127,023	35,397	162,420	130,734	45,294	176,028
Time deposits:							
General public		102,035	9,480	111,515	92,351	-	92,351
Money market:							
Certificates of deposit (Cedes)		40,858	1,967	42,825	19,604	-	19,604
Promissory notes		10,250	-	10,250	4,468	-	4,468
		51,108	1,967	53,075	24,072	-	24,072
Debt securities issued:							
Bank stock certificates		23,098	-	23,098	22,508	-	22,508
Bonk bonds		2,680	-	2,680	3,746	-	3,746
		25,778	-	25,778	26,254	-	26,254
Global account of deposits without movements		585	9	594	501	8	509
Total deposit funding	**$**	**306,529**	**46,853**	**353,382**	**273,912**	**45,302**	**319,214**

(Continued)

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2018 and 2017, are as follows:

	2018		2017	
	Local currency	**Dollars**	**Local currency**	**Dollars**
Demand deposits	2.25%	-	2.23%	0.17%
Time deposits:				
General public	7.06%	2.64%	5.70%	-
Money market	8.47%	2.00%	7.13%	-

At December 31, 2018 and 2017, money market time deposits and debt securities issued among the public investors, are as follows:

(a) Money market time deposits-

Certificates of deposit (Cedes)

At December 31, 2018 and 2017, the Group issued Cedes with par value of one hundred pesos for an amount of $40,858 and $19,604, respectively. As of December 31, 2018, the Group issued Cedes with a par value of one hundred dollars for an amount of $1,967.

December 31, 2018

Cedes-

Interest payment	Annual rate	Term in days		Amount
28 days	TIIE 28+.08%	365	$	350
28 days	TIIE 28+.08%	365		1,100
28 days	TIIE 28+.08%	337		1,000
28 days	TIIE 28+.08%	337		700
28 days	TIIE 28+.07%	365		560
28 days	TIIE 28+.08%	365		1,500
28 days	TIIE 28+.04%	225		1,000
28 days	TIIE 28+.08%	309		1,000
28 days	TIIE 28+.08%	337		1,000
28 days	TIIE 28+.06%	225		1,000
28 days	TIIE 28+.02%	141		1,000
28 days	TIIE 28+.08%	141		500
28 days	TIIE 28+.08%	253		2,100
28 days	TIIE 28+.08%	225		600
28 days	TIIE 28+.08%	169		1,000
28 days	TIIE 28+.06%	351		1,410
28 days	TIIE 28+.06%	253		1,650
28 days	TIIE 28+.07%	365		1,400
28 days	TIIE 28+.07%	337		700
28 days	TIIE 28+.07%	316		400
Subtotal carried forward			$	19,970

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Interest payment	Annual rate	Term in days		Amount
Subtotal brought forward			$	19,970
28 days	TIIE 28+.06%	365		1,000
28 days	TIIE 28+.06%	337		700
28 days	TIIE 28+.06%	365		500
28 days	TIIE 28+.07%	365		90
28 days	TIIE 28+.03%	253		1,000
28 days	TIIE 28+.05%	281		1,000
28 days	TIIE 28+.03%	365		1,130
28 days	TIIE 28+.04%	365		500
28 days	TIIE 28+.06%	365		600
28 days	TIIE 28+.07%	225		1,000
28 days	TIIE 28+.08%	225		500
28 days	TIIE 28+.05%	361		500
28 days	TIIE 28+.05%	169		200
28 days	TIIE 28+.07%	113		350
28 days	TIIE 28+.07%	225		1,300
28 days	TIIE 28+.07%	169		5,000
28 days	TIIE 28+.09%	169		300
28 days	TIIE 28+.08%	253		500
28 days	TIIE 28+.08%	169		1,000
28 days	TIIE 28+.08%	253		500
28 days	TIIE 28+.08%	225		1,000
28 days	TIIE 28+.08%	197		1,000
28 days	TIIE 28+.12%	365		300
28 days	TIIE 28+.15%	364		800
				40,740
Accrued interest				118
Subtotal Cedes local currency			$	40,858

Cedes in dollars-

Underlaying	Periods	Term in days		Amount
TIIE 28	13	258		1,967
Total Cedes			**$**	**42,825**

(Continued)

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Interest payment	Annual rate	Term in days		Amount
28 days	TIIE 28+.12%	337	$	1,000
28 days	TIIE 28+.12%	337		1,500
28 days	TIIE 28+.12%	340		1,200
28 days	TIIE 28+.08%	225		1,000
28 days	TIIE 28+.10%	281		500
28 days	TIIE 28+.08%	225		200
28 days	TIIE 28+.07%	169		700
28 days	TIIE 28+.10%	281		200
28 days	TIIE 28+.10%	226		1,830
28 days	TIIE 28+.10%	225		700
28 days	TIIE 28+.10%	225		550
28 days	TIIE 28+.13%	337		1,100
28 days	TIIE 28+.08%	197		500
28 days	TIIE 28+.07%	169		750
28 days	TIIE 28+.03%	169		17
28 days	TIIE 28+.06%	85		1,500
28 days	TIIE 28+.13%	337		400
				13,647
Accrued interest				57
Subtotal Cedes			$	13,704

Structured Cedes

Underlaying	Periods	Term in days		Amount
TIIE 28	13	364	$	1,000
TIIE 28	13	364		500
TIIE 28	13	364		400
TIIE 28	13	364		1,500
TIIE 28	13	364		1,000
TIIE 28	13	364		1,000
TIIE 28	13	364		500
Subtotal Cedes			$	5,900
Total Cedes			**$**	**19,604**

(Continued)

Structured Cedes pay interest on each payment date according to the periods established in the offering filing, if the underlying observation date is within the ranges established for each period.

Promissory notes-

At December 31, 2018 and 2017, the Group issued promissory notes with par value of approximately one peso each as follows:

December 31, 2018

Issuance date	Number of securities	Term in days	Annual rate		Amount
February 2018	542,600,000	365	8.45%	$	500
February 2018	500,000,000	365	8.47%		460
February 2018	500,000,000	365	8.45%		460
February 2018	500,000,000	365	8.44%		460
August 2018	150,000,000	366	8.46%		138
September 2018	500,000,000	365	8.29%		461
September 2018	500,000,000	365	8.29%		461
October 2018	500,000,000	365	8.57%		460
October 2018	500,000,000	365	8.57%		460
November 2018	500,000,000	365	8.97%		458
November 2018	200,000,000	365	8.96%		183
November 2018	167,750,000	302	4.48%		999
November 2018	50,000,000	365	8.92%		45
December 2018	1,091,000,000	361	9.16%		999
December 2018	542,625,560	339	9.16%		500
December 2018	534,805,556	281	9.00%		500
December 2018	530,813,750	250	8.96%		500
December 2018	522,810,833	187	8.87%		500
December 2018	527,040,417	220	8.93%		500
December 2018	168,380,000	320	4.65%		998
					10,042
Accrued interest					208
Total				**$**	**10,250**

(Continued)

December 31, 2017

Issuance date	Number of securities	Term in days	Annual rate		Amount
July 2017	538,150,002	361	7.43%	$	500
April 2017	535,388,889	365	7.43%		500
August 2017	315,816,667	262	7.45%		300
August 2017	537,158,000	364	7.25%		499
August 2017	1,140,974,682	181	7.54%		1,100
August 2017	650,000,000	365	7.63%		603
August 2017	250,000,000	363	7.48%		232
September 2017	650,000,000	365	7.62%		604
					4,338
Accrued interest					130
Total				**$**	**4,468**

(b) Debt securities issued-

At December 31, 2018 and 2017, the Bank issued banking stock certificates with par value of one hundred pesos, under the program authorized by the Baking Commission for up to $25,000, as shown as follows:

Banking stock certificates

December 31, 2018

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
November 2015	23,000,000	5	28	9%	TIIE 28 + 0.40%	$ 2,300
September 2017	34,500,000	3	28	9%	TIIE 28 + 0.31%	3,450
August 2017	34,500,000	4	28	9%	TIIE 28 + 0.36%	3,450
March 2018	34,500,000	4	28	9%	TIIE 28 + 0.24%	3,450
March 2018	28,750,000	4	28	9%	TIIE 28 + 0.24%	2,875
March 2017	34,500,000	3	28	9%	TIIE 28 + 0.39%	3,450
April 2017	28,750,000	5	28	9%	TIIE 28 + 0.50%	2,875
June 2013	11,500,000	10	182	8%	7.30%	1,150
						23,000
Accrued interest						98
						$ 23,098

(Continued)

December 31, 2017

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
September 2017	34,500,000	3	28	14%	TIIE 28 + 0.31%	$ 3,450
August 2017	34,500,000	4	28	14%	TIIE 28 + 0.36%	3,450
April 2017	28,750,000	5	28	12%	TIIE 28 + 0.50%	2,875
March 2017	34,500,000	3	28	14%	TIIE 28 + 0.39%	3,450
November 2015 *	23,000,000	5	28	9%	TIIE 28 + 0.40%	2,300
October 2015 *	20,000,000	3	28	8%	TIIE 28 + 0.25%	2,000
June 2013 *	11,500,000	10	182	8%	7.30%	1,150
March 2013 *	34,500,000	5	28	8%	TIIE 28 + 0.40%	3,450
December 2015 *	3,000,000	13	183	3%	9.75%	300
						22,425
Accrued interest						83
						$ 22,508

* Issued under the prior years' program authorized by the Banking Commission.

<u>Structured banking bonds</u>

<u>December 31, 2018</u>

Issuance date	Number of securities	Term in days	Underlaying		Amount
February 2016	2,924,220	1457	TIIE28	$	292
February 2016	673,800	1097	SX5E		68
February 2016	1,150,200	1094	SPX		115
October 2016	626,750	1095	SX5E		63
October 2016	335,350	1095	SPX		33
March 2017	455,400	730	SX5E		46
April 2017	463,800	730	CAC40		47
May 2017	2,118,370	729	SX5E		212
May 2017	2,586,750	1092	SX5E		259
June 2017	327,700	1093	IXM		32
June 2017	829,020	729	IXM		83
November 2017	1,312,600	729	SPTSX60		131
November 2017	1,321,340	541	MEXBOL		132
February 2018	278,750	729	SX5E		28
February 2018	278,750	729	TC MXPUSD		28
July 2018	10,000,000	196	TIIE28		1,000
October 2018	1,111,300	730	EEM UP EQUITY		111
Total structured banking bonds				**$**	**2,680**

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Issuance date	Number of securities	Term in days	Underlaying		Amount
November 2017	150,000	129	USD MXN	$	13
November 2017	750,000	92	SPX		60
November 2017	1,321,340	540	IPC		132
November 2017	1,320,600	728	SPTSX60		132
October 2017	600,000	271	Nikkei 225 (NKY)		60
July 2017	415,200	323	USDMXN		42
June 2017	875,020	728	IXM		87
June 2017	357,700	1092	IXM		36
May 2017	2,617,850	1091	SX5E		262
May 2017	2,128,370	728	SX5E		213
April 2017	463,800	729	CAC 40		46
March 2017	343,800	363	SX5E		34
March 2017	455,400	729	SX5E		46
December 2016	916,650	727	Nikkei 225 (NKY)		92
October 2016	335,350	1,094	SX5E		34
October 2016	631,750	1,094	SPX		63
May 2016	2,508,500	728	TIIE28		251
May 2016	304,800	896	TIIE28		30
February 2016	688,800	1,096	SX5E		69
February 2016	1,156,200	1,093	SPX		116
February 2016	3,288,678	1456	TIIE28		329
December 2015	753,000	1094	IBEX35		75
December 2015	1,301,400	1092	TIIE28		130
December 2015	1,200,000	924	TIIE28		120
November 2015	103,800	1080	IXM SX7E		10
October 2015	2,244,950	1,098	SPX		224
September 2015	1,637,750	1,092	SXAE		164
August 2015	193,500	1,094	IXM SX7E		19
June 2015	300,000	1,093	SX7E		30
June 2015	285,000	1,278	SPX		29
June 2015	190,000	1,278	SX7E		19
May 2015	800,000	1,097	IXM SX5E		80
April 2015	4,256,400	1,091	IXM SX5E		426
February 2015	2,371,250	1,093	HSCEI		237
January 2015	362,082	1,094	SXEE		36
Total structured banking bonds				**$**	**3,746**

(Continued)

(c) Valuation adjustments of hedging financial liabilities:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial liabilities, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial liabilities.

At December 31, 2018 and 2017, the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $24 and $29, respectively.

(16) Bank and other borrowings-

At December 31, 2018 and 2017, bank and other borrowings are compromised as follows:

		2018	2017
Due on demand	**$**	**-**	**180**
Short-term:			
Local currency:			
Development banks [1]		1,675	1,874
Development agencies [2]		2,767	2,993
Other institutions		-	1,673
Accrued interest		119	63
		4,561	6,603
Dollars translated into local currency:			
Multiple banking		-	77
Development agencies [1]		199	116
Development banks [2]		43	48
Accrued interest		1	1
		243	242
Total short term and due on demand		**4,804**	**6,845**
Long-term:			
Local currency:			
Development agencies [1]		4,555	3,553
Development banks [2]		15,000	1,000
Other organizations		5,657	1,856
Total long-term in local currency		25,212	6,409
Dollars translated into local currency:			
Development agencies [1]		318	188
Total long-term		**25,530**	**6,597**
Total bank and other borrowings	**$**	**30,334**	**13,622**

(1) y (2) see explanation in the next page

(Continued)

(1) Resources from development funds (see note 10c).

(2) At December 31, 2018, the Group obtained two borrowings for $1,000 and $1,500, with a term of 7 and 5 years bearing interest at a fixed rate of 8.41% and 8.89%, respectively, from Sociedad Hipotecaria Federal, S.N.C. At December 31, 2017, the Group obtained a loan for $1,000 with a term of 10 years bearing interest at a rate of 8.48% from Sociedad Hipotecaria Federal, S.N.C., which is guaranteed with the mortgage loan portfolio (see note 10a).

At December 31, 2018, the Group obtained six borrowings from Nacional Financiera, S.N.C., Development Bank, for $11,500 with maturity dates between 1 and 3 years and interest rates ranging from 8.95% to 9%.

At December 31, 2018 and 2017, long-term bank and other borrowings maturity dates dates are as follows:

Maturity		**2018**	**2017**
2019	$	-	414
2020		10,324	1,611
2021		8,227	2,167
2022		1,156	1,247
2023		3,545	1,158
Over 5 years		2,278	-
	$	**25,530**	**6,597**

Due to the operating characteristics of the interbank loans that the Group maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Group, loans whose limit is agreed to daily by the lender. At December 31, 2018 and 2017, the Group has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2018 and 2017, bank and other loans weighted average annual interest (unaudited) rates are in the next page.

	2018 annual rates		2017 annual rates	
	Local currency	Foreign currency	Local currency	Foreign currency
Domestic banks	-	-	8.48%	-
Development banks	9.26%	3.29%	8.49%	2.91%
Development agencies	7.42%	2.61%	7.29%	2.30%

(17) Employees' benefits-

The Bank (until December 31, 2017), the Brokerage Firm, SECOSA, Crédito Familiar and the Fund Management Company have a defined contribution pension plan and post-retirement benefits, to which all employees that start working since April 1, 2006, are incorporated, being optional for employees who joined prior to such date. The plan provides for established contributions by the Group and employees, which may be fully withdrawn by employees when aged 55 years.

For the years ended December 31, 2018 and 2017, the charge to results for the the Bank, SECOSA, the Brokerage Firm's contributions to the defined contribution pension plan amounted to $84 and $73, respectively, under the caption "Administrative and promotional expenses" in the consolidated statement of income.

The Bank, (until December 31, 2017), SECOSA and the Brokerage Firm also have a pension and post-retirement defined benefit plan to which employees make no contributions. The employees entitled to this benefit are those who reach retirement conditions that establish the texts of plans.

The costs, obligations and assets of the defined pension, seniority premium, and other post-retirement benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2018 and 2017.

The components of the defined benefit cost for the years ended December 31, 2018 and 2017 are in the following page.

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		Seniority premium		Legal compensation		Pension Plan		Other post-retirement Benefits	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Current labor service cost (CLSA)	$	13	12	30	27	18	18	80	85
Net interest on DBNL o (DBNA)*		3	2	36	34	103	77	76	68
Actuarial losses gain (AGL) generated in the year		-	-	-	52	-	-	-	-
(Income) from past services for reduction of personnel		(1)	-	3	6	-	-	-	-
Net past service amortization		8	1	-	-	75	37	245	47
Reclassification of remeasurements of DBNL recognized in OCI		2	-	47	6	101	9	63	-
Net cost of the year		**25**	**15**	**116**	**125**	**297**	**141**	**464**	**200**
Beginning balance of remeasurement of DBNL (DBNA)		(7)	(10)	24	22	162	(62)	(65)	(239)
Remeasurements generated during the year		12	(2)	12	8	(26)	61	(225)	(85)
Recognition of de AGL in OCI		6	6	-	-	172	172	256	256
Reclassification of remeasurements recognized in OCI		(2)	-	(47)	(6)	(101)	(9)	(63)	-
Final balance of remeasurements of (DBNA) DBNL		9	(6)	(11)	27	207	161	(97)	(68)
Increase (decrese) of remeasurements of DBNL or DBNA in OCI		**16**	**3**	**(35)**	**2**	**45**	**224**	**(32)**	**171**
Defined benefits cost		**41**	**17**	**81**	**126**	**342**	**365**	**432**	**371**
Beginning balance of DBNL (DBNA)		23	6	418	404	679	266	291	(84)
Recognition of modifications to the plan in retained earnings (progressive recognition)		-	-	-	-	(21)	(16)	(60)	(30)
Cost (income) of defined benefits		41	17	81	127	342	365	432	371
Plan contributions		(23)	-	-	-	98	73	-	-
Payments charged to DBNL		-	-	(72)	(113)	-	-	-	-
Restricted funds		-	-	-	-	-	(9)	(124)	34
Ending balance of DBNL	$	**41**	**23**	**427**	**418**	**1,098**	**679**	**539**	**291**

* Defined benefits net liability (DBNL) Defined benefits net asset (DBNA).

(Continued)

The reconciliation of the financial position of the obligation and net projected asset (liability) as of December 31, 2018 and 2017 is as follows:

		Seniority premium		**Legal compensation**		**Pension Plan**		**Other post-retirement Benefits**	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Defined benefits obligations (DBO)	$	(170)	(163)	(427)	(418)	(2,228)	(2,462)	(3,340)	(3,756)
Plan assets		129	126	-	-	981	1,410	2,678	2,900
Financial situation of the obligation		(41)	(37)	(427)	(418)	(1,247)	(1,052)	(662)	(856)
Past services to be amortized		-	-	-	-	(27)	(50)	(30)	(90)
Actuarial losses to be amortized		-	14	-	-	176	423	153	655
Net projected liability	**$**	**(41)**	**(23)**	**(427)**	**(418)**	**(1,098)**	**(679)**	**(539)**	**(291)**

Progressive implementation of the adoption of MFRS D-3 "Employee benefits" issued by the Banking Commission

On December 31, 2015, a resolution was issued in the Official Gazette that amends the Provisions in which through the third transitory article, the Banking Commission sets out the terms to recognize changes for reformulation resulting from the adoption of the new MFRS D-3, which entered into force on January 1, 2016, and defines the term that credit institutions have to recognize in its stockholders' equity the total amount of outstanding balances to be amortized from profits or losses of defined benefit plan, as well as modifications to the plan, not recognized until December 31, 2015.

The resolution states that the institutions referred to in Article 2, Section I of the Credit Institutions Law, opting for the progressive implementation of the transitory article referred to, should start the recognition of the balances listed in numbering a) and b) of paragraph 81.2 of MFRS D-3, in the year 2016, recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years". Credit institutions can apply early recognition, provided that the corresponding year recognize at least 20%, or the total amount remaining in terms of the aforementioned transitory article, however, derived from the employer substitution between the Bank and SECOSA, the remaining balance mentioned was recognized in the consolidated income statement of the year.

(Continued)

Balances pending of amortization due to modifications to the defined benefit plan, as well as to the actuarial gains and losses of the plan, recognized in the items "Retained earnings" and "Remeasurements of defined employee benefits", respectively, are as follows:

		Modifications to the defined benefits plan	Actuarial loss
Balance at December 31, 2017 pending of progressive amortization and application during the following three year	$	(140)	1,091
Remeasurements gradually recorded		46	(434)
Amortization of past services		-	(38)
Recognition in advance in equity due to employees transfer		37	(290)
Balance at December 31, 2018 pending to be amortized gradually during the following two years, for retired Bank employees'	**$**	**(57)**	**329**

At December 31, 2018 and 2017, the remeasurements of defined employee benefits recorded in the OCI are analyzed as follows:

		2018	2017
Beginning balance of remeasurements	$	114	(287)
Remeasurements gradually recorded		434	434
Reclassification of remeasurements recognized in OCI in the year		(214)	(15)
Remeasurements generated in the year		(227)	(18)
Final balance of remeasurements		107	114
Deferred IT [1]		153	110
Deferred ESPS [1]		3	36
Effect in equity, net of deferred IT and ESPS	**$**	**263**	**260**

[1] Calculated based on the Tax Provisions of deductibility for salaries and wages to the employees.

Movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2018 and 2017 is analyzed as follows:

		2018	2017
Fair value of the assets at beginning of year	$	4,436	4,724
Transfers to defined contribution fund		(75)	(73)
Restricted funds		124	(25)
Return on plan assets		(133)	295
Payments charged to the fund during the year		(560)	(484)
Fair value of the assets at end of year	**$**	**3,788**	**4,436**

During the year 2018, the Group transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year amounting to $75 ($73 in 2017).

It is not expected to make contributions to the defined benefits fund during 2018. For 2018, it is expected to make payments from the reserve for $426.

The annual nominal rates as of December 31, 2018 and 2017 used in actuarial projections are as follows:

	2018	2017
Return on plan assets	10.60%	9.30%
Discount rate	10.60%	9.30%
Salary increase	4.50%	4.50%
Increase in medical expenses	6.50%	6.50%
Estimated inflation	3.50%	3.50%

The discount rate used by the Fund Management Company at December 31, 2018 was 11.30%.

The expected return rate on the plan assets is the same to the discount rate in accordance with current standards.

The plan assets covering pension, seniority premium, medical expenses, food cupons and life insurance for retirees consist of 60% debt instruments and 40% equity instruments subject to a trust and managed by a Group-designated Committee.

The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections at December 31, 2018 and 2017, are shown in the next page.

	2018			2017		
	Annual rates		**DBO medical expense retirees**	**Annual rates**		**DBO medical expense retirees**
With no modification	6.50%	$	4,291	6.50%	$	3,166
1% increase in medical inflation rate	7.50%		4,881	7.50%		3,903
1% decrease in medical inflation rate	5.50%	$	3,790	5.50%	$	2,594

As of December 31, 2018, the amortization periods in years for unrecognized items related to defined pension and other post-retirement benefits are as follows:

	Pensions			Other post-retirement benefits
	Retirement		**Disability**	
Prior service plan modifications	$	2	-	2
Net actuarial loss/(gain) and reclassification of remeasurements DBN(L)A to be recognized in OCI	$	18.48	-	18.48

The components of the stress-analysis in pesos as of December 31, 2018 and 2017, are shown as follows:

		Seniority premium		Legal compensation		Pension plan		Other post-retirement benefits	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Defined benefit obligations (DBO) as of December 31	$	170	163	427	418	2,228	2,462	3,340	3,756
Significant actuarial assumptions as of December 31 Sensitivity analysis, discount rate 9.50% (+0.50%)	$	(7)	(4)	(14)	(9)	(103)	(98)	(309)	(245)
Discount rate 8.50% (-0.50%)	$	8	4	16	9	111	106	210	272
Long-term inflation rate 3.75% (+0.25%)	$	4	2	-	-	17	25	11	15
Long-term inflation rate 3.25% (-0.25%)	$	(4)	(2)	-	-	(15)	(21)	(10)	(14)

(Continued)

(18) Related-party transactions-

During the normal course of business, the Group carries out transactions with related parties such as loans, investments, deposit funding, services, etc. Transactions and balances incurred by consolidated companies were eliminated and persistence of those who do not consolidate.

According to the Group's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

Main transactions with related parties for the years ended at December 31, 2018 and 2017 are as follows:

		2018	2017
Income			
Commissions and fee income	$	147	173
Intermediation income		(188)	(1,852)
Expenses			
Commissions and fee income		3	14
Administrative services		522	-
Interest paid		366	-

Balances receivable from and payable to related parties as of December 31, 2018 and 2017 are as follows:

		2018	2017
Payable:			
Demand deposits		(770)	(2,588)
Derivatives [(1)]	$	92,366	106,862
Commercial loans		5,964	4,619
Other accounts receivable		-	2,694
Payable:			
Demand deposits and time deposits		21	5
Derivatives [(1)]		93,076	107,242
Other accounts payable		-	236

(1) Corresponds to balances before compensation

For the years ended December 31, 2018 and 2017 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 non-collectability, except credit operations where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the credit institutions Law, the total amount of transactions with related parties must not to exceed 35% the basic portion of the net capital (see note 21). The loans granted to related parties as of December 31, 2018 and 2017 amount to $5,973 and $6,106, respectively. The deposits made by related parties as of December 31, 2018 and 2017 amount to $54 and $9, respectively.

For the years ended December 31, 2018 and 2017, the benefits granted to senior management amounted to $158 and $195, respectively.

(19) Income taxes and employee's statutory profit sharing (ESPS)-

IT Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years. The current ESPS rate is 10%, for the years 2018 and 2017.

At December 31, 2018 and 2017, current IT and ESPS expense, is as follows:

		2018		**2017**	
		IT	**ESPS**	**IT**	**ESPS**
Current:					
Bank and subsidiaries	$	798	-	547	154
Brokerage Firm		145	52	110	41
The Fund Management Company		86	-	78	-
SECOSA		410	132	16	-
Crédito Familiar		22	5	18	-
Current IT and ESPS		1,461	189	769	195
Deferred IT and ESPS		(761)	1,081	(734)	(86)
Total IT and ESPS		**700**	**1,270**	**35**	**109**
Reversed provisions from prior years		(67)	(24)	(63)	(24)
IT additional provision		388	73	964	51
Total tax expense	**$**	**1,021**	**1,319**	**936**	**136**

The Group does not consolidate the tax results with its subsidiaries, therefore the information presented below is only for information purposes.

The Group has not recognized a deferred tax liability on the undistributed earnings of its subsidiaries and associated companies, the Group currently does not expect that those undistributed earnings be reinvested and will be taxable, in the near future.

Deferred IT and ESPS:

The deferred asset and the favorable (unfavorable) effect in results and Stockholders' equity of deferred IT and ESPS at December 31, 2018 and 2017 are comprised of the items shown in the following page.

		2018		2017	
		IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:					
Trading	$	168	(1)	206	68
Available-for-sale		(4)	-	5	2
Cash flow hedge swaps		(367)	-	(211)	(71)
Expense accruals and others		(388)	63	309	28
Remaining balance to be deducted of premises, furniture and equipment		175	(3)	98	83
Unearned fees collected		788	-	512	171
Pension plan		209	(2)	78	26
Other assets		276	91	-	-
Foreclosed assets		247	-	207	69
Allowance in excess		358	-	538	179
Remeasurements of defined employee benefits		(153)	(3)	(110)	(36)
Future loan write-offs		3,064	-	3,139	792
Tax loss carryforwards		550	-	83	-
		4,923	145	4,854	1,311
Valuation allowance [(1)]		(85)	-	(560)	(179)
		4,838	145	4,294	1,132
	$	**4,983**		**5,426**	

(1) At December 31, 2018, valuation allowance relates to the credit reserve surplus amounting to $64 and tax loss carryforwards of the Group amounting to $21. At December 31, 2017 the valuation allowance for deferred IT and ESPS corresponds to the items of future loan write-offs for $538 and tax loss carryforwards of the Group for $22.

The (unfavorable) favorable effect in consolidated income statement and equity, for deferred IT and ESPS, for the years ended December 31, 2018 and 2017 are presented in the following page.

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		2018		2017	
		IT	**ESPS**	**IT**	**ESPS**
(Unfavorable) favorable effect					
Valuation of financial instruments:					
Trading	$	(38)	(69)	(22)	(8)
Available-for-sale		(9)	(2)	(18)	(6)
Cash flow hedge swaps		(156)	71	(41)	(14)
Expense accruals and others		(697)	35	(17)	(31)
Remaining balance to be deducted of premises, furniture and equipment		77	(86)	98	27
Unearned fees collected		276	(171)	27	9
Pension plan		131	(28)	68	23
Other assets		276	91	-	-
Foreclosed assets		40	(69)	(50)	(17)
Allowance in excess [1]		295	-	(498)	(166)
Remeasurements of defined employee benefits		(43)	33	53	19
Tax loss carryforwards [1]		(83)	-	(36)	-
Future loan write-offs [1]		(75)	(792)	1,188	257
Tax loss		550	-	-	-
		544	(987)	752	93
	$	**(443)**		**845**	

The above movements are reflected in the consolidated financial statements as follows:

		2018		2017	
		IT	**ESPS**	**IT**	**ESPS**
Deferred tax:					
In statement of income	$	761	(1,081)	734	86
In stockholders' equity:					
Valuation in available-for-sale securities		(9)	(2)	(18)	(6)
Remeasurements of defined employee benefits		(43)	33	53	19
Valuation of cash flow hedge securities		(156)	71	(41)	(14)
Allowance for loan losses		(9)	(8)	24	8
		544	(987)	752	93
	$	**(443)**		**845**	

(1) Net of valuation allowance

(Continued)

The following is an analysis of the effective tax rate of the Bank without subsidiaries, for the fiscal years ended at December 31, 2018 and 2017:

Entity		Expected expense (benefit)	IT	Effective rate
2018				
Group (*)	$	12	(7)	(18%)
Bank (*)		2,110	59	1%
Globalcard		194	331	51%
Inmobiliaria		24	11	14%
Derivados		52	50	29%
The Brokerage Firm		136	122	28%
The Fund Management Company		84	80	29%
Crédito Familiar		(19)	12	19%
Administradora de Activos CF		9	3	12%
Servicios Corporativos CF		12	17	44%
SECOSA		25	22	27%
	$	**2,639**	**700**	**8%**
2017				
Group (*)	$	(4)	7	(53%)
Bank (*)		2,469	205	3%
Globalcard		(368)	(455)	37%
Inmobiliaria		19	(3)	(3%)
Derivados		50	49	29%
The Brokerage Firm		125	104	23%
The Fund Management Company		81	76	28%
Crédito Familiar		22	23	32%
Administradora de Activos CF		8	1	5%
Servicios Corporativos CF		9	15	49%
SECOSA		17	13	22%
	$	**2,428**	**35**	**0%**

(1) Includes eliminations of intercompany transactions.

The following is an analysis of the effective tax rate of the Bank without subsidiaries, for the fiscal years ended at December 31, 2018 and 2017:

		Tax base	IT Tax at 30%	Effective rate	ESPS at 10%
December 31, 2018					
Operating income	$	7,274	(2,182)	(30%)	-
Allocation to current tax:					
Adjustment for effects of inflation		(1,810)	543	7%	-
Valuation of financial instruments		439	(132)	(2%)	-
Depreciation and amortization		82	(25)	-	-
Non-deductibles expenses [(1)]		386	(116)	(2%)	-
Loan reserves surplus		(6,703)	2,011	28%	-
Allowance for loan losses		2,321	(696)	(10%)	-
Deductible loan write-offs		(1,830)	549	8%	-
Current and deferred ESPS		1,246	(374)	(5%)	-
Deduction of paid ESPS		(240)	72	1%	-
Commission fees and advance payments		(1,360)	408	6%	-
Financial instruments gain (loss)		(570)	171	2%	-
Credit card administration fee		(193)	58	1%	-
Other, net		(509)	153	2%	-
Current tax		(1,467)	-	-	-
Allocation to deferred tax:					
Valuation of financial instruments		(406)	122	2%	(63)
Expense accruals and others		3,405	(1,022)	(14%)	(19)
Remaining balance to be deducted of premises, furniture and equipment		(202)	61	1%	(89)
Pension plan		(465)	139	2%	(26)
Foreclosed assets		(136)	40	1%	(69)
Unearned fees collected		(141)	42	1%	(171)
Future loan write-offs		(166)	50	1%	(797)
Tax loss		(1,467)	440	6%	-
Deferred tax		422	(127)	(2%)	(1,196)
Income tax	**$**	**(1,045)**	**(127)**	**(2%)**	**(1,196)**

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

(Continued)

		Tax base	IT at 30%	Effective rate	ESPS at 10%
December 31, 2017					
Operating income	$	8,337	(2,501)	(30%)	(834)
Allocation to current tax:					
Adjustment for effects of inflation		(2,427)	728	9%	243
Valuation of financial instruments		(552)	166	2%	55
Depreciation and amortization		160	(48)	(1%)	(16)
Non-deductibles expenses [1]		355	(107)	(1%)	(23)
Loan reserves surplus		(5,777)	1,733	20%	578
Allowance for loan losses		2,469	(741)	(9%)	(247)
Deductible loan write-offs		(1,310)	393	5%	131
Current and deferred ESPS		107	(32)	-	(11)
Deduction of paid ESPS		(299)	90	1%	-
Other, net		300	(90)	(1%)	(30)
Current tax		1,363	(409)	(5%)	(154)
Allocation to deferred tax:		538	(161)	(2%)	(54)
Expense accruals and others		262	(80)	(1%)	(10)
Remaining balance to be deducted of premises, furniture and equipment		(260)	78	1%	26
Pension plan		(226)	68	1%	23
Foreclosed assets		168	(50)	-	(17)
Commission fees and advance payments		(90)	27	-	9
Future loan write-offs		1,660	(498)	(6%)	(166)
Tax loss		(2,623)	787	9%	262
Deferred tax		(571)	171	2%	73
Income tax	$	**792**	**(238)**	**(3%)**	**(81)**

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

(2) At December 31, 2017, there is an unpaid ESPS with Globalcard of $10.

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

(Continued)

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At December 31, 2018, the tax loss carryforwards will expire as shown below:

Year		Current amout at December 31, 2018
2026	$	195
2027		33
2028		507
Total tax loss	**$**	**735**

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, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a 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.

(20) Subordinated debt issued-

At December 31, 2018 and 2017, the Group has issued the following private subordinated debt which are not convertible into shares:

Issuance date	Number of securities		Price per security in pesos	Term in years	Interest term in days	Interest rate		Total amount of issuance
2018								
29-jun-18	33,600,000	$	100	15	182	12.30%	$	3,360
11-sep-18	34,550,000	$	100	Perpetual	182	11.32%		3,455
18-dec-14	20,930,000	$	100	10	182	7.40%		2,093
								8,908
Accrued interest payable								136
							$	**9,044**

Issuance date	Number of securities		Price per security in pesos	Term in years	Interest term in days	Interest rate		Total amount of issuance
2017								
18-dec-14	20,930,000	$	100	10	182	7.40%		2,093
Accrued interest payable								8
							$	**2,101**

(21) Stockholders' equity-

(a) Structure of capital stock-

As of December 31, 2018 and 2017, the common shares without par value that integrated the social capital were as follow:

	Series "F"	Series "B"	Total
Subscribed and paid-in shares (*)	1,660,376,400	1,358,489,782	3,018,866,182
Treasury shares not paid	158,215,942	129,449,407	287,665,349
	1,818,592,342	**1,487,939,189**	**3,306,531,531**

* Represent the minimum fixed and variable portion of capital stock.

(b) Dividends declared-

The dividends paid to individuals and corporations resident abroad shall be subject to an additional tax of 10%, which is considered final and must be withheld by entities that distribute such dividends. The rule solely applies to dividends payment from earnings generated beginning January 1, 2014.

For the year ended at December 31, 2018 the Group declared paid dividends to BNS (at December 31, 2017 did not declare nor paid dividends) as shown as follows:

Declare date		Amount	Paid date 2018		Amount 2018
25-may-18	$	6,997	27-jun-18	$	3,450
			11-sep-18		3,547
				$	6,997

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Group and subsidiaries during the year, and includes the net income, plus the result of the valuation of available-for-sale securities and cash flow hedge transactions, as well as the remeasurements of defined employee benefits.

(d) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Group's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the Ministry of Finance and Public Credit may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

In conformity with the General Corporations Law, 5% of the Group´s net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital. At December 31, 2018 and 2017 the statutory reserve was $901, which had reached the required percentage of capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2018 the capital contribution account (Cuenta de Capital de Aportación or CUCA, non-audited), and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN, non-audited), of the Group amount to $10,830 and $10,715, respectively.

The retained earnings of subsidiaries may not be distributed to the Group's stockholders until these are received as dividends. Dividends paid derived from profits generated from January 1, 2014 and later, to individuals and to foreign residents, abroad are subject to an additional non-refundable tax of 10%.

(Continued)

(e) Capitalization (non-audited)-

The Commission requires brokerage firms to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated by applying certain specific percentages according to the level of risk assigned, in conformity with the rules established by the Central Bank. The Brokerage Firm's net capital at December 31, 2018 and 2017 was $1,286 and $1,157, respectively.

At December 31, 2018 and 2017, the Bank maintained a capitalization index in excess of 10.5%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions in both years, the capitalization index is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information (capitalization index reported to the Central Bank and subject to its approval):

Capital at December 31,		**2018**	**2017**
Basic capital			
Common shares	$	10,877	10,577
Prior years' results		25,463	26,183
Other elements of the comprehensive income (and other reserves)		13,437	11,587
Basic capital 1 before regulatory adjustments		49,777	48,347
Regulatory adjustments:			
Investment in financial subsidiaries		(2,337)	(1,704)
Deferred debits and prepayments		(5,834)	(4,319)
Investments in clearing house		(299)	(44)
Deferred taxes, favorable items from temporary differences		(440)	(255)
Investment in other instruments		(36)	(135)
Total regulatory adjustments to capital		(8,946)	(6,457)
Basic Capital 1		40,831	41,890
Basic Capital non-fundamental		3,577	-
Total Basic Capital		44,408	41,890
Supplementary Capital			
Equity instruments		5,467	2,101
Net Capital		49,875	43,991
Total risk weighted assets	$	353,102	302,473

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Equity and supplementary ratios

		2018	2017
Basic Capital I Ratio		11.56%	13.85%
Basic Capital Ratio		12.58%	13.85%
Supplementary Capital Ratio		1.54%	0.69%
Net Capital Ratio		14.12%	14.54%
Specific institutional supplement		14.51%	16.65%
Supplement capital conservation		2.50%	2.50%
Supplement of local systemic importance (D-SIB)		0.45%	0.30%
Tier 1 common equity available to cover supplements		4.56%	6.85%
** Final information approved by the Central Bank*			
Limits applicable to the inclusion of reserves in supplementary capital:			
Limits applicable to the inclusion of reserves in supplementary capital under standardized methodology	$	1,860	1,572

Total weighted assets at risk as of December 31, 2018:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in pesos at nominal interest rates	$	15,931	1,274
Transactions with debt securities in pesos with premium and adjustable rates		795	64
Transactions in Mexican pesos at real interest rates or denominated in UDIS		247	20
Positions in UDIS or with returns linked to the INPC		5	-
Foreign currency transactions at nominal interest rates		822	66
Foreign currency positions or with exchange rate indexed returns		1,371	110
Equity positions or with returns indexed to the price of a single share or group of shares		37	3
Capital requirement for Gamma impact		-	-
Capital requirement for Vega impact		48	4
Total market risk, carried forward	$	19,256	1,541

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		Risk Weighted assets	Capital requirement
Total market risk, brought forward:	$	19,256	1,541
Weighted assets subject to credit risk by risk group:			
Group I-B (weighted at 2%)		20	2
Group II (weighted at 20%)		60	5
Group II (weighted at 100%)		212	17
Group III (weighted at 10%)		595	48
Group III (weighted at 20%)		3,420	274
Group III (weighted at 25%)		225	18
Group III (weighted at 50%)		4,527	362
Group III (weighted at 100%)		3,278	262
Group IV (weighted at 20%)		2,115	169
Group V (weighted at 20%)		239	19
Group V (weighted at 150%)		1,498	120
Group VI (weighted at 50%)		31,578	2,526
Group VI (weighted at 75%)		18,645	1,492
Group VI (weighted at 100%)		62,946	5,036
Group VII-A (weighted at 11.5%)		729	58
Group VII-A (weighted at 20%)		11,071	886
Group VII-A (weighted at 23%)		264	21
Group VII-A (weighted at 50%)		5,384	431
Group VII-A (weighted at 100%)		142,143	11,371
Group VIII (weighted at 115%)		1,764	141
Group VIII (weighted at 150%)		2,290	183
Group IX (weighted at 100%)		21,376	1,710
Securitization with risk degree 2 (weighted at 20%)		41	3
Derivatives credit valuation adjustment		4,588	367
Total credit risk		319,008	25,521
Weighted assets subject to risk and capital requirement from operational risk		14,838	1,187
Total market, credit and operational risk	$	353,102	28,249
Annual average of positive net income for the past 36 months	$		20,414

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Total weighted assets at risk as of December 31, 2017:

		Risk Weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in pesos at nominal interest rates	$	11,836	947
Transactions with debt securities in pesos with premium and adjustable rates		687	55
Transactions in Mexican pesos at real interest rates or denominated in UDIS		283	23
Positions in UDIS or with returns linked to the INPC		49	4
Foreign currency transactions at nominal interest rates		330	26
Foreign currency positions or with exchange rate indexed returns		718	57
Equity positions or with returns indexed to the price of a single share or group of shares		766	61
Capital requirement for Gamma impact		9	1
Capital requirement for Vega impact		3,608	289
Total market risk, carried forward	$	18,286	1,463

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		Risk Weighted assets	**Capital requirement**
Total market risk, brought forward:	$	18,286	1,463
Weighted assets subject to credit risk by risk group:			
Group II (weighted at 20%)		8	1
Group II (weighted at 100%)		325	26
Group III (weighted at 20%)		2,154	172
Group III (weighted at 50%)		128	10
Group III (weighted at 100%)		2,984	239
Group IV (weighted at 20%)		1,664	133
Group V (weighted at 20%)		468	37
Group V (weighted at 150%)		1,141	91
Group VI (weighted at 50%)		29,311	2,345
Group VI (weighted at 75%)		16,090	1,287
Grup VI (weighted at 100%)		50,576	4,046
Grup VII-A (weighted at 10%)		1,109	89
Grup VII-A (weighted at 20%)		8,896	712
Grup VII-A (weighted at 23%)		16	1
Grup VII-A (weighted at 25%)		37	3
Grup VII-A (weighted at 50%)		5,033	403
Grup VII-A (weighted at 57.5%)		4,120	330
Grup VII-A (weighted at 100%)		114,762	9,181
Grup VII-B (weighted at 23%)		285	23
Grup VIII (weighted at 115%)		1,793	143
Grup VIII (weighted at 150%)		1,846	148
Grup IX (weighted at 100%)		23,763	1,901
Securitization with risk degree 2 (weighted at 20%)		47	4
Derivatives credit valuation adjustment		3,856	309
Total credit risk, carried forward	$	270,412	21,634

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		Risk Weighted assets	Capital requirement
Total credit risk, brought forward	$	270,412	21,634
Weighted assets subject to risk and capital requirement from operational risk		13,775	1,102
Total market, credit and operational risk	$	302,473	24,199
Annual average of positive net income for the past 36 months		$	16,820

As of December 31, 2018, the net capital structure of the Bank of $49,874 had an increase of 13.4% compared to $43,991 of the year 2017, mainly due to issuance of subordinated debt that computed as non-fundamental basic capital of $3,577 and supplementary capital of $3,366; the profits obtained during the year 2018 for $7,176.

The Bank carried out its Capital Adequacy Assessment Exercise during 2018, this exercise was carefully planned and executed to evaluate the adequacy of capital and liquidity under conditions of stress in internal scenarios. The result of the exercise led to the conclusion that the institution's liquidity and capital would enable it to cope with the risks arising from defined stress scenarios, maintaining its capital ratio and liquidity indicators above minimum requirements.

On April 16, 2018, the Board of Governors of the Banking Commission ratified the Bank as a multiple banking institution of local systemic importance, through Official Letter No. 131/4473/2018. Its degree of systemic importance was defined as Grade I, so it should constitute a capital supplement of 60 basis points. That supplement must be constituted in a period of four years completed in December 31, 2019.

As of December 31, 2018, the weightings involved in calculating the institutions' countercyclical capital supplement is zero.

(f) Capital management-

To evaluate the capital adequacy, the Bank starts from its Exposition Plan to obtain a prospective vision of the institution that allows to identify risks which is exposed and to make decisions when monitoring key metrics and indicators, such as: Capital, Liquidity, Profitability and Credit Losses.

The Exposition Plan has been structured based on a view of the country´s macroeconomic scenario and plans of the diverse business lines.

At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, the Bank has documented an Action Plan for the Conservation of Capital and Liquidity, which aims to implement early warning indicators, that are the base for the Liquidity and Capital Management Committee, carry out assessments and monitoring in accordance with the policies, as the impact and magnitude of the stress event.

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 estimates of Capital Index.

Likewise annual stress tests as established by the Banking Commission under various scenarios are performed, in order to ensure that the Bank has the sufficient capital to continue receiving funding and granting loans with these stress scenarios and business strategies. Additionally, an analysis of internal stress scenarios starting from the Plan of Exhibitions as base scenario, that integrate various adverse macroeconomic conditions is performed, in order to disclose exposure of the Bank at different risks.

(Continued)

(22) Memorandum accounts-

(a) Securities on repurchase / resell agreements on behalf of customers-

At December 31, 2018 and 2017, the repurchase/resell transactions of customers are comprised as follows:

	2018			2017		
	Number of securities		**Fair value**	**Number of securities**		**Fair value**
LD BONDESD	179,391,282	$	17,955	551,092,650	$	55,125
BI CETES	445,897,212		4,338	82,141,551		796
M BONOS	39,556,366		3,847	46,346,462		4,504
CBUR	-		-	14,100,000		1,412
IS BPA	105,273,608		10,746	11,118,132		1,138
PRLV	43,642,293		44	8,904,646		9
S UDIBONO	2,653,408		1,605	1,059,138		633
IQ BPAG	19,548,896		1,968	-		-
IM BPAG	33,013,144		3,295	-		-
		$	**43,798**		**$**	**63,617**

(b) Securities lending transaction on behalf of customers-

At December 31, 2018 and 2017, the securities lending transaction on behalf of customers, are as follows:

	2018			2017		
	Number of securities		**Fair value**	**Number of securities**		**Fair value**
1B NAFTRAC	410,000	$	17	410,000	$	20
1 CEMEX	828,612		8	766,612		11
1 MEXCHEM	70,375		4	138,375		7
1 NEMAK	220,000		3	150,000		2
1A VALE	12,000		3	4,000		1
1 ALFA	130,000		3	130,000		3
1 SIMEC	40,000		2	40,000		2
1A FCX	10,000		2	5,000		2
1 ALPEK	50,000		1	-		-
		$	**43**		**$**	**48**

(Continued)

(c) Collateral received in guarantee by customers-

The collateral represented by government, private and banking debt securities and on behalf of customers in guarantee for the Group, at December 31, 2018 and 2017, are analyzed as follows:

	2018		2017	
	Number of securities	**Fair value**	**Number of securities**	**Fair value**
Goverment:				
LD BONDESD	89,695,641	$ 8,975	276,002,091	$ 27,603
IS BPA	52,636,804	5,372	5,559,066	566
BI CETES	279,232,423	2,722	62,459,131	606
M BONOS	19,778,183	1,924	23,173,231	2,254
IM BPAG	16,506,572	1,648	7,050,000	706
S UDIBONO	1,326,704	801	529,569	318
IQ BPAG	9,774,448	984	-	-
		22,426		32,053
Banking:				
PRLV	43,642,293	44	8,904,646	9
		$ 22,470		**$ 32,062**

(d) Customer's securities received in custody-

The funds managed by the Group for investing in various instruments on behalf of its customers at December 31, 2018 and 2017 are recorded in memorandum accounts. The funds provided by these transactions are analyzed as follows:

	2018	2017
Mutual funds	$ 90,753	89,707
Government securities	46,091	51,761
Equity shares and other	234,296	237,520
	$ 371,140	**378,988**

(e) Collaterals delivered in guarantee by customers-

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2018 and 2017, are comprised as follows:

		2018	2017
Government securities	$	21,320	31,545
Equity shares and holding companies certificates		47	55
Margin credits		4,716	4,475
	$	**26,083**	**36,075**

Income earned from assets under management and custody during the years ended December 31, 2018 and 2017 amounted to $69 in both years.

(f) Investment banking transactions on behalf of third parties-

As of December 31, 2018 and 2017 funds managed by the Group following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2018	2017
Private equity	**$**	997	1,518
Government securities		55,345	50,494
Mutual funds		41,638	9,744
Bank securities not issued by the Bank		20,343	42,219
Others		2,488	-
Total	**$**	**120,811**	**103,975**

The amount of funds invested in the Group's own funding instruments, if any, is included in the consolidated balance sheet.

Transactions for own behalf-

(g) Credit commitments-

Credit facilities:

As of December 31, 2018 and 2017, the balance of authorized credit facilities not withdraw amounted to $199,768 and $160,285, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $19,772 and $15,491 in the same year, and other credit commitments by $14,236 and $5, respectively.

Letters of credit:

As of December 31, 2018 and 2017, the Group has issued letters of credit for $29,048 and $27,092, respectively.

As of December 31, 2018 and 2017, the allowance created for credit letters amount to $226 and $379, respectively, and are included in the allowance for loan losses.

(h) Assets in trust or under mandate-

The Group's trust activity, recorded in memorandum accounts as of December 31, 2018 and 2017, is shown as follows:

		2018	**2017**
Trust:			
Administrative	$	188,231	187,739
Guarantee		3,681	3,046
		191,912	190,785
Mandates		29,081	29,023
	$	**220,993**	**219,808**

Trust revenue accrued for the years ended December 31, 2018 and 2017 amounted $237 and $244, respectively and were recorded in the caption "Commission and fee income".

(i) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

		2018	2017
Collaterals received by the entity:			
Repurchase / resell agreements:			
IQ BPAG	$	-	2,001
LD BONDESD		2,204	12,962
IS BPA		1,404	498
IM BPAG		2,298	1,706
M BONOS		2,280	4,265
BI CETES		500	189
IPAS		-	566
CEBIC		-	100
CEDE		400	-
S UDIBONO		-	317
		9,086	22,604
Guarantees received for derivate operations		2,176	2,056
Equity instruments		94	149
Guarantees received for credit operations		28,315	28,214
	$	**39,671**	**53,023**

Collaterals received and collaterals sold or delivered by the Group at December 31, 2018 and 2017 are analyzed below:

		2018	2017
LD BONDESD	$	19,566	16,538
IS BPA		19,109	498
M BONOS		6,128	4,258
IM BPAG		3,296	706
BI CETES		3,730	189
IQ BPAG		1,968	-
IPAS		-	566
CEBIC		-	100
S UDIBONO		1,604	317
		55,401	23,172
Net equity instruments		45	34
	$	**55,446**	**23,206**

(Continued)

(j) Assets in custody or under management-

In this account, the Group records securities received in custody, guarantee or under management. At December 31, 2018 and 2017, the securities are analyzed as follows:

		2018	2017
Securities in custody:			
Securities vault	$	103	117
General vault		-	104
Investment transaction		2,663	1,508
Management of securities		8,802	15,617
Shares pledged as warranty		13,720	13,420
Other		7,646	2,789
		32,934	**33,555**
Securities under management:			
Securities		**420,053**	**406,192**
Transactions with derivative financial instruments			
Futures		51,387	81,039
Swaps		472,944	547,744
Options		2,355	7
		526,686	**628,790**
	$	**979,673**	**1,068,537**

Income arising from securities in custody or management, for the years ended December 31, 2018 and 2017 amounts to $2 and $1, respectively.

(23) Additional information on operations and segments-

(a) Segment information-

The Group's operations are classified in the segments "Credit and services" (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), "Treasury and trading" (securities, derivatives and currency transactions) and "Others". For the year ended December 31, 2018 and 2017, income by segment is analyzed in the following page.

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December 31, 2018		**Credit and services**	**Trading and treasury**	**Other**	**Total**
Interest income, net	$	23,553	1,062	(475)	24,140
Commissions and fees, net; result from trading and other operating income		6,034	172	2,016	8,222
Net operating revenues		**29,587**	**1,234**	**1,541**	**32,362**
Allowance for loan losses		(4,289)	-	-	(4,289)
Administrative and promotional expenses		(17,285)	(990)	(1,003)	(19,278)
Income before current and deferred income taxes		**8,013**	**244**	**538**	**8,795**
Equity in the results of operations of associated companies		-	-	-	(1,021)
Current and deferred income taxes, net		-	-	-	1
Net income	**$**				**7,775**

December 31, 2017		**Credit and services**	**Trading and treasury**	**Other**	**Total**
Interest income, net	$	19,795	2,229	(658)	21,366
Commissions and fees, net; result from trading and other operating income		5,173	242	1,822	7,237
Net operating revenues		**24,968**	**2,471**	**1,164**	**28,603**
Allowance for loan losses		(4,520)	-	-	(4,520)
Administrative and promotional expenses		(14,200)	(772)	(1,020)	(15,992)
Income before current and deferred income taxes		**6,248**	**1,699**	**144**	**8,091**
Equity in the results of operations of associated companies					1
Current and deferred income taxes, net					(936)
Net income	**$**				**7,156**

(Continued)

(b) Financial margin-

For the years ended December 31, 2018 and 2017, the financial margin in the consolidated statements of income consists of the elements shown as follows:

Interest income:

Interest income for the years ended December 31, 2018 and 2017 is analyzed as follows:

		Credit and services	**Trading and treasury**	**Other**	**Total**
December 31, 2018					
Cash and cash equivalents	$	-	1,907	1	1,908
Margin accounts		-	56	-	56
Investment securities		-	4,028	395	4,423
Securities on repurchase/resell agreements		-	1,440	173	1,613
Securities lending transactions		-	-	10	10
Current loan portfolio		36,564	-	-	36,564
Past-due loan portfolio		136	-	-	136
Loan origination fees		591	-	-	591
	$	**37,291**	**7,431**	**579**	**45,301**

		Credit and services	**Trading and treasury**	**Other**	**Total**
December 31, 2017					
Cash and cash equivalents	$	-	1,395	-	1,395
Margin accounts		-	38	-	38
Investment securities		-	3,434	281	3,715
Securities lending transactions		-	1,455	186	1,641
Current loan portfolio		28,827	-	-	28,827
Past-due loan portfolio		274	-	-	274
Loan origination fees		559	-	-	559
Premiums from securities lending transactions		-	-	9	9
	$	**29,660**	**6,322**	**476**	**36,458**

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An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2018 and 2017:

		2018		**2017**	
		Current	**Past-due**	**Current**	**Past-due**
Commercial	$	12,967	48	9,260	51
Financial institutions		3,016	-	2,585	-
Government entities		8,734	85	601	-
Consumer		11,398	-	7,368	74
Residential mortgages		1,040	3	9,572	149
		37,755	**136**	**29,386**	**274**
	$	**37,291**		**29,660**	

For the years ended December 31, 2018 and 2017, commissions that represent a yield adjustment of 0.22%, 1.28% and 0.08%, for 2018, as well as 0.21%, 3.58% and 0.12% for 2017, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2018 and 2017, total interest income includes interest denominated in foreign currency amounting to 48 million dollars and 34 million dollars, respectively.

Loan origination fees for the years ended December 31, 2018 and 2017 are comprised as follows:

		2018	**2017**
Commercial	$	187	178
Consumer		301	255
Residential mortgages		103	126
	$	**591**	**559**

Amortization term for the fees are from 12 to 360 months.

Interest expense:

Interest expense for the years ended December 31, 2018 and 2017 is comprised in the following page.

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		Credit and services	Trading and treasury	Others	Total
2018					
Demand deposits	$	(3,330)	-	-	(3,330)
Time deposits		(9,855)	-	-	(9,855)
Debt securities issued		-	(2,020)	-	(2,020)
Bank and other borrowings		-	(1,870)	-	(1,870)
Subordinated debt issued		-	(494)	-	(494)
Securities under repurchase/resell agreements		-	(1,964)	(1,052)	(3,016)
Discount on debt issuance		-	(1)	-	(1)
Expenses on debt issuance		-	(20)	-	(20)
Residential mortgages loan origination fees and expenses		(553)	-	-	(553)
Securities lending transactions		-	-	(2)	(2)
	$	**(13,738)**	**(6,369)**	**(1,054)**	**(21,161)**

		Credit and services	Trading and treasury	Others	Total
2017					
Demand deposits	$	(2,594)	-	-	(2,594)
Time deposits		(6,835)	-	-	(6,835)
Debt securities issued		-	(1,223)	-	(1,223)
Bank and other borrowings		-	(951)	-	(951)
Subordinated debt issued		-	(157)	-	(157)
Interests in charge associated with the global account of deposits without movements		-	(45)	-	(45)
Securities under repurchase/resell agreements		-	(1,711)	(1,131)	(2,842)
Premiums from securities lending transactions		-	-	(3)	(3)
Discount on debt issuance		-	(6)	-	(6)
Residential mortgages loan origination fees and expenses		(436)	-	-	(436)
	$	**(9,865)**	**(4,093)**	**(1,134)**	**(15,092)**

(Continued)

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(c) Commission and fee income-

For the years ended December 31, 2018 and 2017, the commission and fee income are analyzed as follows:

		2018	2017
Letters of credit with no refinancing	$	171	151
Account handling		313	359
Trust activities		237	244
Fund transfers		145	154
Electronic banking services		136	135
Credit transactions		1,953	1,617
Management services		1,668	1,346
Other fees and commissions collected		2,480	1,994
	$	7,103	6,000

(d) Financial intermediation income-

For the years ended December 31, 2018 and 2017, financial intermediation income is analyzed as follows:

		2018	2017
Unrealized valuation:			
Investment securities	$	8	9
Derivatives:			
Trading		(1,007)	579
Hedging		11	1
Available-for-sale hedge securities		1	-
Foreign currencies and metals		349	1,970
Unrealized valuation carried forward	**$**	**(638)**	**2,559**

(Continued)

		2018	2017
Unrealized valuation brought forward	**$**	**(638)**	**2,559**
Realized gain or (loss):			
Investment securities		(230)	(73)
Derivatives:			
Trading		(44)	(2,601)
Hedging		2	-
Available-for-sale hedge securities		(2)	-
Foreign currencies and metals		1,041	314
		767	**(2,360)**
	$	**129**	**199**

(e) Other operating income (expenses)-

For the years ended December 31, 2018 and 2017, other operating income (expenses) is analyzed as follows:

		2018	2017
Dividends		180	96
Donations		(35)	(22)
Income on sale of foreclosed assets		131	191
Income from securitization		16	60
Taxation		4	1
Other recoveries		2	49
Income from credit insurance		1,104	969
Armored transportation fees		16	13
Loans employees		131	141
Food coupons		124	190
Loan write-offs and losses		(216)	(587)
Others, mainly support services		720	569
	$	**2,177**	**1,670**

(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Group years ended at 2018 and 2017:

	2018			
	Fourth	**Third**	**Second**	**First**
Delinquency rate	2.3%	2.2%	2.2%	2.3%
Coverage of past-due loan portfolio rate	123.4%	128.3%	133.2%	137.2%
Operating efficiency (administrative and promotional expenses / average total assets)	4.8%	3.7%	3.6%	3.6%
ROE (annualized net income for the quarter / average stockholders' equity)	12.1%	12.7%	17.8%	16.5%
ROA (annualized net income for the quarter / average total assets)	1.2%	1.3%	2%	1.9%
Net capital / Assets at credit risk	15.63%	15.66%	15.78%	15.91%
Net capital / Assets at credit, market and operational	14.12%	14.23%	14.33%	14.39%
Liquidity (liquid assets / liquid liabilities)	65%	59.2%	58.3%	50.6%
Financial margin after allowance for loan losses / Average earning assets	4.3%	4.1%	4.8%	4.1%

	2017			
	Fourth	**Third**	**Second**	**First**
Delinquency rate	2.4%	2.3%	2.4%	2.3%
Coverage of past-due loan portfolio rate	131.1%	130.3%	126.5%	127.5%
Operating efficiency (administrative and promotional expenses / average total assets)	3.6%	4.1%	4.1%	4.1%
ROE (annualized net income for the quarter / average stockholders' equity)	22.4%	11.3%	11.8%	13.8%
ROA (annualized net income for the quarter / average total assets)	2.6%	1.3%	1.4%	1.7%
Net capital / Assets at credit risk	16.27%	15.85%	16.03%	16.52%
Net capital / Assets at credit, market and operational	14.69%	14.31%	13.49%	13.46%
Liquidity (liquid assets / liquid liabilities)	46.9%	56.3%	50.6%	47.5%
Financial margin after allowance for loan losses / Average earning assets	4.5%	4.2%	4.6%	4.3%

(Continued)

(24) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense in office property, software and other for the years ended December 31, 2018 and 2017, amounted to $1,057 and $1,090, respectively.

(b) Claims and trials-

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

(c) Responsibility agreement-

The Group has entered into an agreement with each of its subsidiaries, whereby it undertakes to be jointly and severally responsible for compliance with the obligations that according to the applicable provisions are inherent to the activities of each financial entity that conforms the Group. In addition, the Group agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(25) Risk management (unaudited information)-

Certain amounts and/or percentages calculated in this note may vary slightly against the same amounts or percentages indicated in any other note to the consolidated financial statements due to rounding of the amounts.

The following foot note focuses on the risk management of the Group and its subsidiaries.

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

(Continued)

According to the General Provisions applicable to credit institutions in terms of risk management issued by the Banking Commission, the Board of Directors assumes responsibility over the Group's risk management objectives, guidelines and policies. At least once a year, the Board of Directors should approve the objectives, guidelines and policies 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).

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 whereby guidelines are established for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Group's Comprehensive Risk Management Unit is represented by the Assistant General Risk Management (Risk DGA) and relies for the management and administration of the different types of risk (i.e. credit, liquidity, interest rate, market and operational, among others), on the Risk Corporate Management , which in turn constitutes the UAIR of Crédito Familiar and Globalcard, and is organized into 6 managements designed to monitor and reduce the risks to which the institution is exposed; this in order to ensure an adecuate risk management to comply with the risk profile wanted and defined by the Management Board, and also to improve quality, diversification and composition of the diferent portfolios, optimizing the risk-return ratio.

The UAIR is responsible for reviewing and submitting for the approval of the Risk Committee and/or the Board of Directors the different methodologies used to manage the risks to which the institution is exposed as well as the risk appetite framework, management policies for the different types of risk, global and specific exposure limits and the corresponding risk tolerance levels. Additionally, it is also responsible for providing Senior Management with reliable and timely information to support decision-making monitoring, management and administration of the different lines of business.

Finally, risk management is based on the best international practices because it has a regulatory framework that allows not only to comply with local regulations but also with corporate standards and guidelines established by the Parent Company (The Bank of Nova Scotia).

(Continued)

(a) Market risk-

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

The Group's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures, foreign exchange forwards and options, interest rate swaps, interest rate options and foreign currency swaps. For each portfolio, there are established and approved limits.

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

Market Risk Management includes monitoring that the risk 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. The models used to manage market risk are reviewed at least biannually. The Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the Market Risk indicators. The limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

The market risk is managed with specialized systems and contemplates volumetric or notional amounts for value at risk, sensitivity and "stress" limits.

The Group's securities trading activities are directed primarily to providing service to its customers, accordingly, the Group holds an inventory of financial instruments of shares, interest rates and foreign exchange, the access to market liquidity is available through offers to buy from and sell to other intermediaries. In addition, the Group 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.

(Continued)

Value-at-risk (VaR)

The VaR is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Group's risk-exposed financial instruments and portfolios.

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

During the fourth quarter of 2018, average global VaR was $3.20 and at December 31, 2018, the global VaR was $2.96.

During the fourth quarter of 2018, the average one-day VaR, broken down by the Groups's risk factors is as follows:

	December 2018	**December 2017**
Risk factors:	**Average VaR 1 day**	**Average VaR 1 day**
Interest rates	2.39	4.38
Equity	2.24	1.24
Foreign exchange rates	0.92	0.31
	3.20	4.54

The distribution of the exposure to market risk (position vs. value at risk) of the trading portfolio in December 2018 is as follows:

		Position	**VaR**
Money market	$	20,036	3.129
SC Swaps (MXN / USD)		578,075	
CC Swap		24,633	
Caps & Floors (MXN / USD)		54,230	
Derivatives market			1.040
Market portfolio of interest rates and interest rate derivatives		676,974	2.759
Equity shares		10	0.260
Equity derivatives		9,508	0.869
Equity shares portafolio		9,518	0.997

		Position	VaR
Spot FX		2.8562	0.038
FX FWD		42,647	
FX Options		14,517	
FX Derivatives		57,164	0.018
Foreign exchange currency derivatives portfolio		57,166.8562	0.043

Figures expressed in value added

Only trading positions are included

Capital derivatives include local and international underlying

Money market (bonuses) is expressed in net figures (long – short)

The distribution of exposure to market risk (position vs. value at risk) of the trading portfolio in December 2017 is as follows:

		Position		VaR[1]	
		Average	**Closing**	**Average**	**Closing**
December 2017	**$**	**726,863**	**726,358**	**4.54**	**4.75**
Mexican pesos:					
Money market		9,810	5,605	3.18	3.95
Interest rate swaps		588,925	585,542	4.09	5.78
Caps & Floors		33,259	34,880	2.15	1.38
Interest rate market and rate derivatives		**631,994**	**626,027**	**4.38**	**5.00**
Shares		16	22	0.35	0.41
Capital derivatives (national underlying)		666	592	-	-
Capital derivatives (international underlying)		13,910	19,732	-	-
Equity shares portafolio		**14,592**	**20,346**	**1.24**	**1.48**
FX Forwards [3,4,5]		1,782	2,295	0.01	0.01
FX Trading [3,4]		-	-	0.19	0.02
Currency options [4]		633	-	0.00	-
Currency Swaps[4]		1,668	1,773	0.13	0.12
FX trading, currency and metals derivatives		**4,083**	**4,068**	**0.31**	**0.14**

(Continued)

(1) The VaR is expressed in millions of pesos
(2) Only the VaR is shown as the position is in number of contracts operated in MexDer and is presented in separate tables.
(3) The forwards position is gross (long + short) while the exchange position is net (long – short)
(4) The position is expressed in millions of US dollars
(5) Includes the net position of Treasury foreign exchange forwards.

For interpretation purposes and as by way of example, the average one day VaR for the Group is $2.961. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be $2.961.

During the quarter October - December 2017, the Bank participated in the MexDer, operating interest rate futures contracts. Positions for the fourth quarter of 2017 (number of contracts) are shown as follows:

		Average	**Closing**
Underlying			
TIIE Swaps (1)	$	179,217	184,550

1. The position is in number of contracts operated in the MexDer (short positions longer).

Stress testing is performed daily *("stress testing")*, 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 at the end of December 2018 shows a maximum loss of $75.64, which compared with the $2,000 limit, is within the acceptable parameters. Scenario used for this test is the Emerging Markets 2008, this scenario represents the world sub-prime or real estate crisis of 2007-2008 and its impact in Mexico.

The market risk limits structure foresees volumetric or notional VaR, sensitivity and concentration amounts, "stress testing" limits and term, among other.

On the other hand, back-testing is performed monthly for comparing the theoretical losses and gains to the observed VaR and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS). As for back-testing performed during the fourth quarter of 2018 show acceptable levels under the BIS approach.

(Continued)

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".

Sensitivities

Qualitative information on sensitivities

On a daily basis, the market risk sensitivities are calculated for each portfolio to which the Group is exposed. During 2018, no changes were made to the assumptions, methods or parameters used for this analysis.

Below is a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on the 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, generating 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 base point (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 base points (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 base point.

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

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.

(Continued)

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIIE Swaps a 1 base point change is made in each of the relevant points in the yield curve and a 1 and 100 base points is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes. In this case, the change in 1 base point is reported.

Stock portfolio and IPC derivatives

Stock equity

Operations are performed through the Brokerage Firm and the Bank. For stock position purposes, the sensitivity is obtained by calculating the issued delta within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the underlying value.

Equity derivatives

This sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

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 non-linear products such as warrants and options, the Delta and the "Greeks", among which are gamma, rho, theta and vega, 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.

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.

There is no Greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock in the Group, measurement is made by increasing the dividend rate 0.01% (i.e. from 1% to 1.01%).

(Continued)

Currency portfolio and currency derivatives

Currency

The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel or not parallel 1 basis point change along the respective yield curves, with all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one bp change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 bp is made. In addition, a one bp change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, it is only reported the sensitivity for 1 bp.

<u>*Quantitative information on sensitivities*</u>

Interest rate sensitivities

The following table shows the sensitivity of one bp at December 31, 2018 and 2017:

Sensibility 1pb	**2018**	**2017**
Money market	0.293	0.122
SC Swaps (MXN / USD)	0.060	(0.371)
CC Swaps	0.010	-
Caps & floors (MXN / USD)	0.027	0.126
Derivatives market	0.097	(0.123)
Interest rate market and rate derivatives portfolio	0.390	(0.001)

Includes the Treasury position

At December 31, 2018, the Group presents sensitivity in the interest rate portfolio of $0.390

(Continued)

Equity shares and IPC derivatives sensitivities

The following table shows the sensitivity (Delta) at the end of December 2018 and 2017:

Delta	**December 2018**	**December 2017**
Naftrac	85.076	75.44
IPC Futures	(61.79)	0.000
Warrants	(32.78)	(72.23)
Total	**(9.500)**	**(3.214)**

Ath the end of December 2018, the Brokerage Firm presents sensitivity Open Delta of $9.5 for all the underlaying, as a result of market movements.

Regarding the positions on IPC, a dynamic hedge strategy is followed with the ETF Naftrac that replicates the IPC in a large percentage and IPC futures.

The Brokerage Firm's equity portfolio comprises equity shares and equity share derivatives. The average of the fourth quarter of 2018 was $0.03.

Delta	**Average 2018**	**Maximum 2018**	**Minimum 2018**
Shares	0.001	0.001	0.001
Warrants	(8.310)	(9.78)	(6.84)
Total	**(8.13)**	**(9.78)**	**(6.48)**

The figures for the fourth quarter of 2017 are presented below:

Delta	**Average 2017**	**Maximum 2017**	**Minimum 2017**
Shares	-	-	-
Warrants	0.03	2.33	(0.02)
Total	**0.03**	**2.33**	**(0.02)**

(Continued)

Grupo Financiero Scotiabank Inverlat, S. A. de C. V.,
(A foreign owned Mexican Holding Company
and subsidiaries

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(Millions of Mexican pesos)

The following table presents the sensitivity measurements for non-linear instruments at the end of December 2018, it is important to highlight that the informative report includes Bonds and Warrants based on Structured Notes.

	Delta EQ		**Vega EQ**		**Delta EQ**	**Vega EQ**
Underlaying	**Hedging**	**Structured notes, warrants**	**Hedging**	**Structured notes, warrants**	**Total**	**Total**
AAPL.USM	23.32	(23.32)	0.01	(0.01)	-	-
AMZN.USM	21.73	(21.73)	0.04	(0.04)	-	-
FB.USM	20.87	(20.87)	0.06	(0.06)	-	-
GE.USM	4.72	(4.72)	0.01	(0.01)	-	-
GOOG.USM	7.25	(7.25)	-	-	-	-
MEXBOL.INDX	-	(32.78)	-	0.13	(32.78)	0.13
	(61.79)	-	-	-	(61.79)	-
	85.08	-	-	-	85.08	-
MEXCAC.INDX	12.50	(12.50)	0.04	(0.04)	-	-
MEXEEM.USM	107.20	(107.20)	0.78	(0.78)	-	-
MEXIXM.INDX	64.09	(64.09)	0.39	(0.39)	-	-
MEXSPX.INDX	94.14	(93.75)	-	-	0.40	-
MEXSX5E.INDX	131.76	(131.24)	1.51	(1.50)	0.52	-
MEXTSX60.INDX	2.84	(2.83)	0.06	(0.06)	0.02	-
MEXXLK.USM	13.31	(13.31)	-	-	-	-
NFLX.USM	25.82	(25.82)	0.08	(0.08)	-	-
Total	**552.85**	**(561.42)**	**2.97**	**(2.84)**	**(8.57)**	**0.13**

Sensitivities for warrants and capital options, "Greek"

Greek	Delta	Gama	Vega	Dividend risk	Rho
Total	(8.57)	-	0.13	-	-

Sensitivities for the portfolio of currency and currency derivatives [(1)]

The following table presents the sensitivity at the end of December 2018 and 2017:

Sensibility 1 pb	**2018**	**2017**
Sport FX	-	-
FX FWD	(0.001)	-
FX Options	-	-
FX Deivatives	(0.001)	-
Exchange and currency derivatives portfolio	**(0.001)**	**-**

Treasury position are included

(Continued)

At December 31, 2018, a change in the sensitivity to the Exchange rate was recorded at ($0.001).

(b) Liquidity and interest rate risk-

The Group 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 Group will be able to meet the totality of its obligations as they become due and payable. To such end, the Group applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets. The Group manages its liquidity and interest rate risk exposure in accordance with the applicable regulatory provisions and the best sounding practices. In addition, the Group has established contingency plans.

The Group manages exposure to liquidity risk and interest rate risk according to the applicable regulatory provisions and the better market practices, considering those positions for structural handling of the balance sheet.

Funding strategy is determined by the Group Treasury but condensed and authorized by the Assets and Liabilities Committee, where various departments of the Institution are involved, including business areas.

Liquidity and interest rate risk management includes monitoring that the risk mitigating factors are up to date and accurate, for which the limits set and approved for the management of these risks are reviewed annually and monitored periodically. Furthermore, the models used to manage liquidity and interest rate risks are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the liquidity and interest rate risk indicators.

Limits related to liquid assets, liquidity gaps, margin sensitivity and economic value sensitivity are among the limits applicable to the management of liquidity and interest rate risk. These limits are reviewed at least annually in order to validate that they are aligned with the institution's risk appetite. The structure of liquidity and interest rate risk limits contemplates volumetric or notional amounts.

It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the Institution's Risk Appetite.

Liquidity and interest rate risk is conducted through specialized systems where risk estimates related to liquidity risk are performed.

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 and Enterprise Wide Stress Testing.

The liquidity risk is monitored and controlled through accumulated liquidity gaps built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, determining differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Bank (cash inflows and outflows).

For measuring liquidity risk, the cumulative liquidity gaps at the closing of December and the average of the fourth quarter were as follows:

The cumulative liquidity gaps at the closing of December 2018 and the annual average of 2018 of the Bank:

	December 2018	**Average 2018[(1)]**
30-day cumulative gap	8,625	(18,588)

(1) The average includes the period of January 2018 to December 2018, however, it is highlighted that on November 16, 2018 there were changes in the methodology.

The cumulative liquidity gaps at the closing of December 2018 and the annual average of 2018 of the Brokerage Firm:

	December 2018	**Average 2018[(1)]**
30-day cumulative gap	-	-

(1) The average includes the period of January 2018 to December 2018, however, it is highlighted that on November 16, 2018 there were changes in the methodology.

The cumulative liquidity gaps at the closing of December 2018 and the annual average of 2018 of Crédito Familiar:

	December 2018	**Average 2018[(1)]**
30-day cumulative gap	(71)	(52)

(1) The average includes the period of January 2018 to December 2018, however, it is highlighted that on November 16, 2018 there were changes in the methodology.

The cumulative liquidity gaps at the closing of December 2018 and the annual average of 2018 of Globalcard:

	December 2018	**Average 2018[1]**
30-day cumulative gap	969	93

(2) The average includes the period of January 2018 to December 2018, however, it is highlighted that on November 16, 2018 there were changes in the methodology.

Cumulative liquidity gaps have implicit contractual maturities, including hedge derivatives positions.

Interest rate risk arises as a result of funding, placement and investment activities of the Group and is derived from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, that 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. This risk materializes due 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 using repricing gaps, 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.

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a window of 30 years and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

The variation between the economic value estimated and the estimated variation in the financial income for the Group, at the end of December and on average for 2018, is shown as follows:

	2018	
	December	**Average**
Economic value (-100 pbs) **(1)**	51	27
Margin sensitivity (+ 100 bps) **(1)**	695	651

(1) It includes the Bank, the Brokerage Firm, the Fund Management Company and Globalcard. Sensitivities based on the new interest rate model approved by the Risk Committee in November 2018. Average figures consider the November-December 2018 period, taking into account the change to the model assumptions.

Treatment for securities available for sale- Below is the valued position for the Financial Group's available for sale investments at December 2018 and annual average:

	2018	
	December	**Average**
Bank	13,022	8,012
Corporate	584	365
Government	24,837	24,347
Total	**38,443**	**32,724**

Includes non-maturity assets such as shares and funds.

Being an integral part of the Financial Group's balance sheet handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity). At December 31, 2018, the Financial Group has liquid assets for $39,244.

At the closing of December 2018, and average 2018, Globalcard, S.A. de C.V. SOFOM E.R. does not have investments in securities for purposes of structural management of the balance. The purpose of such investment is the structural management of the balance sheet, and the corporate assumptions regarding sensitivity metrics are applicable.

At the closing of December 2018, and average 2018, Crédito Familiar does not have investments in securities for purposes of structural management of the balance. The purpose of such investment is the structural management of the balance sheet, and the corporate assumptions regarding sensitivity metrics are applicable.

At the closing of December 2018, and average 2018, theBrokerage Firm does not have investments in securities for purposes of structural management of the balance. The purpose of such investment is the structural management of the balance sheet, and the corporate assumptions regarding sensitivity metrics are applicable.

The liquidity risk limits framework contemplates volumetric or notional amounts, sensitivity, liquid assets, concentration of deposits and liquidity gaps.

(Continued)

The following page shows a summary of hedging derivatives at closing of December and average of the fourth quarter used by the Group for interest rate and foreign exchange risk hedge purposes. These positions are excluded from the VaR calculation because their purpose is to hedge the structural balance of the Group and the risk factor sensitivity is measured within the Economic Value of the Group and Margin Sensitivity.

Strategy		December 2018 Notional	December 2017 Notional
Interest rate swaps paid at fixed rate (cash flows)	$	**26,885**	**22,085**
0y - 3y		3,660	7,160
3y - 5y		18,225	10,165
5y - 10y		5,000	4,760
Interest rate swaps paid at floating rate (cash flows)		**4,090**	**7,090**
0y - 3y		4,090	7,090
Interest rate swaps paid at fixed rate (fair value)		**12,008**	**12,008**
0y - 3y		7,370	5,403
3y - 5y		6,712	1,640
5y - 10y		1,796	4,965
Interest rate swaps paid at fixed rate (fair value in USD)		**61**	**3**
0y - 3y		61	3
CCIRS paid at fixed rate (fair value in USD)		10	-
0y - 3y		10	-

Rating downgrade

The Institution periodically measures the impact and the consequences this scenario would have on liquidity measures and liquid assets. A summary of the requirements a downgrade of the institution would have on 3 levels at the end of December 2018 and the average of the fourth quarter of 2018 are shown in the following page.

(Continued)

		December average	2018 average
Downgrade (3 levels)	$	1,362	1,076

(c) Credit risk-

Credit risk is defined as the potential loss due to default by a borrower or counterparty in transactions carried out by the Group. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and other securities transactions.

The Group's credit risk management is based on the application different strategies, which include the centralization of credit processes, the diversification of the portfolio, credit analysis, strict supervision and a credit risk rating model, this credit risk management incorporates financial instruments.

The Group has three different levels of credit resolution: the Board of Directors, the Credit Committees and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

For credit risk management, the information is extracted from the different applications and systems the Group has, and also the estimates such as the expected and unexpected loss, and possible future exposure (PFE) for the credit risk of the counterparty are made through specialized systems.

This section focuses on managing commercial loan portfolios and consumer and mortgages loan portfolio belonging to the Financial Group through subsidiaries the Bank, Globalcard and Crédito Familiar.

In the case of the Bank, particularly in commercial loans, business areas continually evaluate the financial position of each client, by exhaustively reviewing and analyzing the risk of each loan at least once a year. When impairment of the financial position of the client is detected, the credit rating is changed. Thus, the Bank determines the changes in the risk profiles of each client. These reviews consider the global credit risk, including operations with financial instruments and derivatives. Complementary reviews are conducted more frequently on identified higher than acceptable risks, at least quarterly. The relative to financial instruments and derivatives is also applicable to the Brokerage Firm.

(Continued)

There are origination models that evaluate the credit quality of the borrowers for the case of mortgage and consumer portfolio, and there are also policies and procedures established to manage the authorization processes of new loans and to monitor the credit quality of the different credit loan portfolios.

In the case of Crédito Familiar, the business model propose that decisions are given on a centralized basis as the decision engine applies equally to 100% of branches and no discretion on the part of the same, that is, both the placement (grant) as collection (recovery) supplemented by central support, this is, the placement and the collection are based on its branches and is supported by central area under specific conditions. All branches operate base of knowledge of the policy and procedures of business credit. The policies cover from credit granting, administration and control to collect of it. There is also a central area dedicated to recover credit, which is based on own efforts and external collection agencies. There is also an area dedicated to fraud management, which has established processes for prevention, detection and recovery operation with suspected fraud. Furthermore, the methodology used for measuring and controlling credit risk is based on score models (binary logistic regressions) that calculate the probability that a customer falls into default in a certain time horizon; this probability of default is associated with a level of expected loss.

In the case of Globalcard, the control of management of the loans and the portfolio credit rating is performed on a monthly basis taking into account the default probability, loss severance and default exposure according to the Provisions; additionally, the transfer to portfolio past due also follows the regulatory rules.

Credit risk concentrations- The Group has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are authorized annually to the Risk Committee and/or the Board of Directors; their behavior is monitored and reported to the Risk Committee on a monthly basis and to the Board of Directors every quarter.

Methodology to identify, quantify, manage and control credit risk - The process to set exposure limits for each type of portfolio subject to credit risk contemplates the analysis of the information and identification of the risks inherent to each borrower, documented policies based on an authorization process and ongoing review. All credit exposures are monitored by the UAIR through the Associate Director of Credit Risk and Counterparty for each type of portfolio (commercial including derivative instruments, mortgage,consumer, Globalcard and Crédito Familiar), the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of limits, the excesses observed and the strategies implemented to restore parameters. Also, the Board delegates to the Risk Committee the power to authorize limits and updates to methodologies for managing credit and counterparty risk.

(Continued)

The Group uses a credit risk classification system approved at the institutional level for commercial loans portfolio and score models and/or metrics of performance follow up for retail loans portfolio.

Methodology to identify, quantify, manage and control credit risk- Also, it has processes and systems that allow portfolio classification by risk level and estimating reserves in accordance with regulatory models from the Banking Commission.

Commercial loans

The Bank applies the Standard Models determined by the Banking Commission; at December 31, 2018 the portfolio is comprised as follows:

Grupo	Appendix CUB	% Total Cartera
States and Municipalities	Appendix 18	1.07%
Investment Projects with own source of payment	Appendix 19	1.55%
Financial Sector Entities	Appendix 20	14.85%
Corporations and Individuals with business activities with income or sales less than $14 UDIS *	Appendix 21	23.05 %
Corporations and Individuals with business activities with income or sales greater than $14 UDIS	Appendix 22	59.47%

* It includes trustees who act under trusts and "structured" loan schemes with modification of net worth that allow for the individual assessment of the related risk.

The Bank uses the following Rating Agencies in the standard method: S&P, MOODY'S, FITCH, HR RATINGS and VERUM, based on Appendix 1-B of the Banking Commission "Mapping of rating and degrees of risk".

The grade of rating agencies is used by the Bank to Calculation of Probability of Default of clients:

- States and Municipalities
- Admissibility of guarantors with a risk level of 1 and 2.
- Clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and 2 and have no information of payment experience within the domestic Credit Information Companies.

Allowance for commercial loans is based on the individual assessment of the credit risk of debtors and their rating, in compliance with the general provisions.

In accordance with the rules for rating of Loan Portfolio of Multiple Banking Institutions, the portfolio guaranteed or in charge of the Federal Government, the Central Bank and the Institute for the Protection of Bank Savings are exempt from being rated.

Credit risk hedging management and recognition process.

The Bank has policies implemented for the evaluation of guarantees, which implies the review of each one of the elements and risks related, depending on the type, considering both the Guarantee policies and those corresponding to the Analysis and Evaluation of Credit, for which the Bank applies controls on the assessment of the guarantor/liable party, identifying the detail of the corporate structure and any significant aspect of subordination affecting the support provided.

The credit rating of the guarantor or liable party must be determined continuously and consistently during the term of the loan.

Control mechanisms for rating systems, including an analysis of independence, accountability and evaluation

The Group has an application, "ScotiaCred", used to control rating systems for Commercial loans in which credit application and authorization processes as well as the proper and complete record of the characteristics and requirements of each guarantee are described, defined in the institutional Guarantee catalog and are updated in time, including further amendments, if applicable.

This record enables the Group to identify the collateral in their custody and maintain a clear separation from its own assets.

The ScotiaCred system classifies the portfolios and rates credits under the standard rating methodologies determined by the Banking Commission.

Mortgage and consumer portfolio of the Group

With regard to the allowances for borrowers related to consumer and mortgage portfolios, in addition to the commercial loan portfolio, including Crédito Familiar and Globalcard, the Financial Group uses the regulatory methodologies published in the CUB, based on the calculation of the Expected Loss for each of the loan portfolios using the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (ED) are based on specific information and characteristics of the assessed borrowers and loans.

(Continued)

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model carried out in a specialized tool and based on the methodology of CreditMetrics.

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

- The unexpected loss is a measure of dispersion around the expected loss and is calculated on the basis of risk parameters.

- Additionally, stress tests are performed for determining its impact on the portfolio's expected and unexpected loss, which are presented to and analyzed by the Risk Committee. These tests comply with internal standards and Provisions.

At the end of December 2018 and 2017 and in average for the fourth quarter of 2018, the expected and unexpected loss over the Group's total portfolio, commercial and consumer portfolio, was as follows:

		2018		**2017**
		Closing	**Average**	**Closing**
Expected loss				
Bank	$	3,723	3,876	3,934
Crédito Familiar		291	287	347
Globalcard		632	631	541
	$	4,646	4,794	4,822
Non expected loss				
Bank		19,976	19,841	26,784
Crédito Familiar		871	875	698
Globalcard		1,175	1,198	1,381
	$	22,022	21,914	28,863

Only includes traditional loan portfolio (commercial and retail).

To interpret the expected and unexpected loss as an example, the expected average loss during the fourth quarter of 2018 for the Group was $4,794 which represents the amount that the Group expects to lose on average during the next twelve months for defaults, given the characteristics of its portfolio, while the average unexpected loss was $21,914 and represents the economic capital needed to keep the Group solvent in case of a large adverse event impacting loan portfolios.

(Continued)

Exposure of the loan portfolio by type of portfolio - At the end of December 2018, the total (current and past-due) and average quarterly exposure of the loan portfolio corresponds to the following:

		December 2018	Average	Diciembre 2017
Mortgage loans	$	123,327	121,746	107,248
Auto loans		24,956	24,441	20,412
Non-revolving personal loans (1)		4,494	4,505	3,551
Revolving personal loans (2)		3,037	2,822	2,301
Commercial loans (3)		239,959	238,917	206,994
Total		395,773	392,431	340,506
Crédito Familiar	$	3,393	3,427	3,393
Globalcard [(4)]		10,986	10,876	8,462

(1) Incorporates non-revolving personal loans (payroll and open market) and Scotianline (SL) restructurings for $34.

(2) Includes SL

(3) Includes credit letters and PyME portfolio (PyME, Kabbage y Konfio)

(4) Includes credit card an credit card restructures for $64

Risk Parameters (PD, LGD and ED) of the credit portfolio (December 2018)

Portfolio		**Exposure to default (EI)[1]**	**Probability of default (PI)[2]**	**Loss given default (SP)[2]**
Mortgage loans	$	116,428	2.40%	13.60%
Infonavit (HITO)		3,623	7.14%	23.60%
Non-revolving consumer loans		28,809	4.30%	71.40%
Revolving		5,515	12.80%	73.80%
Commercial Portfolio [(3)]		242,023	2.50%	43.20%
Investment Projects [(4)]		3,333	2.10%	45%
Crédito Familiar		3,285	12.55%	71%
Globalcard revolving [(5)]		23,409	8.49%	73.41%
Globalcard non revolving [(5)]		22	14.04%	71.02%

(Continued)

(1) Determined under regulatory methodology. (Exclude defaulted portfolio).

(2) Weighted risk parameter from exposure to default. (Exclude defaulted portfolio).

(3) Excludes investment projects.

(4) PI determined implicitly upon considering reserve determined under regulatory methodology between SP (45%).

(5) Corresponds to Globalcard credit card and credit card restructures

Exposures by portfolio type and geographical distribution for the Group, broken down by subsidiary, the Bank (commercial loans, consumer loans and residential mortgages), Crédito Familiar and Globalcard (revolving and non-revolving consumer loans) are shown as follows:

Credit risk management information for the portfolio

a. Total amount of gross exposures to credit risk at the end of December 2018 broken down by major types of portfolio, is shown as follows:

Scotiabank **Total exposure commercial loans portfolio (Segment)**		**Exposures (disposed amount) December 2018**
Government	$	12,694
Corporate Baking		131,407
Enterprise Banking		93,134
Small and Medium-sized entities (PyME for its acronym in Spanish)		2,724
Total	**$**	**239,959**

Note: It includes letters of credit.

Retail loan portfolio

For the purposes of this document, the treatment within the credit portfolio tables of the balance of Scotialine for $34 corresponding to restructurings is included in the portfolio of personal loans, as required by the regulation.

In the following tables, the non-revolving portfolio consists of: Payroll Credits, Automotive Credits, Personal Loans, Fairmont, Overdrafts, Scotialine Restructures (the total amount of Scotialine considering restructurings at the close of December 2018 is $3,071).

Scotiabank Loan portfolio		**Pesos**	**Dollars translated**	**Total**
Mortgage loans (1)	$	123,197	121	123,318
Non-revolving loan portfolio (2)		29,444	-	29,444
Revolving loan portfolio		3,037	-	3,037
Total	**$**	**155,678**	**121**	**155,799**

(1) Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.

(2) Includes: Payroll Credit loans, Auto loans, Personal loans, Fairmont, Overdrafts, Restructures Scotiaflex, Personal.

Globalcard

		2018	
Credit loan exposure by portfolio		**December**	**Q4 (1)**
Non-revolving personal loans (2)	$	64	65
Revolving personal loans (2)		10,922	10,810
Total	**$**	**10,986**	**10,875**

(1) Average exposure observed during the quarter (Q4, October – December 2018)

(2) Corresponds to credit cards restructures

Crédito Familiar

Crédito Familiar Financial information Distribution by product of loan portfolio		**Pesos**	**Dollars translated**	**Total**
Non-revolving loans	$	3,632	-	3,632

b. Distribution of exposures by economic sector.

The distribution of exposures by economic sector broken down by major types of exposures, including the list of current, past-due and nonperforming loans, preventive reserves for credit risks is summarized in the following page.

Commercial portfolio

	Loan portfolio		Non Performing						
Economic sector	Current	Past-due	Current	Past-due	Beginning balance	Total exposure	Allowance [(1)]	Variation of allowance vs. previous quarter	Average of days past-due
Financial institutions	35,445	-	-	-	-	35,445	292	32	-
Consumer	26,391	52	1	330	349	26,774	602	94	312
Financial Intermediaries and Investment-Others	16,247	-	-	110	113	16,356	345	(147)	790
Food and beverages	23,943	1	-	795	827	24,739	853	12	387
Oil & gas	16,584	-	-	36	38	16,620	155	4	585
Other sectors	117,723	221	61	2,019	2,164	120,024	2,994	75	387
Total	**236,333**	**274**	**61**	**3,290**	**3,491**	**239,958**	**5,241**	**70**	**2,461**

(1) Does not include additional allowance

Consumer loans (the Bank, Crédito Familiar and GloablCard) whereas loans are granted to individuals, a classification by economic sector is not made.

c. Distribution of exposures by geographic region.

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, preventive reserves for credit risksare shown as follows:

Commercial portfolio

Scotiabank
Geographical distribution by region
Commercial loan portfolio
(Figures in million of pesos)

	Loan portfolio		Non Performing (SAM)		Total exposure	Allowance
Region	Current	Past-due	Current	Past-due	December 2017	[(1)]
Centro	14,148	16	2	304	14,471	430
Metropolitana	64,039	67	24	1,205	65,333	1,658
Norte	44,494	21	15	716	45,246	1,015
Sur	113,652	172	20	1,065	114,909	2,138
Total	**236,333**	**276**	**61**	**3,290**	**239,959**	**5,241**

(1) Does not include additional allowance

(Continued)

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Retail loan portfolio

The geographical distribution of the exposures in the main states and main exposures at December 31, are as follows:

Scotiabank
Financial information by geographical distribution of the loan portfolio
(Figures in million of pesos)

Region		Mortgage loans [1]	Non revolving portfolio [2]	Revolving portfolio	Total
Mexico City	$	32,568	20,801	785	54,154
State of Mexico		15,227	533	433	16,193
Jalisco		12,476	512	183	13,171
Nuevo León		9,774	564	151	10,489
Querétaro		8,512	196	12	8,720
Chihuahua		4,535	564	162	5,261
Coahuila de Zaragoza		4,279	653	112	5,044
Guanajuato		3,544	213	79	3,836
Veracruz de Ignacio de la Llave		3,453	531	130	4,114
Puebla		3,105	425	83	3,613
Other states		25,845	4,452	907	31,204
Total	**$**	**123,318**	**29,444**	**3,037**	**155,799**

(1) Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.

(2) Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Restructures, Scotia Flex, Personal loans.

(Continued)

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Geographical distribution of non-performing loans

Scotiabank
Financial information by geographical distribution of non performing loans
(Figures in million of pesos)

	Mortgage portfolio [1]		Non revolving loans [2]		Revolving loans	
Region	Balance	Allowance	Balance	Allowance	Balance	Allowance
Mexico City	433	89	436	341	33	24
State of Mexico	284	61	21	17	18	13
Jalisco	282	70	10	8	8	5
Nuevo León	223	48	13	10	7	5
Querétaro	106	23	3	3	0	0
Chihuahua	60	14	11	9	7	6
Coahuila de Zaragoza	134	34	13	10	6	4
Guanajuato	69	19	6	5	5	4
Veracruz de Ignacio de la Llave	233	60	15	12	9	6
Puebla	140	35	14	11	5	4
Other states	1,038	261	105	82	48	35
Total	**3,002**	**714**	**647**	**508**	**146**	**106**

(1) Includes the loan portfolio of loans securitized. Excludes $97.2 corresponding to FOVI allowance for loan losses.

(2) Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Scotia Flex, Personal.

(3) Non-performing loans portfolio is equal to the past due portfolio.

(Continued)

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Credito Familiar
The geographical distribution of the exposures in the main states and main exposures to December 31, are as follows:

Financial information by geographical distribution of the loan portfolio

Region		Non revolving loans
Mexico City	$	801
State of Mexico		594
Jalisco		240
Nuevo León		177
Baja California Norte		168
Tamaulipas		162
Chihuahua		134
Puebla		127
Veracruz de Ignacio de la Llave		105
Hidalgo		103
Other states		1,020
Total	**$**	**3,631**

Crédito Familiar
Non-performing loans, detailed by mayor States including allowance for loan losses related to each geographic region.

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Financial information by geographical distribution of non performing loans
(Figures in thousands of pesos at December 31, 2018)

		Non revolving loans	
Region		**Balance**	**Allowance**
Mexico City	$	72,790	54,549
State of Mexico		55,413	41,501
Tamaulipas		19,463	14,554
Nuevo León		17,652	13,254
Jalisco		17,490	13,071
Baja California Norte		15,739	11,660
Chihuahua		15,511	11,798
Veracruz de Ignacio de la Llave		13,938	10,522
Guanajuato		10,013	7,562
Sonora		9,869	7,366
Sinaloa		9,110	6,875
Puebla		8,642	6,613
Guerrero		8,420	6,361
Morelos		8,166	6,098
Michoacán		6,616	5,002
Hidalgo		6,393	4,817
Coahuila		6,307	4,731
San Luis Potosí		5,831	4,370
Querétaro		5,483	4,139
Oaxaca		4,832	3,604
Tabasco		4,758	3,572
Campeche		4,696	3,618
Colima		4,123	3,066
Durango		3,453	2,597
Yucatán		2,248	1,690
Nayarit		2,018	1,521
Zacatecas		1,857	1,428
Quintana Roo		1,844	1,374
Aguascalientes		1,740	1,326
Baja California Sur		1,402	1,059
Tlaxcala		895	672
Total	**$**	**346,712**	**260,370**

(Continued)

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Globalcard

Geographical distribution by mayor states and mainly exposures as of December 31, 2018, are shown below:

Financial information by geographical distribution of the loan portfolio
(Figures in million of pesos at December 31, 2018)

Region		Non revolving loans [1]	Revolving loans	Total
Mexico City	$	18	2,554	2,572
State of Mexico		10	1,354	1,364
Jalisco		3	735	738
Nuevo León		3	674	677
Chihuahua		3	612	615
Quintana Roo		3	554	557
Veracruz de Ignacio de la Llave		3	437	439
Tamaulipas		2	405	407
Coahuila de Zaragoza		2	395	397
Puebla		2	325	327
Other states		15	2,877	2,892
Total	**$**	**64**	**10,922**	**10,985**

(1) Includes credit card restructures

Globalcard

Non-performing loans, detailed by mayor States including allowance for loan losses amount related to each geographic region.

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(Millions of Mexican pesos)

Globalcard
Financial information by geographical distribution of non performing loans
(Figures in millions of pesos)

		Non revolving loans		Revolving loans	
		Balance	Allowance	Balance	Allowance
Mexico City	$	12	9	141	101
State of Mexico		7	5	85	60
Jalisco		2	2	43	30
Nuevo León		2	2	36	26
Chihuahua		2	1	35	25
Quintana Roo		2	2	35	26
Veracruz de Ignacio de la Llave		2	1	32	23
Tamaulipas		1	1	27	19
Coahuila de Zaragoza		1	1	23	16
Puebla		1	1	21	15
Other states		9	7	184	129
Total	$	**41**	**32**	**662**	**470**

Breakdown of the current and past-due portfolio as of December 2018 by remaining term and loan type.

Commercial loan portafolio

Scotiabank
Current and past-due loan portfolio by remaining term
(Figures in million of pesos at December 31, 2018)

Term		Current	Past-due	Total
Past-due loans	$	0	3,564	3,564
Up to 1 year		102,435	0	102,435
1 to 2 years		24,239	0	24,239
2 to 3 years		24,183	0	24,183
3 to 4 years		33,466	0	33,466
4 to 5 years		31,863	0	31,863
Over 5 years		20,209	0	20,209
Total	**$**	**236,395**	**3,564**	**239,959**

Retail loans

Scotiabank
Financial information for current loan portfolio by remaining term
(Average term)

	Months	**Years**
Mortgage portfolio [1]	176	15
Non-revolving loans [2]	38	3
Revolving loans	-	-

Scotiabank
Financial information for past-due loan portfolio by remaining term
(Average term)

	Months	**Years**
Mortgage portfolio [1]	147	12
Non-revolving loans [2]	35	3
Revolving loans	-	-

Scotiabank
Financial information total loan portfolio by remaining term
(Average term)

	Months	**Years**
Mortgage portfolio [1]	176	15
Non-revolving loans [2]	38	3
Revolving loans	-	-

Exposures distribution of the current and past due portfolio by product

Retail loans

Scotiabank
Financial Information loan portfolio status
(Figures in million of pesos at December 31, 2018)

		Current	Past-due	Total
Mortgage portfolio [1]	$	120,316	3,002	123,318
Non-revolving loans [2]		28,797	647	29,444
Revolving loans		2,891	146	3,037

(1) Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.

(2) Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Scotia Flex, Personal.

(Continued)

Crédito Familiar
Financial information loan portfolio status
(Figures in thousands of pesos at December 31, 2018)

		Current	Past-due	Total
Non-revolving loans	$	3,285	347	3,632

Financial information for current loan portfolio by remaining term
(Average term)

	Months	**Years**
Non-revolving loans	26	2

Financial information for past-due loan portfolio by remaining term
(Average term)

	Months	**Years**
Non-revolving loans	21	2

Financial information total loan portfolio by remaining term
(Average term)

	Months	**Years**
Non-revolving loans	24	2

Globalcard

Financial information loan portfolio by remaining term

	Months	**Years**
Non-revolving loans [1]	23	2
Revolving loans		

(1) Includes credit card restructures

d. List of credit risk allowances.

The list of credit risk allowances classified according to Article 129 is as follows as of December 2018:

Commercial loans

Score	Allowance[1]
A1	749
A2	765
B1	321
B2	66
B3	343
C1	118
C2	62
D	536
E	2,281
Total	**5,242**

(1) Not included additional allowances

Retail loans

Allowance for loan losses percentages			
Risk grading	**Mortgage loans**	**Non-revolving loans**	**Revolving loans**
A - 1	0 to 0.50	0 to 2.0	0 to 3.0
A - 2	0.501 to 0.75	2.01 to 3.0	3.01 to 5.0
B - 1	0.751 to 1.0	3.01 to 4.0	5.01 to 6.5
B - 2	1.001 to 1.50	4.01 to 5.0	6.51 to 8.0
B - 3	1.501 to 2.0	5.01 to 6.0	8.01 to 10.0
C - 1	2.001 to 5.0	6.01 to 8.0	10.01 to 15.0
C - 2	5.001 to 10.0	8.01 to 15.0	15.01 to 35.0
D	10.001 to 40.0	15.01 to 35.0	35.01 to 75.0
E	40.001 to 100.0	35.01 to 100.0	Grater than 75.01

(Continued)

Scotiabank
Allowance for loan losses by risk grading
(Figures in million of pesos at December 31, 2018)

		Mortgage loans [1]	Non-revolving loans [2]	Revolving loans	Total
A-1	$	206	115	70	391
A-2		43	68	74	185
B-1		25	38	19	82
B-2		39	74	8	121
B-3		74	24	11	109
C-1		74	51	18	143
C-2		184	73	29	286
D		419	86	85	590
E		196	607	112	915
Total	**$**	**1,260**	**1,136**	**426**	**2,822**

(1) Includes the loan portfolio of loans securitized. Excludes $97.2 corresponding to FOVI allowance for loan losses.

(2) Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Scotia Flex, Personal.

Crédito Familiar
Allowance for loan losses by risk grading
(Figures in million of pesos at December 31, 2018)

		Non-revolving loans
A-1	$	11,650
A-2		68,066
B-1		39,762
B-2		10,960
B-3		26,734
C-1		29,643
C-2		91,460
D		63,590
E		341,366
Total	**$**	**683,231**

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Globalcard (figures in million of pesos)

		Revolving loans [2]	Non-revolving loans[1]
A-1	$	336,125	7
A-2		194,711	54
B-1		62,456	103
B-2		42,898	305
B-3		47,595	26
C-1		86,943	222
C-2		141,666	315
D		378,761	501
E		290,428	31,902
Total	$	**1,581,583**	**33,435**

(1) Credit card restructures are incorporated

e. Non-performing loans at December 2018: Allowances, variations, geographical distribution and write-offs:

Commercial loans

Scotiabank **Allowance for loan losses – Non-performing loans** **(Figures in million of pesos at December 31, 2018)**	**Amount**
Beginning balance of allowance September 2018	5,181
Increase in provision	134
Increase in provision (SMEs)	19
Debits in results	(39)
Por fluctuaciones en el tipo de cambio	21
Due to FX changes	0
Reserve cancellation	(60)
Write-offs, Dations and partial write-offs	5,295
Final balance of allowance December 2018	-

* Includes additional allowance (past due interest and other)

Retail loans

Scotiabank **Variation in allowance for loan losses** **(Figures in million of pesos)**	**December 2017**	**December 2018**	**Variation**
Mortgage portfolio [1]	1,161	1,260	99
Non- revolving loans [2]	1,001	1,136	135
Revolving loans	381	426	45

(1) Includes the loan portfolio of loans securitized. Excludes $97.2 corresponding to FOVI allowance for loan losses.

(2) Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Scotia Flex, Personal.

Scotiabank **Variations in allowance for non-performing loans*** **(Figures in million of pesos at December 31, 2018)**	**Non-revolving loans[2]**	**Revolving loans**	**Mortgage portfolio[1]**
Allowance at September 30, 2018	**760**	**463**	**114**
Release[3]	(80)	(269)	(58)
Transfer from current to past-due portfolio	53	127	20
Transfer from past-due to current portfolio	(81)	(43)	(10)
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	(65)	(13)	(1)
Increases in the balance of reserves	127	243	41
Allowance at December 31, 2018	**714**	**508**	**106**

(1) Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.

(2) It Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine Restructures.

(3) All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.

* Non-performing loans equal past-due loans.

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Scotiabank Variations in allowance for non-performing loans* (Figures in million of pesos)	**Non-revolving loans[2]**	**Revolving loans**	**Mortgage portfolio[1]**
Allowance at December 31, 2017	**715**	**322**	**118**
Release[3]	(293)	(686)	(108)
Transfer from current to past-due portfolio	143	363	16
Transfer from past-due to current portfolio	(194)	(115)	(7)
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	(90)	(26)	(1)
Increases in the balance of reserves	433	650	88
Allowance at December 31, 2018	**714**	**508**	**106**

(1) Includes the portfolio corresponding to FOVI loans and the portfolio of loans purchased from securitized loans.

(2) It Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine Restructures.

(3) All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.

* Non-performing loans equal past-due loans.

Crédito Familiar Variation in allowance for loan losses (Figures in million of pesos)	**December 2017***	**December 2018**	**Variation**
Non-revolving loans	647	683	**36**

* The amount of the reserve for December 2017 equals the amount booked, which is affected by the effect of the fiscal benefit granted by the regulator for the deferred recognition of the reserve calculated under the new methodology.

Crédito Familiar Variation in allowance for loan losses (Figures in million of pesos)	**Non-revolving loans**
Allowance at September 30, 2018	**252,841**
Release	(144,783)
Transfer from current to past-due portfolio	132,438
Transfer from past-due to current portfolio	(837)
Decreases in the balance of reserves	(7,162)
Increases in the balance of reserves	27,873
Allowance at December 31, 2018	**260,370**

(Continued)

The recovery of written off loans fully impaired and recorded in income accounts at the end of December 2018 for non-revolving portfolio is for $6,364.

Crédito Familiar **Variation in allowance for loan losses** **(Figures in thousands of pesos)**	**Non-revolving loans**
Allowance at December 31, 2017	**295,913**
Release	(255,982)
Transfer from current to past-due portfolio	62,344
Transfer from past-due to current portfolio	(1,124)
Decreases in the balance of reserves	(11,390)
Increases in the balance of reserves	170,609
Allowance at December 31, 2018	**260,370**

The recovery of written offs loans fully impaired and recorded in income accounts during 2018 was for the non-revolving portfolio for principal $29,226 (thousands of pesos) and for accessories $725 (thousands of pesos). Regarding the revolving portfolio for principal $1,234 (thousands of pesos); Although the product is cancelled, recoveries are still received from the accounts written-off in this portfolio.

Globalcard **Variation in allowance for loan losses** **(Figures in thousands of pesos at December 31, 2018)**	**Chance in allowance**	**Write-offs**
Non-revolving loans[1]	493	-
Revolving loans	51,576	273,575

1. Credit card restructures are incorporated

Globalcard **Variations in allowance for non-performing loans*** **(Figures in thousands of pesos)**	**Revolving loans**	**Non-revolving loans (1)**
Allowance at September 30, 2018	**432,827**	**31,087**
Release [2]	(234,156)	(4,066)
Transfer from current to past-due portfolio	97,952	650
Transfer from past-due to current portfolio	(55,424)	(4,999)
Decreases in the balance of reserves	(1,930)	(1,525)
Increases in the balance of reserves	231,063	10,057
Allowance at December 31, 2018	**470,332**	**31,204**

(Continued)

(1) Credit card restructures are incorporated

(2) All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.

Globalcard Variations in allowance for non-performing loans* (Figures in thousands of pesos)	Revolving loans	Non-revolving loans [1]
Allowance at December 31, 2017	**312,146**	**19,575**
Release [2]	(289,984)	(11,796)
Transfer from current to past-due portfolio	42,075	341
Transfer from past-due to current portfolio	(16,468)	(3,755)
Decreases in the balance of reserves	(2,428)	(1,041)
Increases in the balance of reserves	424,991	27,880
Allowance at December 31, 2018	**470,332**	**31,204**

(1) Credit card restructures are incorporated

(2) All credits that in the quarter no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.

Credit risk mitigation techniques (Applicable to Commercial loans portfolio)

The Group has policies and processes that allow it to perform a valuation of guarantees. In general, it can be considered that there are no restrictions regarding the acceptance of guarantees. However, prior to acceptance, the impacts on profitability need to be assessed and determine whether it is feasible for the guarantee to be used as a mitigating factor in regulatory calculations of:

- Allowance for loan losses, and
- Capital requirements

Based on an identification of the guarantees that are part of the Bank's Guarantee Management System, or if the proposal differs from the standards established in this System. The value of guarantees is determined by accurately identifying the standard valuation methodology at the beginning and during the term of the loan, depending on their type, such as formal appraisals prepared by certified experts, in the case of real estate; in the case of securities, the market value defined by the corresponding Stock Exchange.

The types of actual guarantees for Commercial Portfolio accepted by the institution are mainly: Pledge on Chattel, Pledge on Cash Deposits in SBI, Pledge on Inventories in Bonded Warehouse, Pledge on Machinery, Pledge on Vehicle, Pledge on Working Capital Loan (Treasury Guarantees), Pledge on Fixed Asset Loan (Treasury Guarantees), Civil Mortgage, Industrial Mortgage, Guarantee Trust.

(Continued)

The types of guarantors accepted for Commercial Portfolio by the Group are: Jointly Liable, Guarantor, Guarantee, Guarantee Letter, letter of credit standby and development entity guarantee.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As of December 2018 the coverage of the guarantees reported by the Bank in standard methodology, which are applicable to Commercial Portfolio is shown below:

Scotiabank
Guarantee amount
(Figures in million of pesos at December 31, 2018)

Hedge	Standard methodology
Eligible financial collateral	1,618
Eligible non-financial collateral	15,751
Personal guarantees	1,055

The Group does not have credit derivatives operations at the closing of December 31, 2018.

Policies to ensure real guarantees and establish credit reserves

The guarantees covering loans, depending on their type and characteristics they can contribute to improve the level of credit risk and consequently the amount of required reserves. For these purposes two types of guarantees are considered: Personal guarantees and real guarantees.

Credits that have some of these guarantees, including the two types may adjust their Rating to a higher level of risk. Probability of default with personal guarantees and loss given default (LGD) with real guarantees.

Guarantees used to improve the credit rating in addition to the specific requirements for the type (personal or real) in general must cover the following:

- The guarantee is granted and incorporated in the form and terms established in the applicable legal provisions and internal policies of the Bank.

- When a loan is hedge by real and personal guarantees: If the real guarantee is granted simultaneously by the same personal guarantor, only one of them can improve the score.

(Continued)

- In syndicated loans with other Credit Institutions, the Group may agree on the following rights in the corresponding credit agreement: First in order to collect on the guarantee; or the same degree of priority in the order to collect as the other participants, in cases where the guarantee is allocated proportionally among all Institutions involved in the credit.

Credit risk of financial instruments

Financial situation of each counterparty is evaluated periodically, and at least once a year an exhausting review and risk analysis is performed. Any impairment in the financial situation of the issuer/counterparty is reflected in its credit rating. Thus, the Group determines the changes in the risk profiles of each client. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions. In the case of identified risks, additional reviews are performed more frequently.

In the context of credit risk management performed by the Group, gathering information, the execution of due diligence procedures, analysis of capacity and financial prosperity of the issuer/counterparty, the establishment of appropriate structures and interest rates is essential, as well as the foreclosure, rationale and supervision processes.

Credit risk in investment securities - Following is a summary of exposures, credit quality and concentration by risk level of investment securities at the end of the months of December 2018 and 2017:

	2018		**2017**	
Held to maturity		%		%
The Bank	4,804		4,679	
Subtotal	**4,804**	**7**	**4,679**	**8**
Available-for-sale				
The Bank	38,443		44,684	
The Brokerage Firm	0		0	
Subtotal	**38,443**	**59**	**44,684**	**79**
Trading				
The Bank	19,986		5,091	
The Brokerage Firm	1,571		1,985	
Other business lines and subsidiaries (1)	255		112	
Subtotal	**21,812**	**34**	**7,188**	**13**
Total by risk	**65,059**	**100**	**56,551**	**100**

1 Includes the Fund Management Company and Globalcard position

Credit risk in derivative transactions- In addition to the risk measures mentioned earlier for derivative transactions, the Bank quantifies its credit exposures in order to control the use of lines granted to its counterparties for the operation of derivative instruments. This control is carried out by calculating future potential exposure (PFE) at the counterparty level 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.

The potential future exposure by counterparty credit risk and concentration by type of counterparty is presented for the Group at the end of December 2018 and 2017, is presented as follows:

Type of counterparty		**Future potential exposure**	**Concentration (%)***
December 2018			
Financial institutions	$	4,217	70
Corporations		1,782	30
Total maximum exposure		5,999	100
December 2017			
Financial institutions	$	3,933	84
Corporations		769	16
Total maximum exposure		4,702	100

- Al the closing of 2018, the three mayor exposures by counterparty represent 28% of the total amount.

Methodology for setting credit limits for counterparties and capital allocation - The Group, by establishing operating policies, defines capital allocation based on business criteria and risk appetite, i.e., customer eligibility criteria and setting maximum exposure limits are defined through the Credit Committees, considering potential future exposure by counterparty as the main risk parameter, estimated according to the methodology approved by the Risk Committee.

It is important to say that before entering into any operation that involves credit risk, a review process of the debtors/counterparties is carried out to evaluate their risk profile and to determine the exposure limit to be accepted by each one.

(Continued)

The Group's business line is responsible for analyzing and proposing according to strategy, new counterparties and their respective limits and/or the update thereof. For that, the Credit area has defined well the structure of responsibilities and powers for authorization. All proposals are analyzed considering the level of potential future exposure related to the risk profile of each counterparty and the products required for operation. Once the limits are approved, they are monitored by the UAIR and reviewed annually by the Credit area or with more frequency in case any potential risk is detected or else the line of business requests it so.

The capital requirement for operations with derivatives is calculated under regulatory methodology, such is the case of the credit valuation adjustment or CVA.

The following table shows the gross fair value, the compensation benefit and the offset exposure at closing of December 2018 and 2017. The Group does not maintain credit default swaps for hedging.

Type of counterparty		**Gross fair value***	**Offset exposure**
December 2018			
Financial institutions	$	20,933	4,125
Corporations		363	145
Total	$	21,296	4,270
December 2017			
Financial institutions	$	19,392	3,319
Corporations		320	164
Total	$	19,712	3,483

* Refers to the positive value of market valuation and also represents the current potential exposure

The above table shows mainly the exposure benefit as a result of the establishment of compensation agreements with counterparties. Such benefit represents the decrease in exposure to counterparty credit risk. These agreements allow compensating buying and selling positions for each counterparty in transactions with the same characteristics (instrument and underlying).

Also, the deposit guarantees and/or values maintained by the Financial Group at year-end of December 2018 and 2017 amount to $3,033 and $1,964, respectively.

The Financial Group has the guidelines of Bank of Nova Scotia (holding company) to identify the risk of adverse correlation during the credit authorization process for counterparty operations.

(Continued)

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 Group has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are mentioned as follows:

Policies for operational risk management

These policies are intended for establishing 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 Group.

Operational Risk Assessment

The Group has a structured methodology for assessing operational risk, which allows the Group to identify, assess and mitigate the risk inherent in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of inherent operational risk, assessing the effectiveness of controls in such risks, on wich is determined a level of residual risk from which actions are set to mitigate 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 December 2018 the Group recognized operational risk losses of $180.1, they were higher by $17.5 to those recorded in 2017 ($162.6).

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Group’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.

(Continued)

Key risk indicators.

This process allows the Group 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.

Calculation of capital.

The Bank and Crédito Familiar calculate its capital requirement for operational risk by the Standardized Alternative Method. For purposes of the the Brokerage Firm and Globalcard, the basic indicator method is used to determine the capital requirements for Operational Risk.

Estimate of legal risk losses

The Group 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

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 cannel for transmitting information in rendering services to the Group's customers.

In order to attend to requirements of regulations in terms of technological risk, the Group has technological risk management policies, which describe the guidelines and methodology for assessing technological risks. Furthermore, the DGA of Information Technology has policies, procedures and systems that contribute to compliance of the related 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 risks inherent 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.

(Continued)

Grupo Financiero Scotiabank Inverlat, S. A. de C. V.,
(A foreign owned Mexican Holding Company)
and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

Appendix 5. Disclosure Form of the Liquidity Coverage Ratio (LCR)
Reporting period: October 2018 – December 2018
Table 1.1 Disclosure Form of the Liquidity Coverage Ratio

	(Figures in millions of Mexican pesos)	Unweighted amount (average)	Weighted amount (average)
COMPUTABLE LIQUID ASSETS			
1	**Total Computable Liquid Assets**	**Non applicable**	**43,661.76**
CASH OUTFLOWS			
2	**Non-guaranteed retail financing**	**122,953.91**	**9,840.39**
3	Stable financing	48,630.86	2,426.06
4	Less stable financing	74,323.05	7,414.33
5	**Wholesale financing not guaranteed**	**114,091.54**	**41,297.36**
6	Operational deposits	44,328.72	10,451.25
7	Non-operational deposits	62,423.10	23,506.39
8	Unsecured debt	7,339.72	7,339.72
9	**Guaranteed Wholesale Financing**	**Non applicable**	**285.19**
10	**Additional requirements:**	**192,756.28**	**18,567.67**
11	Outflows related to financial derivative instruments and other guarantee requirements	4,422.57	3,485.24
12	Outflows related to losses on the financing of debt instruments	-	-
13	Credit lines and liquidity	188,333.71	15,082.44
14	**Other contractual financing obligations**	**-**	**-**
15	**Other contingent financing obligations**	**29,777.40**	**87.57**
16	**TOTAL CASH OUTFLOWS**	**Non applicable**	**70,078.18**
CASH INFLOWS			
17	**Guaranteed cash inflows**	**21,874.36**	**113.75**
18	**Cash inflows for unsecured transactions**	**42,591.09**	**29,414.02**
19	**Other cash inflows**	**19,566.49**	**10,642.82**
20	**TOTAL CASH INFLOWS**	**84,031.94**	**40,170.59**
			Adjusted amount
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**Non applicable**	**43,661.76**
22	**TOTAL NET OF CASH OUTFLOWS**	**Non applicable**	**29,789.83**
23	**LIQUIDITY COVERAGE RATIO**	**Non applicable**	**147.68%**

(a) Calendar days comprised in the quarter that is being disclosed. 92 calendar days

(b) Main causes of the result of the Liquidity Coverage Ratio and the change on its main components.

(1) Previous figures subject to review of the Central Bank

(Continued)

– **During October 2018, the main changes that impacted the LRC are the following (considering a 30 day time window):** [1]

- Main Cash outflows:

Cash outflows due to demand deposits for $26,953 and time deposits for $16,840, outflows derived from the Look Back Approach (LBA) and the estimate related to the impact on liquidity due to the possible impairment of the Group's rating in 3 levels for $1,303 and $1,101, respectively, outflows by undrawn credit commitments for $15,197.

- Main Cash inflows:

Cash inflows for loan portfolios for $9,942, call money operations for $19,030 and maturity of securities with a rating lower than 2B for $8,557.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $24,644 in debt securities level 1, $13,915 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, not including BREMS, as these are reported as debt securities level 1; additionally, available cash for $6,298 and $414 in securities level 2A.

– **During November 2018, the main changes that impacted the LRC are the following (considering a 30 day time window)** [1]**:**

- Main Cash Outflows:

Outflows due to demand deposits of $26,205 and time deposits of $16,169, outflows derived from the Look Back Approach (LBA) and the estimation related to the impact on liquidity due to the possible impairment of the Group's rating in 3 levels for $1,210 and $1,120, respectively, outflows by undrawn credit commitments for $14,970.

- Main Cash inflows:

Cash inflows for loan portfolios for $9,230, call money operations for $23,967 and maturity of securities with a rating lower than 2B for $9,494.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $15,195 in debt securities level 1, $12,243 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, not including BREMS, as these are reported as debt securities level 1; additionally, available cash and securities for $414 and $6,310 level 2A.

(1) Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions.

– **During December 2018, the main changes that impacted the LRC are the following (considering a 30 day time window):**

- Main Cash Outflows:

Outflows due to demand deposits of $27,283 and time deposits of $18,146, outflows derived from the Look Back Approach (LBA) and the estimation related to the impact on liquidity due to the possible impairment of the Group's rating in 3 levels for $1,085 and $1,362, respectively, outflows by undrawn credit commitments for $14,548.

- Main Cash inflows:

Cash inflows for loan portfolios for $11,080, call money operations for $19,705 and maturity of securities with a rating lower than 2B for $12,641.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $12,452 in debt securities level 1, $18,856 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, $413 in securities level 2A; finally, available cash for $7,524.

c) Changes of the main components in the reporting quarter

September 2018 – October 2018 (+37%) The Liquidity Coverage Ratio increased by 37% compared to September 2018, mainly due to:

- The professional Funding for more than 30 days, increased by $4,626, as well as the immediate demand deposits, which increased $7,706.
- Previous increases had a direct impact on liquid assets, which increased by a total of $12,798.
- In the cash outflows, the outflows associated with the demand deposits increased by $1,154.
- Finally, in the cash inflows, the flows in the 30-day window of the commercial portfolio increased by $5,905.

October 2018 – November 2018 (-35%) The Liquidity Coverage Ratio decreased by 35% compared to October 2018, mainly due to:

- Decrease in professional funding by $2,671, added to the maturity in the 30-day window of this same item for $4,411, in addition to a decrease in demand deposits of $1,919.
- In addition to the above, there was an increase in loan portfolios of $4,322.

(Continued)

- The previous movements had a direct effect on liquid assets, which decreased by $10,908.

November 2018 – December 2018 (+53%) The Liquidity Coverage Ratio increased by 53% compared to November 2018, mainly due to:

- The increase in volume of $2,621 and traditional deposits increased by $7,527; in addition to this increase, the 30 day outflows related to this professional system decreased by $5,755, this period was partially offset by the increase in the maturities of traditional products, which increased their output in the 30 day window for $3,055.

- The credit portfolios had an increase of $3,367, increased in 30 days by $1,850.

- These movements had a direct impact on liquid assets, which increased by $4,882.

(d) *The change of the composition of eligible and computable liquid assets;*

Change in liquid assets Q4- 2018	**October**	**November**	**December**
Cash	14%	18%	19%
Deposits in Central Bank	31%	36%	48%
Level 1	54%	44%	32%
Level 2A	1%	2%	1%
Level 2B	0%	0%	0%
Total weighted liquid assets	**100%**	**100%**	**100%**

(e) *Concentration of financing sources;*

Concentration of financing sources	October	November	December
DEPOSIT FNDING			
Demand deposits	43%	42%	42%
Time deposits	43%	43%	43%
General public	29%	29%	29%
Money market	14%	14%	14%
Debt securities issued	7%	7%	7%
Global account of deposits without movements	0%	0%	0%

(Continued)

Concentration of financing sources	October	November	December
BANK AND OTHER BORROWINGS			
Due on demand	0%	0%	0%
Short-term	1%	1%	2%
Long-term	6%	7%	6%
Total	100%	100%	100%

(f) Exposures in derivative financial instruments and possible margin calls;

The Bank negotiates derivative products on behalf of its clients and takes positions on its own account, carries out transactions with derivative financial instruments, for hedging and/or trading purposes in accordance with established policies.

The general objectives of the derivative products that Scotiabank Inverlat operates are the following:

- Offer derivative financial instruments in the market, with a specific risk-performance profile, to meet the client's needs according to their risk profile.
- Provide solutions to clients that allow them to fulfill their objectives of reducing, eliminating or modifying the risks assumed respecting the risk profile of each client.
- Carry out negotiation with derivative products with the purpose of generating higher revenues.
- Cover specific products or general risks, as well as optimize the administraton of funding.

Derivatives traded may be classified as trading, hedging or arbitrage.

The Bank has policies and manuals, with the guidelines and procedures related to the operation and the administration of derivatives. The applicable procedures for the monitoring and mitigation of the risks associated with the derivatives calculate future potential exposure, are the monitoring of the associated collateral, possible margin calls as a conservative measure and to be prepared for a possible increase in liquidity requirements as a result of a possible decline in the Bank's rating, the potential impact on collaterals is calculated periodically.

(Continued)

Potential Future Exposure (December 2018)	
With compensation agreement	2,106
With no compensation agreement	3,822
Possible margin call (December 2018)	
Collateral in Transit	93
Downgrade (December 2018)	
Downgrade 3 levels	1,362

The Bank's exposure to derivative financial instruments at the closing of December 2018 is as follows:

Scotiabank Exposure Derivatives (Millions of pesos)	**Closing Position**
Risk factor	
Interest rate	656,937
Exchange rate	57,164
Capital market	9,508
Total	**723,609**

(g) Foreign exchange mismatch;

The general policy is to fund the assets with the same currency in which they are granted.

(h) A description of the level of centralization of liquidity management and the interaction between the units of the group;

In the Financial Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the Institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products.

The different areas of the Bank that generate business must inform in advance at least 24-48 hours in the different committees (pipeline) or directly to the Group Treasury, its short, medium and long term strategy, in order to program its funding structure to meet those commitments.

(i) Outflows and entries cash flows that, if appropriate, are not captured in this framework, but which the Institution considers relevant because of its liquidity profile.

It is important to mention that for the calculation of the Liquidity Coverage Ratio, the cash flows of outflows and entries at the contractual level are recorded; however, the Institution daily calculates liquidity gaps considering not only the outflow and entry cash at the contractual level but also considers estimated flows, in addition it extends the schedule of flows to a period of more than 30 days, so that the Institution has the possibility to anticipate and take measures in order to meet the commitments after this period.

Likewise, the Institutions shall at least disclose the information corresponding to the immediately preceding quarter disclosed, in accordance with the following:

I. Quantitative information-

(a) The concentration limits for the different groups of guarantees received and the main sources of financing;

Within the policies approved by the Institution in terms of liquidity, it is established that the Institution will have a low dependence on the wholesale market, as well as maintaining diversified sources of funding and a low concentration of resources in specific depositors. This diversification is not only made because of the funding sources, but also by timing and variety of products.

In addition, the minimum credit quality of the guarantees received is also established. These guarantees may not be less than a level A credit rating.

In addition, the Institution establishes deposit concentration limits with the purpose of ensuring the diversification of its sources of funding among its relevant currencies.

Deposits concentration	
Concept	**Limit MM**
Deposits concentration (MXN)	4,500 MXN
Deposits concentration (USD)	80 USD

On the other hand, the Institution monitors potential future exposure (PFE) at the counterparty level for the operation of derivative financial instruments and on the other hand the institution has credit limits to monitor exposure to counterparty credit risk.

Exposure to liquidity risk and financing needs are monitored taking into account possible legal, regulatory and operational limitations; for this, the Bank has a prudent policy of liquidity management risks; In addition, internal limits have been established for liquidity gaps and liquid assets. Liquidity mismatches are shown in the following section.

Exposures to liquidity risk are covered from a funding point of view with local counterparties; which is also in line with the established limits.

Currently, the LCR calculation incorporates positions of the Bank and its subsidiaries.

(b) Integration of balance sheet transactions by maturity and resulting liquidity gaps, including transactions recorded in memorandum accounts.

To have control over the mismatch generated by the nature of the balance between assets and liabilities, Scotiabank sets limits to its liquidity gaps in different time frames. The Bank also monitors the daily gaps during the next 360 days, in order to have a broader picture of the Institution's obligations for more than 30 days; The gaps incorporate active and passive positions of the balance sheets as well as positions outside it. The results at December 31, 2018 and the average of the fourth quarter of 2018 [1] are:

Scotiabank (Millions of mexican pesos)	**Closing balance**	**Average balance**	**Limit**
30-day cumulative gap (MXN+UDIs+USD)	8,625	(216)	(20,000)
Liquidity buffer (LRC metric)	39,244	36,203	26,000

(1) The average includes the period from November 16, 2018 to the end of December 2018, because there were changes in the methodology, so the previous figures are not comparable

The Bank also monitors daily gaps during the next 253 days, in order to have a broader picture of the Group's obligations for more than 30 days.

II. Qualitative information-

(a) The way in which liquidity risk is managed in the Institution, considering for that purpose the tolerance to such risk; structure and responsibilities for the management of liquidity risk; internal liquidity reports; the liquidity risk strategy and policies and practices across the business lines and with the Board of Directors;

One of the main objectives of Scotiabank is to generate value for its shareholders while maintaining the stability and solvency of the organization.

The principles of the Liquidity Risk Management process are:

- Ensure governance and supervision of liquidity risk, including clear guidelines of roles and responsibilities to ensure that monitoring, valuation, accounting, risk measurement, and risk management processes are independently conducted and reported.
- Identify, measure and manage the risk/return ratio, within the limits of tolerance and risk appetite established by the Board of Directors, ensuring that these activities are carried out in a prudent manner.

In the Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the Institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products. On the other hand, the area of Liquidity Risk Management has the responsibility to ensure that the main liquidity indicators are within the approved limits and that are aligned with the risk appetite of the Institution, for such purposes the area of Liquidity Risk Management produces periodic information regarding liquid assets and liquidity gaps; in case of any deviation, must notify to the Institution Treasury and involved areas in order to correct any deviation that could impact the Institution's structural liquidity.

The internal liquidity reports as well as the policies in place with the purpose of the Integral Liquidity Risk Management are described in later sections.

(b) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized;

The funding strategy is determined by the Group Treasury of the Institution but agreed and authorized by the Assets and Liabilities Committee. Where different areas of the Bank participate including business areas.

(c) Liquidity risk mitigation techniques used by the Institution;

The Institution monitors the liquidity risk through different metrics and reports aligned with the risk appetite which include:

- LCR calculation (Liquidity Coverage Ratio)
- NSFR calculation (Net Stable Financing Ratio)
- Computation of liquid assets
- LDR calculation (Loan to Deposit Ratio)

(Continued)

- Monitoring the concentration of Wholesale Funding Ratio
- Monitoring Liquidity Gaps
- Monitoring of Deposits Concentration
- Monitoring of Bank Deposit
- Monitoring the Investment Portfolio
- Monitoring of assigned credits as collateral guarantee
- Monitoring of the relationship between funding obtained from the market and obtained from customers (Wholesale Funding Ratio)
- Liquidity Stress Testing
- Liquidity Contingency Financing Plan
- Periodic reports to the Assets and Liabilities Committee of the Institution
- Periodic reports to the Risk Committee
- Reports to the Board of Directors
- Policies and Manuals related to Liquidity Risk Management
- Contingency Plan for Solvency and Liquidity Risks

In order to mitigate liquidity risk, the Institution has established prudent guidelines, policies and procedures, paying particular attention to:

- Measurement, monitoring and forecasting of commitments involving cash flows for the major currencies managed by the Bank (MXP + UDIs and USD).
- Seek an uniform distribution of cash flows, minimizing liquidity gaps between assets and liabilities, considering the potential impact of renewals, prepayments, withdrawals of deposits, origination of credit and non-payment of credits
- Maintain diversified funding sources.
- Establish correspondent and Bank borrowings programs to help maintain market access.
- Implement and maintain programs for the issuance of liabilities, and portfolio discount with specialized funds
- Maintain operational capacity in the liquidation systems established by the Central Bank, considering for this the guarantee requirements and limits established for this purpose
- Maintain liquid assets reserves to meet operating needs and contingencies of liquidity needs.

The Liquidity Contingency Financing Plan incorporates the corrective actions that the Group would have to start in case of contingency.

(Continued)

(d) An explanation of how stress tests are used; and

In accordance with the current standard stipulated in Appendix12-B of Provisions applicable to Credit Institutions, which requires liquidity exercises in stress scenarios, the Bank periodically tests this in order to ascertain its ability to face adverse scenarios and be able to meet their short-term obligations based on a 30-day survival horizon.

These stress scenarios include, among others, the following assumptions:

- Increase in the expected loss of credit portfolios
- Increase in withdrawal of deposits
- Disposal of lines of credit
- Increase in the Bank's obligations due to degradation of the Institution's rating
- Exit of the main depositors of the Bank
- Loss of Market Value of the Institution's liquid assets

The institution's liquidity stress tests contemplate different scenarios (i.e. idiosyncratic, systemic and combined) with 3 levels of severity each. The results of the stress tests are presented periodically to the collegiate bodies of the Institution.

Stress scenarios indicate an insight into liquidity gaps, liquid assets, and the Institution's survival horizon, this information is critical for decision-making in order to maintain a solid position around liquid assets, as well as its short-term obligations in adverse scenarios. It is important to note that the Institution has the Contingency Liquidity Financing Plan which incorporates the corrective actions that the Institution would have to put in place in case of contingency.

(e) A description of contingent financing plans.

Periodically, the Institution reviews all aspects of liquidity for the management of potential risks. The Contingency Liquidity Financing Plan is an integral component of this review and provides a frame of reference for determining the actions to be taken in the a crisis event and to be able to reestablish the Group's financial situation.

The general objectives of the Contingency Financing Plan are:

- Identify potential threats that may seriously affect the liquidity of the Group and Subsidiaries.
- Adhere to the early warning systems described in the Capital and Liquidity Conservation Action Plan.
- Establish action plans to treat liquidity risks that the Group may face during the crisis period.
- Propose actions to ensure that the global Group's liquidity risk is within the tolerance limits approved by the Board of Directors
- Ensure the availability of personnel, information and sources necessary in the crisis event to allow good decision-making.
- Ensure that information is provided to the Liquidity and Capital Management Committee opportunely.

In case of requiring additional liquidity to the ordinary, the Central Bank may grant financing through any of the following operations or combination of these: (i) simple guaranteed credit operations with monetary regulation deposits or deposits in Dollars that the Group maintains in the Central Bank, or (ii) repurchase/resell agreements on eligible securities. This financing is subject to the procedure indicated in Circular 10/2015 of the Central Bank.

Considering the levels of the Liquidity Coverage Ratio presented during the fourth quarter of 2018, which were greater than 90%, and according to the Provision for credit institutions on liquidity requirements, the Bank during the 3 months of the fourth quarter of 2018, falls in Scenario I (i.e. Scenario I, when the Liquidity Coverage Ratio corresponding to each day of the previous month is at least 90 percent).

(26) Recently issued financial reporting standards-

Changes in the Provisions of the Banking Commission

On November 15, 2018, various modifications were published in the Official Gazette to the resolutions that modify the general provisions applicable to credit institutions, brokerage firms, mutual funds and financial institutions of multiple purpuse, published in the Official Gazette. This amendment considers January 1, 2020, as the effective date of the Financial Reporting Standards (NIF), issued by the CINIF and referred to in paragraph 3 of Criterion A-2 "Application of Particular Rules" of Appendix 33 that is modified by this instrument:

Standards recently issued by the CINIF

The CINIF has issued the MFRS and improvements listed below:

MFRS B-17 ***"Determination of fair value"-*** It 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-3 "Accounts receivable"- 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.

MFRS C-9 "Provisions, Contingencies and Commitments"- Some of the primary aspects covered by this MFRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to MFRS C-19 "Financial instruments payable".

- The definition of "liability" is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable".

MFRS C-16 ***"Impairment of financial instruments receivable"-*** 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.

(Continued)

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.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

MFRS C-19 *"Financial instruments payable"* - 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.

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MFRS C-20 *"SPPI Financing instruments receivable"* - 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.

- 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 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.

MFRS D-1 *"Revenue from contracts with customers"*- Some of the primary changes are the following:

- The transfer of control as basis for the opportunity of revenue recognition is established.

- The identification of the obligations to be fulfilled in a contract is required.

- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.

- The concept "conditional account receivable" is introduced.

- The recognition of collection rights is required.

- Requirements and guidance on how to value the variable consideration and other aspects, upon valuing the income are established.

MFRS D-2 "Costs from contracts with customers"- establishes rules for the accounting recognition of costs of sales of goods or provision of services.

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The primary change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

MFRS D-5 "Leases"- Main changes includes the following:

The accounting standard introduces a single model for the recognition of leases for the lessee and requires that the lessee recognizes the assets and liabilities of all leases with a term of more than 12 months, unless the asset is of low value. It requires to recognize a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments.

It is considered that the following aspects of the new model are the most significant and important changes for lessors:

- modification of the definition of lease;
- elimination of the classification of operating or financial leases for a lessee, and the lessee recognizes a lease liability at the present value of lease payments and an asset for the right of use in the same amount;
- increase in leased assets balance and in financial liabilities balance of a lessee, which implies changes in the financial indicators related to the assets and liabilities of the entity;
- changes for the lessors the nature of the expenses related to such leases: lease expense now divided into an expense for depreciation / amortization and interest expense;
- change in the presentation of cash flows related to operating leases;
- modifies the recognition of the gain or loss in sale and lease back contracts.

As indicated above, the Banking Commission established the date of application of the previous MFRS on January 1, 2020, the Administration is in the process of evaluating the impact of these standards.

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MFRS B-11 *"Disposal of long-lived assets and discontinued operations"*- FRS B-11 comes into effect for periods beginning January 1, 2020, and early application is not allowed, as FRS B-11 must be applied in conjunction with FRS C-15, which will be reissued during 2019 and will also be effective as of 2020. The first-time adoption of this FRS does not give rise to accounting changes in the financial statements. Among the principal aspects covered by this FRS are the following:

- FRS B-11 clarifies that long-lived assets are not reclassified as current assets until they meet the criteria to be classified as held for sale. In addition, certain assets of a class that an entity usually considers non-current, but that are exclusively acquired for the purpose of resale, will not be reclassified as current assets unless they meet the criteria to be classified as held for sale in accordance with this FRS.

- In relation to the assets presented in the statement of financial position following a criterion based on liquidity, this FRS considers non-current assets to be those that are expected to be recovered over a period greater than twelve months after the balance sheet date or that of its cycle of operations if greater than twelve months.

- FRS B-11 establishes disclosure requirements for long-lived assets or disposal groups that are classified as held for sale, as well as for discontinued operations.

2019 MFRS Revisions

In December 2018, the CINIF issued a document called "2019 MFRS Revisions" containing precise modifications to some of the existing MFRS. The main revisions that bring about accounting changes are mentioned below: