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

Consolidated financial statements

December 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

*(Free Translation from Spanish Language Original)*

KPMG Cárdenas Dosal, S.C.
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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.*
*(A foreign-owned Mexican Holding Company)*

*(Millions of Mexican pesos)*

## Opinion

We have audited the consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. A foreign-owned Mexican Holding Company and subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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. A foreign-owned Mexican Holding Company and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Financial Group Holding Companies in Mexico (the Accounting Criteria) 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)



Aguascalientes, Ags.
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 $12,127, in the consolidated balance sheet | |
|---|---|
| See notes 3(k) 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, such as financial ratios, information reported in Credit Information Companies, internal information on the borrower´s organizational structure, among others, 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. Therefore, we have determined allowance for loan losses as a key audit matter. | 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. |

| Over the counter derivative financial instruments $9,612 (assets) and $9,732 (liabilities) and hedging transactions $4,052 (assets) and $4,509 (liabilities) | |
|---|---|
| See notes 3(h) and 9 to the consolidated financial statements. | |
| **Key audit matter** | **How the key audit matter was addressed in our audit** |
| Fair value determination of some of some over the counter derivative financial instruments 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. Therefore, we consider it a key audit matter. | 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 assessed the reasonableness of those models and inputs used, through the involvement of our valuation specialists. In addition, on a sample basis, we assessed 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) $2,303, in the consolidated statements of income and Deferred IT, net for $5,352 (asset), in the consolidated balance sheet | |
|---|---|
| See notes 3(s) and 18 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 and involves a significant degree of judgement mainly in the valuation of deferred tax assets to assess both current and future factors that allow to estimate the realization of such assets. Therefore, we consider the determination of current and deferred tax as a key audit matter. | 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.<br><br>With the involvement of our tax specialists, we assessed the reasonableness of the significant tax assumptions, the reversal period of the temporary differences, as well as the reasonableness of the tax strategies applied by the Group's Management. In addition we assessed the tax profit projections determined by the Group's Management that support the probability of the realization of deferred income tax assets. |

## 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 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.

(Continued)

## 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.

- Assess 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.

(Continued)

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 27, 2020.

**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

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

December 31, 2019 and 2018

(Millions of Mexican pesos)

| **Assets** | **2019** | **2018** |
|---|---|---|
| Cash and cash equivalents (note 6) | $ 38,136 | 46,269 |
| Margin accounts | 1,005 | 29 |
| Investment securities (note 7): | | |
| Trading | 58,059 | 24,431 |
| Available-for-sale | 40,371 | 38,443 |
| Held-to-maturity | 4,943 | 4,804 |
| | 103,373 | 67,678 |
| Derivatives (note 9): | | |
| Trading purposes | 9,903 | 20,905 |
| Hedging purposes | 4,052 | 6,729 |
| | 13,955 | 27,634 |
| Valuation adjustment from hedging of financial assets (note 10c) | 168 | (562) |
| Current loan portfolio (note 10): | | |
| Commercial loans: | | |
| Business or commercial activity | 176,385 | 152,231 |
| Financial entities | 31,703 | 35,239 |
| Government entities | 14,052 | 9,676 |
| | 222,140 | 197,146 |
| Consumer loans | 48,081 | 45,261 |
| Residential mortgages loans: | | |
| Medium and residential | 129,055 | 116,584 |
| Low income housing | 81 | 121 |
| Loans acquired from INFONAVIT | 4,491 | 3,623 |
| | 133,627 | 120,328 |
| Total current loan portfolio | 403,848 | 362,735 |
| Past-due loan portfolio (note 10): | | |
| Commercial loans: | | |
| Business or commercial activity | 4,082 | 3,454 |
| Financial entities | 82 | 110 |
| Consumer loans | 2,282 | 1,844 |
| Residential mortgages loans: | | |
| Medium and residential | 3,703 | 2,982 |
| Low income housing | 13 | 17 |
| Loans acquired from INFONAVIT | 1 | 1 |
| Total past due loan portfolio | 10,163 | 8,408 |
| Loan portfolio | 414,011 | 371,143 |
| Less: | | |
| Allowance for loan losses (note 10e) | 12,127 | 10,376 |
| Total loan portfolio, net | 401,884 | 360,767 |
| Other accounts receivable, net | 22,122 | 10,380 |
| Foreclosed assets, net (note 11) | 120 | 87 |
| Premises, furniture and equipment, net (note 12) | 4,049 | 4,124 |
| Permanent investments (note 13) | 113 | 113 |
| Available-for-sale long-term assets | 24 | 32 |
| Deferred taxes and ESPS, net (note 18) | 5,481 | 4,983 |
| Other assets: | | |
| Deferred charges, prepaid expenses and intangibles | 7,951 | 7,187 |
| Other short and long term assets | 23 | 12 |
| | 7,974 | 7,199 |
| Total assets | $ 598,404 | 528,733 |

| **Liabilities and stockholders' equity** | **2019** | **2018** |
|---|---|---|
| Deposit funding (note 14): | | |
| Demand deposits | $ 166,766 | 162,420 |
| Time deposits: | | |
| General public | 108,952 | 111,515 |
| Money market | 46,780 | 53,075 |
| Debt securities issued | 41,152 | 25,778 |
| Global account of deposits without movements | 611 | 594 |
| | 364,261 | 353,382 |
| Banking and other borrowings (note 15): | | |
| Short-term | 23,226 | 4,804 |
| Long-term | 32,416 | 25,530 |
| | 55,642 | 30,334 |
| Traded securities to be settled (note 7b) | 15,088 | 1,965 |
| Creditors on repurchase/resell agreements (note 8) | 47,364 | 31,650 |
| Collaterals sold or pledged (note 8): | | |
| Securities lending | 47 | 45 |
| Derivatives (note 9): | | |
| Trading purposes | 9,974 | 21,824 |
| Hedging purposes | 4,589 | 4,964 |
| | 14,563 | 26,788 |
| Valuation adjustments from hedging financial liabilities (note 14c) | 18 | 24 |
| Other accounts payable: | | |
| Income tax payable | 875 | 618 |
| Employee statutory profit sharing payable (note 18) | 139 | 209 |
| Creditors on settlement of transactions (notes 3c, 6, 7a, 8 and 9 ) | 19,727 | 6,147 |
| Creditors on margin account | - | 234 |
| Creditors on collateral received in cash | 1,034 | 1,204 |
| Sundry creditors and other accounts payable | 11,543 | 12,323 |
| | 33,318 | 20,735 |
| Subordinated debt issued (note 19) | 9,046 | 9,044 |
| Deferred credits and prepayments | 1,474 | 1,573 |
| Total liabilities | 540,821 | 475,540 |
| Stockholders' equity (note 20): | | |
| Paid-in capital: | | |
| Capital stock | 4,507 | 4,507 |
| Earned capital: | | |
| Statutory reserves | 901 | 901 |
| Retained earnings | 47,242 | 39,427 |
| Result from valuation of available-for-sale securities | 61 | 10 |
| Result from valuation of cash flow hedge instruments | (104) | 836 |
| Remeasurements of defined employees' benefits (note 16) | (1,060) | (263) |
| Net income | 6,036 | 7,775 |
| | 53,076 | 48,686 |
| Total stockholders' equity | 57,583 | 53,193 |
| Commitments and contingent liabilities (note 23) | | |
| Total liabilities and stockholders' equity | $ 598,404 | 528,733 |

(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, 2019 and 2018

(Millions of Mexican Pesos)

**Memorandum accounts (notes 10c and 21)**

| | 2019 | 2018 |
|---|---|---|
| **Transactions on behalf of third parties** | | |
| Customer current accounts: | | |
| Customer banks | $ 46 | 15 |
| Settlement of customer transactions | (143) | (456) |
| Other current accounts | 137 | 137 |
| | 40 | (304) |
| Custody operations: | | |
| Customer securities in custody | 407,993 | 371,140 |
| Transactions on behalf of customers: | | |
| Securities on repurchase/resell agreements by customers | 38,507 | 43,798 |
| Secutities lending by customers | 65 | 43 |
| Collaterals received in guarantee by customers | 19,649 | 22,470 |
| Collaterals delivered in guarantee by customers | 23,020 | 26,083 |
| | 81,241 | 92,394 |
| Investment banking transactions on behalf of third parties | 99,713 | 120,811 |
| Total transactions on behalf of third parties | $ 588,987 | 584,041 |

| | 2019 | 2018 |
|---|---|---|
| **Transactions by own account** | | |
| Contingent assets and liabilities | $ 3 | 3 |
| Assets in trust or under mandate: | | |
| Trusts | 202,452 | 191,912 |
| Mandate | 29,297 | 29,081 |
| | 231,749 | 220,993 |
| Assets in custody or under management | 1,026,378 | 883,902 |
| Loan commitments | 247,831 | 243,052 |
| Collaterals received by the entity: | | |
| Government debt | 1,401 | 10,861 |
| Bank debt | 450 | 400 |
| Net equity instruments | 419 | 94 |
| Other securities | 29,573 | 28,316 |
| | 31,843 | 39,671 |
| Collaterals received and sold or pledged by the entity: | | |
| Government debt | 1,310 | 55,401 |
| Net equity instruments | 47 | 45 |
| | 1,357 | 55,446 |
| Interest earned but not collected arising from past-due loan portfolio | 508 | 405 |
| Other accounts | 1,505,591 | 1,282,838 |
| Total by own account | $ 3,045,260 | 2,726,310 |

"As of December 31, 2019 and 2018, 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. Furthermore, 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**

Adrián Otero Rosiles
General Director of Scotiabank Inverlat, S.A.

**Signature**

Enrique Zorrilla Fullaondo
General Director of Grupo Financiero Scotiabank Inverlat, S.A de C.V.

**Signature**

Michael Coate
Deputy General Director of Finance

**Signature**

Jorge Córdova Estrada
Deputy General Director of Group Audit

**Signature**

H. Valerio Bustos Quiroz
Director of Group Accounting

**Signature**

Eduardo Fernández García Travesí
Deputy General Director of Legal

**Signature**

José Jaime Montemayor Muñoz
General Director of Scotia Inverlat Casa de Bolsa

**Signature**

Salvador Espinosa Félix
General Director of Crédito Familiar

**Signature**

David Jaime Valle
General Director of Scotia Fondos

"These consolidated balance sheets faithfully match with the consolidated balance sheets 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/default.aspx

**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 statements of income

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

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Interest income (note 22b) | $ | 52,572 | 45,301 |
| Interest expense (note 22b) | | (27,424) | (21,161) |
| Financial margin | | 25,148 | 24,140 |
| Allowance for loan losses (notes 4 and 10e) | | (6,503) | (4,289) |
| Financial margin adjusted for allowance for loan losses | | 18,645 | 19,851 |
| Commissions and fee income (note 22c) | | 7,158 | 7,067 |
| Commissions and fee expense | | (1,131) | (1,187) |
| Financial intermediation income (note 22d) | | 601 | 129 |
| Other operating income (note 22e) | | 2,109 | 2,123 |
| Administrative and promotional expenses | | (18,842) | (19,188) |
| | | (10,105) | (11,056) |
| Net operating income | | 8,540 | 8,795 |
| Equity method in the results of associated companies | | 1 | 1 |
| Income before income taxes | | 8,541 | 8,796 |
| Current income tax (note 18) | | (2,293) | (1,782) |
| Deferred income tax, net (note 18) | | (212) | 761 |
| | | (2,505) | (1,021) |
| Net income | $ | 6,036 | 7,775 |

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. Furthermore, 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**

Adrián Otero Rosiles
General Director of Scotiabank Inverlat,

**Signature**

Enrique Zorrilla Fullaondo
General Director of Grupo Financiero Scotiabank Inverlat, S.A de C.V.

**Signature**

Michael Coate
Deputy General Director of Finance

**Signature**

Jorge Córdova Estrada
Deputy General Director of Group Audit

**Signature**

H. Valerio Bustos Quiroz
Director of Group Accounting

**Signature**

Eduardo Fernández García Travesí
Deputy General Director of Legal

**Signature**

José Jaime Montemayor Muñoz
General Director of Scotia Inverlat

**Signature**

Salvador Espinosa Félix
General Director of Crédito Familiar

**Signature**

David Jaime Valle
General Director of Scotia Fondos

"These consolidated statements of income faithfully match with the consolidated statements of income 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/default.aspx

**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 statements of changes in stockholders' equity

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

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

| | Capital stock | Earned capital: 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, 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 20c):** | | | | | | | | |
| 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 18) | – | – | – | 23 | 413 | – | – | 436 |
| Remeasurements of defined employee benefits, net of deferred taxes and ESPS for $(37) and $35, respectively (note 16) | – | – | 74 | – | – | (3) | – | 71 |
| Net income | – | – | – | – | – | – | 7,775 | 7,775 |
| 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 |
| **Changes resulting from stockholders' resolutions:** | | | | | | | | |
| Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2019 | | | | | | | | |
| Appropriation of 2018 net income | - | - | 7,775 | - | - | - | (7,775) | - |
| | - | - | 7,775 | - | - | - | (7,775) | - |
| **Changes related to the recognition of comprehensive income (note 20c):** | | | | | | | | |
| Valuation effects, net of income tax for ($427), available-for-sale securities and cash flow hedge instruments, (notes 7a, 9 and 18) | - | - | - | 51 | (940) | - | - | (889) |
| Remeasurements of defined employee benefits, net of deferred income tax for $(299) (notes 15 and 16) | - | - | 40 | - | - | (797) | - | (757) |
| Net income | - | - | - | - | - | - | 6,036 | 6,036 |
| Total comprehensive income | - | - | 40 | 51 | (940) | (797) | 6,036 | 4,390 |
| **Balances as of December 31, 2019** | $ 4,507 | 901 | 47,242 | 61 | (104) | (1,060) | 6,036 | 57,583 |

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**
Adrián Otero Rosiles
General Director of Scotiabank Inverlat, S.A.

**Signature**
Enrique Zorrilla Fullaondo
General Director of Grupo Financiero Scotiabank Inverlat, S.A de C.V.

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General Director of Crédito Familiar

**Signature**
David Jaime Valle
General Director of Scotia Fondos

"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."

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

**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 statements of cash flows

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

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Net income | $ | 6,036 | 7,775 |
| Items not requiring cash flow: | | | |
| Impairment allowance or impairment reversal to investment and financing activities | | 7 | 6 |
| Depreciation of premises, furniture and equipment | | 598 | 490 |
| Amortization of deferred charges, prepaid expenses and intangible assets | | 369 | 236 |
| Provisions, mainly allowance for loan losses | | 5,241 | 6,307 |
| Current and deferred income taxes | | 2,505 | 1,021 |
| Equity in income of associated companies | | (1) | (1) |
| Other, mainly valuation at fair value | | (974) | 1,328 |
| Subtotal | | 7,745 | 9,387 |
| Operating activities: | | | |
| Change in margin accounts | | (976) | 38 |
| Change in investment securities | | (30,436) | (7,647) |
| Change in derivatives (asset) | | 9,233 | (2,940) |
| Change in loan portfolio (net) | | (47,628) | (58,593) |
| Change in benefits receivable from securitization transactions | | - | 92 |
| Change in foreclosed assets (net) | | (44) | (7) |
| Change in other operating assets (net) | | (12,229) | (2,978) |
| Change in deposit funding | | 10,879 | 34,169 |
| Change in bank and other borrowings | | 25,308 | 16,712 |
| Change in creditors on repurchase / resell agreements | | 15,714 | 15,077 |
| Change in securities lending liability | | - | 1 |
| Cahnge in collaterals sold or pledged | | 1 | 11 |
| Change in derivatives (liabilities) | | (10,502) | 2,451 |
| Change in subordinated debt issued | | 2 | 6,943 |
| Change in other operating liabilities | | 21,117 | 2,645 |
| Payments of income taxes | | (1,466) | (576) |
| | | (21,027) | 5,398 |
| Net cash flows provided by operating activities | | (7,246) | 22,560 |
| Investing activities: | | | |
| Collections of disposal of premises, furniture and equipment | | 99 | - |
| Payments for acquisition of premises, furniture and equipment | | (622) | (631) |
| Proceeds from sale of permanent investments | | - | (2) |
| Collections of cash dividends | | 1 | 2 |
| Payments for acquisition of intangible assets | | (365) | (981) |
| Net cash flows used in investing activities | | (887) | (1,612) |
| Net cash flows used in financing activities due to cash dividends payment | | - | (6,997) |
| (Decrease) increase net in cash and cash equivalents | | (8,133) | 13,951 |
| Cash and cash equivalents at the beginning of the year | | 46,269 | 32,318 |
| Cash and cash equivalents at the end of the year | $ | 38,136 | 46,269 |

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. Furthermore, 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**
Adrián Otero Rosiles
General Director of Scotiabank

**Signature**
Enrique Zorrilla Fullaondo
General Director of Grupo Financiero Scotiabank Inverlat, S.A de C.V.

**Signature**
Michael Coate
Deputy General Director of Finance

**Signature**
Jorge Córdova Estrada
Deputy General Director of Group Audit

**Signature**
H. Valerio Bustos Quiroz
Director of Group Accounting

**Signature**
Eduardo Fernández García Travesí
Deputy General Director of Legal

**Signature**
José Jaime Montemayor Muñoz
General Director of Scotia

**Signature**
Salvador Espinosa Félix
General Director of Crédito Familiar

**Signature**
David Jaime Valle
General Director of Scotia Fondos

"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

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## (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, 2nd 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, 2019 and 2018, the Group and its subsidiaries, which have been consolidated, are as follows:

– Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo 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 (until September 30, 2019). The derivatives operating company also has two trusts that are clearing members and shareholders of the capital stock of MexDer (the MexDer Trusts)).

  On August 16, 2019, the Bank and its subsidiary Globalcard, S. A. de C. V., Sociedad Financiera de Objeto Múltiple Regulada (Globalcard), obtained the necessary authorizations from the Ministry of Finance and Public Credit, Banco de México (Central Bank) and the National Banking and Securities Commission (the Banking Commission) to carry out the merger of Globalcard as a merged company which is extinguished, with the Bank as the surviving merging company. The merger was effective from October 1, 2019, the date on which the merger authorization was registered in the Public Registry of Property and Commerce.

  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. Administrative services required from November 16 to December 31, 2018, were rendered by SECOSA against payment. Benefits to retired employees will continue being paid by the Bank (note 16).

(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)

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

– Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo 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.

  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.

  As of December 31, 2019, 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 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).

(Continued)

## (2) Authorization and basis for presentation-

### Authorization

On February 27, 2020, Adrián Otero Rosiles (General Director of Scotiabank Inverlat, S. A.), Enrique Zorrilla Fullaondo (General Director of Grupo Financiero Scotiabank, S. A. de C. V.), Michael Coate (Deputy General Director of Finance), Jorge Córdova Estrada (Deputy General Director of Group Audit), H. Valerio Bustos Quiroz (Director of Group Accounting), Eduardo Fernández García Travesí (Deputy General Director of legal), José Jaime Montemayor Muñoz (General Director of Scotia Inverlat Casa de Bolsa), Salvador Espinoza Félix (General Director of Crédito Familiar) and David Jaime Valle (General Director of Scotia Fondos) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Group's consolidated financial statements include the Group's 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, 2019 and 2018.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The attached 2019 consolidated financial statements will be submitted for approval at the next shareholders´ meeting.

### 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 financial group holding companies, 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. Actual results could differ from those estimates and assumptions.

Judgments

Information about judgments made in applying of accounting policies that have the most significant effect on the amounts recognized in the financial statements is described in the notes to the consolidated financial statements mentioned below.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the following notes to the consolidated financial statements:

— Valuation of derivative financial instruments: key assumptions to determine the market value, especially those complex derivatives or without an active market (see note 9).
— Determination of the allowance for loan losses: assumptions and inputs used in determination (see note 10e).
— Impairment of premises, furniture and equipment: evidence of impairment of the value of fixed assets, including key assumptions for determining the recoverable amount of such assets (see note 12).
— Measurement of defined benefit obligations: key actuarial assumptions (see note 16).
— Recognition of deferred tax assets: availability of future taxable profits and the materialization of deferred taxes (see note 18).

**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 million dollars of the United States of America.

(Millions of Mexican pesos, except UDI value)

## 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.

### *(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.

Years ended December 31, 2019 and 2018 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 below:

| | | Inflation | |
|---|---|---|---|
| **December 31,** | **UDI** | **Annual** | **Accumulated** |
| 2019 | $ 6.399018 | 2.77% | 15.03% |
| 2018 | 6.226631 | 4.92% | 15.71% |
| 2017 | 5.934551 | 6.68% | 12.60% |

### *(b) Principles of consolidation-*

The consolidated financial statements include the accounts of Group and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in consolidation.

(Continued)

The subsidiaries consolidated with the Group as of December 31, 2019 and 2018, are detailed as follows:

| Subsidiary | Participation | Location | Activity |
|---|---|---|---|
| Bank | 99.99% | Mexico City | Multiple banking operation |
| Brokerage House | 99.99% | Mexico City | Intermediation in securities and financial operations. |
| Operadora de Fondos | 99.99% | Mexico City | Investment Fund Operation. |
| SECOSA | 99.99% | Mexico City | Provision of personnel and technical advisory services. |
| Crédito Familiar | 99.99% | Mexico City | Granting consumer loans. |

### *(c) Cash and cash equivalents-*

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as foreign currency purchase and sale transactions not considered derivatives according to the applicable regulation established by 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 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.

Additional contributions or withdrawals made by the Group to the cash margin account are also recognised as other cash and cash equivalents.

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.

– 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 bank yield generated by deposits in financial entities, bank borrowings operations agreed to a term of less than or equal to 3 business days, as well as the valuation effects of those made in foreign currency, are presented in the consolidated statement of income, under the caption "Interest income" or "Interest expense", as appropriate.

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.

### *(d) Margin accounts-*

Financial assets granted in cash required to the Group to operate derivatives in recognized markets are recorded at par 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.

Bank yields and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result 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".

(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”.

### *(e) 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 buy/sell 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 under the 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 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 reclassified to the year´s results.

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.

As of December 31, 2019 and 2018, Group´s management has not identified that there is objective evidence of impairment of any securities.

***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, 2019 and 2018, the Group did not carry out any transfer between categories, nor sales of held-to-maturity securities.

***(f) 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 within the caption "Collateral received and sold or pledged by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management".

### *(g) 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 statement of income, 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, as applicable.

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".

(Continued)

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 statement of income 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".

Regarding securities lending transactions wherein the financial assets granted as collateral or the value matter of the transaction acting 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".

### *(h) 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".

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.

(Continued)

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".

*Embedded and structured derivatives*

The Group has embedded derivatives that are not used to hedge positions, solely as part of its trading strategy; these derivatives are related to structures and/or notes issued under the following circumstances:

Structured notes (bank bonds): Issued deposit funding instruments which through embedded swaps or options, can offer guaranteed and / or improve performance of the client's rate (see note 9).

The fair value of the derivative component is recorded under the captions "Derivatives" and "Financial intermediation income". Accrued interest is recognized under the caption "Interest expense".

***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)

### *(i) 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.

### *(j) 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 agency.

(Continued)

REA is the form of payment to INFONAVIT of credits whose rights were acquired by the Group, provided for by the INFONAVIT issued by the Board of Directors of 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
   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 when each one 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 released 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 below:

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.

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.

***(k) 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.

(Millions of Mexican pesos)

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, 2019 and 2018, were determined based on the risk levels and allowance percentage according to the following table:

| Risk grade | 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)

(Millions of Mexican pesos)

***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, 2019 and 2018, 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 described in Articles 91 and 92 of the Banking Regulations. 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)

**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)

The risk grades and percentages of provision for loan losses at December 31, 2019 and 2018, 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 under the caption "Allowance for loan losses".

### *(l) 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 IFRS 15 "Revenue from customer contracts" which incorporates the recognition of revenue derived from customer loyalty programs, and therefore IFRIC 13 "Customer loyalty program" is without effect. 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.

### *(m) 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.

### (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.

(Continued)

(Millions of Mexican pesos)

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 follows:

| | **Allowance percentage** | |
|---|---|---|
| **Months elapsed from the date of foreclosure or received in lieu of payment** | **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. Maintenance and minor repair expenses are recorded in the results when incurred.

### *(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 Group 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.

(Continued)

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 Group, and there is sufficient evidence that the Group 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 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.

### *(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 includes 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 16).

(Continued)

### *(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.

Deposits and investments and their interest on funding instruments that do not have a maturity date, or that have a maturity date that is renewed automatically, as well as transactions or investments that are due and unclaimed, are recorded in the "Global account of deposits with no movements". The deposits and investments and their interest without movement within three years counted as being deposited in the global account and whose amount does not exceed per account, to the equivalent of three hundred units of measurement and updating (UMAS), will prescribe in favor of public charity. The Group will be obliged to deliver the resources corresponding to public charity within a maximum period of fifteen days counted from December 31, of the year in which the assumption foreseen is fulfilled.

### *(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) Bank 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".

### *(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. Remeasurements are recognized in the results of the year as accrued.

(Continued)

## 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.

### *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 16).

### *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.

(Continued)

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 remeasurements to be recognized until November 15, 2018 for active employees, are recognized in the income statement of the year (see note 16).

### *(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 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. In the cases of 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.

Foreign exchange gains and losses are reflected in results of operations for the year. At the year-end close 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, while 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 in custody or management and trust transactions.

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

Customer's securities in custody, guarantee or under management are valued at fair value or in accordance with applicable accounting criteria, 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 the repurchase/resell agreements and securities lending in repurchase/resell agreements that the Group undertakes for its customers, is presented under the caption "Securities on repurchase/resell agreements by customers".

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

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

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

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

### *(ad) Contingencies-*

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount thereof 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 assured.

(Continued)

(Millions of Mexican pesos)

## (4) 2019 MFRS Revisions-

In December 2018, the CINIF issued the document referred to as "2019 MFRS Revisions", which contains precise modifications to some current MFRS.

- MFRS B-17 "Determination of fair value"
- MFRS C-3 "Accounts receivable"
- MFRS C-9 "Provisions, contingencies and commitments"
- MFRS C-16 "Impairment of financial instruments receivable"
- MFRS C-19 "Financial instruments payable"
- MFRS C-20 "Financing instruments to collect principal and interest"
- MFRS D-1 "Revenue from contracts with customers"
- MFRS D-2 "Costs from contracts with customers"
- MFRS D-5 "Leases"

The Banking Commission established the application date of the previous MFRS on January 1, 2021

## (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. As of December 31, 2019 and 2018, the Bank and the Brokerage Firm maintain a position within the authorized limits. The foreign currency position is analyzed as follows:

| | **Million dollars** | | | **Equivalent in pesos** | |
|---|---|---|---|---|---|
| | **2019** | **2018** | | **2019** | **2018** |
| Assets | 6,965 | 4,569 | $ | 131,389 | 89,782 |
| Liabilities | (6,899) | (4,525) | | (130,144) | (88,926) |
| **Long position** | **66** | **44** | **$** | **1,245** | **856** |

At December 31, 2019, the position in foreign currency consists of 86.69% in U.S. dollars (94.44% in 2018) and 13.31% in other foreign currencies (5.56% in 2018).

The exchange rate relative to the U.S. dollar at December 31, 2019 and 2018, was $18.8642 pesos per dollar and $19.6512 pesos per dollar, respectively, and on the authorization issuance date of the accompanying consolidated financial statements, was $19.3973 pesos per dollar.

(Millions of Mexican pesos)

## (6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2019 and 2018 are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Cash hand | $ | 7,177 | 6,925 |
| Banks: | | | |
| Domestic | | 2,922 | 7,321 |
| Foreign | | 5,169 | 12,974 |
| 24, 48, 72 and 96 hour foreign currency sales | | (7,919) | (3,059) |
| Other funds available (due on demand) | | 29 | 6 |
| Restricted funds: | | | |
| Call money with maturity term of less than four days | | 4,717 | 6,502 |
| Excess of maximum obligation for employee's benefits | | 15 | 127 |
| Compensation fund to operate derivatives | | 390 | 587 |
| Deposits with the Central Bank | | 11,579 | 11,579 |
| 24, 48, 72 and 96 hour foreign currency purchases | | 13,963 | 3,215 |
| Other restricted funds | | 94 | 92 |
| | **$** | **38,136** | **46,269** |

As of December 31, 2019 and 2018, 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, 2019 and 2018, were $13, in both years.

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, 2019 and 2018, the Group keeps Reportable Monetary Regulation Bonds (BREMS-R) that amount to $3,092, in both years, which are part of the monetary regulation deposit (see note 7a).

(Continued)

(Millions of Mexican pesos)

At December 31, 2019 and 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 $22,903 and $(19,508), respectively, ($2,989 and $(3,141), respectively, at December 31, 2018), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

At December 31, 2019 and 2018, the Group had the following "call money" with maturity terms minor or equal to four days:

| | | 2019 | | | | 2018 | | |
|---|---|---|---|---|---|---|---|---|
| | | **Amount** | **Annual rate** | **Term** | | **Amount** | **Annual rate** | **Term** |
| HSBC México, S. A. | $ | 91 | 7.25% | 2 days | $ | 2,001 | 8.25% | 2 days |
| 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 |
| BBVA Bancomer, S. A. | | 4,001 | 7.25% | 2 days | | - | - | - |
| Banco Nacional de México, S. A. | | 625 | 7.25% | 2 days | | - | - | - |
| | **$** | **4,717** | | | **$** | **6,502** | | |

At December 31, 2019 and 2018, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

| | | **Foreign currency receivable** | | **Foreign currency deliverable** | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| Dollar translated | $ | 13,949 | 3,147 | (7,915) | (2,995) |
| Other currencies | | 14 | 68 | (4) | (64) |
| | **$** | **13,963** | **3,215** | **(7,919)** | **(3,059)** |

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".

At December 31, 2019 and 2018, earnings from operations of buy/sell currencies amounted to $828 and $1,041, respectively, also, the valuation result amounts at December 31, 2019 and 2018 to ($177) and $349, respectively, which are recorded under the caption "Financial intermediation income".

(Continued)

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## (7) Investment securities-

***(a)*** At December 31, 2019 and 2018, the investment securities at fair value, except held to maturity, are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| *Trading securities:* | | | |
| Debt securities: | | | |
| Government securities | $ | 56,855 | 21,988 |
| Bank promissory notes | | - | 44 |
| Others | | 8 | 1,045 |
| Equity shares | | 1,196 | 1,354 |
| Total trading securities | | 58,059 | 24,431 |
| *Available-for-sale securities:* | | | |
| Debt securities: | | | |
| Government securities | | 18,194 | 24,473 |
| Bank promissory notes | | 12,397 | 12,537 |
| Others | | 9,780 | 1,433 |
| Total available-for-sale securities | | 40,371 | 38,443 |
| *Held-to-maturity securities:* | | | |
| Special CETES | | 1,851 | 1,712 |
| Bonds | | 3,092 | 3,092 |
| Total held-to-maturity securities | | 4,943 | 4,804 |
| **Total investment securities** | **$** | **103,373** | **67,678** |

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At December 31, 2019 and 2018, the detail of the securities classified as trading, available-for-sale and held-to-maturity are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| *Trading securities:* | | | |
| Government securities: | | | |
| Unrestricted securities: | | | |
| Own position: | | | |
| BI CETES | $ | 863 | 794 |
| M BONOS | | - | 173 |
| SCOTIA G | | 249 | - |
| Total unrestricted government securities | | 1,112 | 967 |
| Restricted securities: | | | |
| CETES delivered as collateral | | 176 | 148 |
| Under repurchase/resell agreements: | | | |
| LD BONDESD | | 16,951 | 11,695 |
| BI CETES | | 4,582 | 2,233 |
| IM BPAG | | 3,047 | 1,705 |
| IS BPA | | 3,444 | 1,419 |
| IQ BPAG | | 6,543 | 988 |
| S UDIBONO | | 5,363 | 355 |
| M BONOS | | 2,498 | 200 |
| I BANOBRAS | | 859 | - |
| | | 43,287 | 18,595 |
| Value date purchases | | | |
| BI CETES | | 8,432 | 1,675 |
| LD BONDESD | | 2,388 | 390 |
| S UDIBONO | | 637 | - |
| M BONOS | | 267 | 213 |
| Other government securities | | 556 | - |
| | | 12,280 | 2,278 |
| Total restricted government securities | | 55,743 | 21,021 |
| Total government securities | | 56,855 | 21,988 |
| Bank promissory notes: | | | |
| Restricted securities: | | | |
| Under repurchase/resell agreements: | | | |
| BANOBRA – PRLV | | - | 44 |
| Total bank promissory notes | | - | 44 |
| Subtotal trading securities, carried forward | $ | 56,855 | 22,032 |

(Continued)

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(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Subtotal trading securities, brought forward | $ | 56,855 | 22,032 |
| Other debt securities: | | | |
| Unrestricted securities: | | | |
| 51 SCOTIAG | | - | 1,039 |
| 1I XLF | | - | 4 |
| 1 GSANBORNB | | - | 2 |
| JE AMEX | | 8 | - |
| Total other debt securities | | 8 | 1,045 |
| Equity shares: | | | |
| Unrestricted securities: | | | |
| 51 SCOTIAG | | 493 | 628 |
| 1B NAFTRAC | | 39 | 89 |
| 1 PE&OLES * | | 1 | - |
| 1 LALA B | | 1 | - |
| 1 NEMAK A | | 5 | - |
| 41 BSMX B | | 3 | - |
| 1 ALFA A | | 6 | - |
| 1ª CHL N | | 8 | - |
| 1I PSQ * | | 1 | - |
| 1I B01 N | | 3 | - |
| Other equity shares | | 36 | 4 |
| | | 596 | 721 |
| Value date sales | | | |
| 1B NAFTRAC | | (25) | (26) |
| Equity shares, net of value date sales | | 571 | 695 |
| Restricted securities: | | | |
| Securities lending: | | | |
| 1B NAFTRAC | | 251 | 17 |
| 1 CEMEX | | 6 | 8 |
| 1 MEXCHEM | | - | 4 |
| 1 NEMAK | | - | 3 |
| 1A VALE | | - | 3 |
| 1 ALFA | | 2 | 3 |
| 1 SIMEC | | 3 | 2 |
| 1 ALPEK | | 4 | - |
| Other equity shares | | 31 | 6 |
| | | 297 | 46 |
| Subtotal trading securities, carried forward | $ | 57,731 | 23,818 |

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(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Subtotal trading securities, brought forward | $ | 57,731 | 23,818 |
| Guarantees: | | | |
| 51 SCOTIAG | | 7 | 44 |
| Value date purchases: | | | |
| 1I CSPXN | | 1 | 90 |
| 1I HEZU | | - | 79 |
| 1I SHV | | 15 | 60 |
| 1I FLOT | | - | 37 |
| 1I HEWG | | - | 32 |
| 1I EWJ | | - | 31 |
| 1I QQQ | | - | 30 |
| 1I VGK | | - | 28 |
| 1I IEMG | | - | 25 |
| 1I XLK | | - | 25 |
| 1I ACWI | | 54 | - |
| 1B NAFTRAC | | - | 4 |
| Other equity shares | | 251 | 128 |
| | | 321 | 569 |
| Total restricted equity shares | | 625 | 659 |
| **Total equity shares** | | **1,196** | **1,354** |
| **Total trading securities** | **$** | **58,059** | **24,431** |
| *Available-for-sale:* | | | |
| Debt securities: | | | |
| Domestic government securities: | | | |
| LD BONDESD | $ | 6,842 | 5,926 |
| 95 FEFA | | - | 186 |
| M BONOS | | 1,863 | - |
| S UDIBONOS | | 147 | - |
| BI CETES | | 968 | - |
| | | 9,820 | 6,112 |
| Foreign government securities: | | | |
| DI BRAZE97 | | - | 212 |
| D4 TBILG47 | | 252 | - |
| *Foreign government securities (restricted):* | | | |
| D4 TBILG47 | | 124 | - |
| | | 376 | 212 |
| Subtotal available-for-sale securities, carried forward | $ | 10,196 | 6,324 |

(Continued)

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(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Subtotal available-for-sale securities, brought forward | $ | 10,196 | 6,324 |
| Restricted securities: | | | |
| Under repurchase/resell agreements: | | | |
| LD BONDESD | | 3,840 | 16,087 |
| M BONOS | | 2,341 | 1,466 |
| S UDIBONO | | - | 596 |
| BI CETES | | 1,817 | - |
| | | 7,998 | 18,149 |
| Total government debt | | 18,194 | 24,473 |
| Banking notes: | | | |
| Own position: | | | |
| I BANSAN | | 11,500 | 8,514 |
| CD BANOB 19 | | 300 | - |
| CD SHF 19-2 | | 394 | - |
| CD NAFR 220722 | | 203 | - |
| F BANORTE | | - | 4,023 |
| Total banking notes | | 12,397 | 12,537 |
| Other debt securities: | | | |
| Own position: | | | |
| D1 NAFIA | | - | 351 |
| D2 NAFIA | | 1,016 | - |
| 91 GMFIN | | 302 | 302 |
| JI CABEI | | 201 | 300 |
| D1 UMS | | 7,798 | 197 |
| 91 UFIN | | 40 | 171 |
| 91 ENCAP | | 80 | 77 |
| 91 UNFIN | | 37 | 35 |
| 91 UNIRECB 19 | | 105 | - |
| 91 DAIMLER 19-3 | | 201 | - |
| **Total other debt securities** | | **9,780** | **1,433** |
| **Total available-for-sale securities** | **$** | **40,371** | **38,443** |

(Continued)

(Millions of Mexican pesos)

| | Maturity | | 2019 | 2018 |
|---|---|---|---|---|
| *Held-to-maturity:* | | | | |
| Government securities (special CETES*): | | | | |
| CETES B4 270701 | Jul 01, 2027 | $ | 1,366 | 1,263 |
| CETES B4 220804 | Aug 04,2022 | | 2 | 2 |
| CETES B4 220707 | Jul 07, 2022 | | 483 | 447 |
| Total special CETES | | | 1,851 | 1,712 |
| BONOS XR BREMSR (restricted, note 6) | | | 3,092 | 3,092 |
| **Total held-to-maturity securities** | | **$** | **4,943** | **4,804** |

* 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.

At December 31, 2019 and 2018, BREMS-R amounts to $3,092, in both years, 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, 2019, the Group held an asset (liabilities) balance for transactions with securities settled on a date subsequent to the agreed-upon date for $16,332 and ($19,727), ($2,003 and ($2,999), as of December 31, 2018), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

The valuation result from available-for-sale securities as of December 31, 2019, recognized in other comprehensive income within stockholders' equity amounted to $83 less deferred income tax for ($32); (($34) less deferred income tax for ($9) and deferred ESPS for ($2) as of December 31, 2018). The valuation result from securities available for sale in hedge instruments to fair value recognized in statement of income for the years ended December 31, 2019 is $(13), and in 2018 the effect is $1.

For the years ended December 31, 2019 and 2018, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investments in securities are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Trading | $ | 3,037 | 1,284 |
| Available-for-sale | | 2,947 | 2,551 |
| Held-to-maturity | | 394 | 366 |

(Millions of Mexican pesos)

***(b)*** At December 31, 2019 and 2018, the fair value of the securities classified as traded securities to be settled are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| **Traded securities to be settled:** | | | |
| Debt securities: | | | |
| Government securities (unrestricted): | | | |
| BI CETES | $ | (8,828) | (1,279) |
| M BONOS | | (2,014) | (137) |
| LD BONDESD | | (2,390) | - |
| S UDIBONO | | (1,166) | - |
| I BANOBRA | | (16) | - |
| Others equity shares | | (335) | - |
| | | (14,749) | (1,416) |
| Equity shares (unrestricted): | | | |
| D2 FEMSA47 | | (4) | - |
| D2 AMXD65 | | (4) | - |
| Others equity shares | | (331) | - |
| | | (339) | - |
| Value date sales: | | | |
| 1I CSPX | | - | (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) |
| Other equity shares | | - | (112) |
| | | - | (549) |
| **Traded securities to be settled, unrestricted securities** | **$** | **(15,088)** | **(1,965)** |

(Millions of Mexican pesos)

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

***Bank-***

At December 31, 2019 and 2018 investment in non-government 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 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| BANSAN | 19525 | 11,506,852,099 | 7.15% | 3 | $ 11,500 |
| | | 11,506,852,099 | | | 11,500 |
| **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 |

***Brokerage Firm-***

At December 31, 2019 and 2018, 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, 2019 and 2018, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Group acts as repurchase, are analyzed in the next page.

(Millions of Mexican pesos)

| | | Debtors on repurchase/resell agreements | | Creditors on repurchase/resell agreements | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| LD BONDESD | $ | 8,678 | 10,595 | (30,080) | (26,420) |
| IS BPA | | 2,455 | 10,258 | (3,444) | (503) |
| M BONOS | | 2,160 | 4,203 | (2,344) | (1,666) |
| BI CETES | | 1,602 | 2,116 | (4,195) | (2,222) |
| IM BPAG | | 231 | 1,648 | (3,047) | - |
| IQ BPAG | | 2,485 | 984 | - | (37) |
| S UDIBONO | | 3,365 | 802 | (2,001) | (802) |
| CEDE | | 450 | - | - | - |
| IQ BPAG | | - | - | (1,394) | - |
| I BANOBRAS | | - | - | (859) | - |
| | | 21,426 | 30,606 | (47,364) | (31,650) |
| Collateral sold or pledged (under repurchase/resell agreements) | | | | | |
| LD BONDESD | | (8,678) | (10,595) | - | - |
| IS BPA | | (2,455) | (10,258) | - | - |
| M BONOS | | (2,160) | (4,203) | - | - |
| BI CETES | | (1,602) | (2,116) | - | - |
| IM BPAG | | (231) | (1,648) | - | - |
| IQ BPAG | | (2,485) | (984) | - | - |
| S UDIBONO | | (3,365) | (802) | - | - |
| CEDE | | (450) | - | - | - |
| | | (21,426) | (30,606) | - | - |
| **Collateral sold or pledged (creditors on repurchase/resell agreements)** | **$** | **-** | **-** | **(47,364)** | **(31,650)** |

At December 31, 2019 and 2018, for the Bank, the terms of resell/repurchase agreements vary between 2 and 28 days, for both years, with annual weighted rates of 7% to 8% acting as repurchase, and 6% to 8% acting as repurchaser (7% to 8% in 2018). For the Brokerage Firm, the terms of the repurchase/resale agreements are 2 days for both years, with annual weighted rates of 7.32% when acting as repurchase and 6.97% when acting as repurchaser (8.28% and 7.94% at December 31, 2018, respectively).

(Millions of Mexican pesos)

During the years ended December 31, 2019 and 2018, premiums collected by the Group amounted to $868 and $1,613, respectively; premiums paid amounted to $4,107 and $3,016, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 22b).

At December 31, 2019 and 2018, the Group did not deliver additional collaterals in repurchase/resell agreements.

At December 31, 2019, the Group kept a debit (credit) balance on repurchase/resell agreements to be settled at a subsequent date for $22 and ($18), respectively, ($8 and ($5), respectively in 2018), 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, 2019 and 2018, the Group held securities lending transactions as lender and borrower in which the values object of the transactions were acquired and sold.

At December 31, 2019 and 2018, the obligation to repay the lender values derived from the purchase of these securities are analyzed as follows:

| **2019** | **Number of securities** | | **Fair value** |
|---|---|---|---|
| 1AINTC* | 1,200 | $ | 1 |
| 1AAAPL* | 1,030 | | 6 |
| 1ACOST* | 400 | | 2 |
| 1AFCX* | 10,000 | | 2 |
| 1SIMECB | 40,000 | | 2 |
| 1ALSEA* | 40,000 | | 2 |
| 1AVALEN | 12,000 | | 3 |
| 1ANFLX* | 300 | | 2 |
| 1ALPEKA | 175,000 | | 4 |
| 1AFB* | 1,200 | | 5 |
| 1ABABAN | 900 | | 4 |
| 1FEMSAUBD | 13,200 | | 2 |
| 1ALFAA | 130,000 | | 2 |
| 1AMXL | 140,000 | | 2 |
| 1CEMEXCPO | 828,612 | | 6 |
| 1BNAFTRACISHRS | 5,771,841 | | 252 |
| | | **$** | **297** |

(Continued)

(Millions of Mexican pesos)

| **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** |

At December 31, 2019 and 2018, the right to demand the securities to the borrower, derived from the sale of such securities, are analyzed as follows:

| **2019** | **Number of securities** | | **Fair value** |
|---|---|---|---|
| 1ALFAA | 130,000 | $ | 2 |
| 1CEMEXCPO | 828,612 | | 6 |
| 1SIMECB | 70,000 | | 5 |
| 1FEMSAUBD | 13,200 | | 2 |
| 1ALSEA* | 40,000 | | 2 |
| 1AMXL | 140,000 | | 2 |
| 1ALPEKA | 175,000 | | 4 |
| 1AINTC* | 1,200 | | 1 |
| 1AAAPL* | 1,030 | | 6 |
| 1ACOST* | 400 | | 2 |
| 1AFCX* | 10,000 | | 2 |
| 1AVALEN | 12,000 | | 3 |
| 1ANFLX* | 300 | | 2 |
| 1AFB* | 300 | | 1 |
| 1AFB* | 900 | | 3 |
| 1ABABAN | 900 | | 4 |
| | | **$** | **47** |

(Millions of Mexican pesos)

| **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** |

The range of term of the securities lending transactions at December 31, 2019 and 2018 where the Group acts as a lender is 15 and 28 days, respectively, and acting as a borrower is between 6 - 30 days, and 6 - 28 days for such dates.

During the years ended December 31, 2019 and 2018, premiums collected and (paid) in securities lending transactions amounted to $(15) and $10 as well as $10 and $9, respectively, and are included in the consolidated statement of income under the captions "Interest income" and "Interest expense", respectively.

As of December 31, 2019 and 2018, the Group received equity financial instruments as guarantees in securities lending transactions for $47 and $45, respectively such guarantees are managed in memorandum accounts (see note 21).

## (9) Derivatives-

At December 31, 2019 and 2018, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

| | | **2019** | | **2018** | |
|---|---|---|---|---|---|
| | | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Trading purposes: | | | | | |
| Forwards | $ | 1,460 | 804 | 293 | 344 |
| Options | | 939 | 1,165 | 1,305 | 1,581 |
| Swaps | | 7,504 | 8,005 | 19,307 | 19,899 |
| Total trading purposes derivatives, carried forward | $ | 9,903 | 9,974 | 20,905 | 21,824 |

(Millions of Mexican pesos)

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Total trading purposes derivatives, brought forward | $ | 9,903 | 9,974 | 20,905 | 21,824 |
| Hedging purposes: | | | | | |
| Fair value hedges | | 159 | 407 | 710 | 174 |
| Cash flow hedges | | 3,893 | 4,182 | 6,019 | 4,790 |
| | | 4,052 | 4,589 | 6,729 | 4,964 |
| | **$** | **13,955** | **14,563** | **27,634** | **26,788** |

At December 31, 2019 and 2018, the net valuation result on financial assets and liabilities related to trading derivatives amounted to $(518) and $989, respectively. These amounts include the impairment for credit risk in the counterparty for $(8) and (7), respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains (losses) from buy/sell transactions and valuation results at December 31, 2019 amounted to $829 and $(184), respectively ($1,041 and $349, respectively in 2018) and are presented in "Financial intermediation income".

At December 31, 2019, the Group had transactions settled on a date subsequent to the traded date for $57 and ($1). At December 31, 2018, the Bank had transactions settled on a date subsequent to the traded date for $12 and ($2).

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, 2019 and 2018, there is a cumulative ineffectiveness for hedging derivative operations for $30 and $52, respectively.

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's assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(Millions of Mexican pesos)

**Quantitative information**

**a. Cash flow hedges**

At the end of December 2019, there are 81 contracts (131 contracts in 2018) representing $23,175 ($31,172 in 2018) classified as cash flow hedges.

The net gain (loss) for the years ended December 31, 2019 and 2018, derived from the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $(10) and $11, respectively. The effect of gain from valuation relating to the effective hedge portion at December 31, 2019, amounts to $(1,399) less deferred income tax for $459. At December 31, 2018, the gain from valuation relating to the effective hedge portion was $499 less deferred income tax for $(156) and deferred ESPS for $70, which are presented in stockholders' equity. At December 31, 2019 and 2018, the amount of the impairment charge, of the hedging instruments amount to $1 and $(2), respectively.

At December 31, 2019 and 2018, the profit (loss) of the cash flow hedging instruments that were reclassified from stockholders' equity to results for the year under the captions "Interest income" and "Interest expense" were for $43 and $(281), $36 and $(270), respectively.

| Type | Currency | Volume | Amount | Cover Position |
|---|---|---|---|---|
| **2019** | | | | |
| Interest rates | Mexican pesos | 81 | $ 23,175 | Liabilities |
| **Total** | | **81** | **23,175** | |
| **2018** | | | | |
| Interest rates | Mexican pesos | 127 | 27,082 | Liabilities |
| Interest rates | Mexican pesos | 4 | 4,090 | Asset |
| **Total** | | **131** | **$ 31,172** | |

**b. Fair value hedges**

At the end of December 2019, there are 115 contracts (85 contracts in 2018) classified as fair value hedges for $23,219 ($17,266 in 2018).

At the end of December 2019 and 2018, the (losses) and gains from valuation of the derivatives of fair value hedges were $(775) and $6, respectively; while the result of valuation of the hedged item attributable to the hedged risk was $731 and $(1), respectively.

| Type | Currency | Volume | Amount | Cover Position |
|---|---|---|---|---|
| **2019** | | | | |
| Interest rates | Mexican pesos | 87 | $ 18,882 | Asset |
| Interest rates | Dollar | 23 | 3,497 | Asset |
| Cross Currency | Euros | 1 | 85 | Asset |
| Cross Currency | Dollar | 4 | 755 | Asset |
| **Total** | | **115** | **$ 23,219** | |
| **2018** | | | | |
| Interest rates | Mexican pesos | 74 | $ 15,682 | Asset |
| Interest rates | Dollar | 10 | 1,387 | Asset |
| Cross Currency | Dollar | 1 | 197 | Asset |
| **Total** | | **85** | **$ 17,266** | |

### c. Cash flow and / or fair value hedges canceled

During the months of June and November 2019, the Bank decided to revoke the designation of the cash flow hedge with derivative financial instruments (CCS) that covered a loan portfolio in the amount of 2,195,330 million of dollars (notional value) and $7,646,119 (notional value), respectively, closing the open position with new financial derivative instruments (IRS), which were recorded as trading derivatives.

### d. Formal documentation of hedges

At the initial moment of the constitution of the fair value and cash flow hedges, the Bank completes an individual file that includes the following documentation:

- The entity's strategy and objective regarding risk management, as well as the justification for carrying out the hedging operation.
- The specific risk or risks to be covered.
- Constitution of the hedge, where the derivatives contracted for the purpose of hedging and the item that originates the hedged risk are identified.
- Definition of the elements that make up the coverage and reference to the method of evaluating its effectiveness.
- Contracts for the hedged item and the hedging transaction, as well as confirmation of the hedge counterparty.

(Millions of Mexican pesos)

- Evidence of the periodic effectiveness of the hedge, both at the prospective level regarding the estimation of its future evolution and at the retrospective level regarding its behavior in the past. These tests are carried out at least at the end of each quarter, in accordance with the valuation methodology defined at the time of the constitution of the coverage file.

**Embedded derivatives**

The Bank uses embedded derivatives in order to adequately manage the interest rate, index and exchange rate risks inherent in deposit operations. The instruments used at December 31, 2019 and 2018 are interest rate options for $19 and $127, respectively, indices for $30 and $119, respectively, and exchange rates for $8 and $1, respectively.

## (10) Loan portfolio-

### *(a) Classification of loan portfolio by currency-*

At December 31, 2019 and 2018, the classification of loans into current and past-due by currency (valued in local currency), is analyzed as follows:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Current** | **Past-due** | **Current** | **Past-due** |
| **In assets:** | | | | | |
| Local currency: | | | | | |
| Business or commercial activity | $ | 140,150 | 3,814 | 122,629 | 3,166 |
| Financial institutions | | 31,687 | 82 | 35,197 | 82 |
| Government entities | | 14,052 | - | 9,676 | - |
| Consumer loans | | 48,081 | 2,282 | 45,261 | 1,844 |
| Medium and residential [1] | | 129,018 | 3,642 | 116,550 | 2,895 |
| Social interest housing | | 81 | 13 | 121 | 17 |
| Loan portfolio acquired from INFONAVIT | | 4,491 | 1 | 3,623 | 1 |
| | $ | 367,560 | 9,834 | 333,057 | 8,005 |
| Foreign currency translated: | | | | | |
| Business or commercial activity | $ | 36,235 | 268 | 29,602 | 288 |
| Financial institutions | | 16 | - | 42 | 28 |
| Medium and residential | | 37 | 61 | 34 | 87 |
| | | 36,288 | 329 | 29,678 | 403 |
| | $ | 403,848 | 10,163 | 362,735 | 8,408 |
| | | **414,011** | | **371,143** | |
| **Memorandum accounts:** | | | | | |
| Loan commitments (see note 21g) | | 26,355 | | 29,048 | |
| | **$** | **440,366** | | **400,191** | |

(1) Includes $146 and $187 loans denominated in UDIS, in 2019 and 2018, respectively.

(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)

As of December 31, 2019 and 2018, the restricted balance of medium and residential portfolio is for $5,751 and $6,479, respectively (see note 15).

### *(b) Classification of loan portfolio by economic sector-*

At December 31, 2019 and 2018, credit risk including loans, guarantees and loan commitments, classified by economic sector and the percentage of concentration are analyzed as follows:

| | | **2019** | | **2018** | |
|---|---|---|---|---|---|
| | | **Amount** | **%** | **Amount** | **%** |
| Agriculture, forestry and fishing | $ | 8,569 | 2 | 9,456 | 2 |
| Commerce and tourism | | 47,096 | 11 | 41,878 | 11 |
| Construction and housing* | | 150,464 | 34 | 135,983 | 34 |
| Manufacturing | | 75,557 | 17 | 66,378 | 17 |
| Consumer loans and credit cards | | 50,363 | 11 | 47,105 | 11 |
| Community, social and personal services mainly government entities | | 39,389 | 9 | 31,186 | 8 |
| Financial, insurance and real estate services | | 66,923 | 15 | 66,646 | 17 |
| Transportation, warehousing and communication | | 2,005 | 1 | 1,559 | - |
| | **$** | **440,366** | **100** | **400,191** | **100** |

* Includes mortgage loan portfolio for $137,344 in 2019 and $123,328 in 2018.

### *(c) Additional loan portfolio information-*

<u>*Annual weighted lending rates*</u>:

Annual weighted loan interest rates during 2019 and 2018, non-audited, were as follows:

| | **2019** | **2018** |
|---|---|---|
| Commercial loans* | 8.52% | 6.70% |
| Personal loans | 16.15% | 15.71% |
| Credit cards | 31.28% | 30.10% |
| Residential mortgages | 10.32% | 10.22% |

* Includes commercial, financial and government entities loans.

(Millions of Mexican pesos)

*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, 2019 and 2018, the amount of loans granted under these programs totaled $11,717 and $9,568, respectively, and the related liability is included in "Bank and other borrowings" (see note 15).

*Restructured loans:*

At December 31, 2019 and 2018, restructured and renewed loans are analyzed as follows:

| | | Current loans | Past-due loans | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Commercial loans | $ | 9,720 | 1,021 | 10,741 |
| Residential mortgages | | 3,615 | 298 | 3,913 |
| Consumer loans | | 91 | 216 | 307 |
| | **$** | **13,426** | **1,535** | **14,961** |
| **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** |

During 2019 and 2018, 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 $1,378 and $1,819, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Group during years ended December 31 2019 and 2018, which continue being current, amount to $4,457 and $4,296, respectively; for mortgage portfolio were $11 and $275, respectively.

During the years 2019 and 2018, the Group recorded restructuring from past-due commercial loans which remained as past-due for $654 and $83, respectively. During 2019 the Group did not make restructure from past-due mortgages loans ($27 in 2018).

(Continued)

(Millions of Mexican pesos)

The restructuring consumer loans current and past-due made by the Group during 2019 amount to $64 and $72, respectively ($4 and $49, respectively in 2018).

At December 31, 2019 and 2018 no interest capitalization was carried out.

*Risk concentration:*

At December 31, 2019, the Bank has 10 economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $67,372 and represents 143% of the basic capital at September 2019. At December 31, 2018, the Bank had 10 economic group debtors that exceed the limit of 10% of basic capital. The amount of financing to these groups is $61,423 and represents 145% of the basic capital as of September 2018. The total balance of the loans granted to the three largest borrowers as of December 31, 2019 and 2018, amounts to $22,703 and $28,151, respectively.

*Loan portfolio acquired from INFONAVIT*

As of December 31, 2019 and 2018, the analysis of the loan portfolio, current and in extension, is presented below:

| Type of loan | | Current portfolio | Portfolio in extension[1] | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Acquired from INFONAVIT | $ | 4,354 | 138 | 4,492 |
| **2018** | | | | |
| Acquired from INFONAVIT | $ | 3,578 | 46 | 3,624 |

(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 June 11, 2019, the Bank 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 Jun 21, 2019, the Bank and INFONAVIT entered into an assignment contract to manage mortgage loans by a sum of $2,000. INFONAVIT continues with management and collection of the loans assigned to the Bank, and is responsible for the actions needed to collect due loans.

On April 4 and September 4, 2018, the Bank expanded its participation in the loan origination program with INFONAVIT in the amount of $ 1,000 on each date.

(Millions of Mexican pesos)

During the years ended December 31, 2019 and 2018, the number of credits loans acquired from INFONAVIT were 1,691 and 4,205 credit, amounting $1,011 and $2,407, respectively.

As of December 31, 2019 and 2018, loans acquired from INFONAVIT of the past-due portfolio amount $1, in both years.

As of December 31, 2019 and 2018, mortgage loans granted under the program "Second mortgage" classified by category REA or ROA, are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Category** | **Number of loans** | **Amount** | **Number of loans** | **Amount** |
| REA | 650 | $ 353 | 156 | $ 86 |
| ROA | 6,857 | 4,001 | 6,048 | 3,491 |
| | | $ 4,354 | | $ 3,577 |

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, 2019 and 2018, 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 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Commercial* | $ | 737 | 492 | 1,128 | 1,807 | 4,164 |
| Consumer | | 2,171 | 108 | - | 3 | 2,282 |
| Residential mortgages | | 1,510 | 815 | 894 | 498 | 3,717 |
| | **$** | **4,418** | **1,415** | **2,022** | **2,308** | **10,163** |
| **2018** | | | | | | |
| Commercial* | $ | 722 | 443 | 588 | 1,811 | 3,564 |
| Consumer | | 1,745 | 99 | - | - | 1,844 |
| Residential mortgages | | 1,306 | 528 | 769 | 397 | 3,000 |
| | **$** | **3,773** | **1,070** | **1,357** | **2,208** | **8,408** |

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

(Millions of Mexican pesos)

The movement in the past-due loan portfolio for the years ended December 31, 2019 and 2018, is summarized below:

| | | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of the year | $ | 8,408 | 7,462 |
| Settlements | | (2,002) | (2,218) |
| Write-offs and write-downs | | (3,672) | (3,508) |
| Merger effect | | (702) | - |
| Net increase, for transfers from and to current loans | | 8,143 | 6,671 |
| Foreign exchange fluctuation | | (12) | 1 |
| **Balance at the end of the year** | **$** | **10,163** | **8,408** |

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2019 amounted to $507 ($406 in 2018), which are recorded in memorandum accounts.

For the years ended December 31, 2019 and 2018, the Group recorded write-offs from those past-due loans that had been fully reserved for $3,270 and $3,403, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2019 and 2018, the Group obtained recoveries from written-off loans for $340 and $264, respectively.

*Additional guarantees*

At December 31, 2019 and 2018, the Group has no additional guarantees for the restructured loans.

*Impaired loans:*

At December 31, 2019, the balance of impaired commercial loans is $4,066 ($3,456 in 2018), from which $410 are recorded in current loans ($100 in 2018), and $3,656 are recorded in past-due loans ($3,356 in 2018).

*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, 2019 and 2018, 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 $168 and ($562), respectively.

(Continued)

(Millions of Mexican pesos, except otherwise stated)

### *(d) Sale of loan portfolio-*

*Sale of consumer loans portfolio*

During 2019, the Bank sold a totally written-off personal loan, auto and credit cards' portfolio to a non-related party, the face value of such loan portfolio was $5,200. The income received and the book value gain of such loan portfolio was $14. The results of these transaction were recorded as recoveries in the statement of income within the caption "Allowance for loan losses".

*Sale of mortgage loans portfolio*

On March 31, 2019, the Bank sold a fully-defaulted mortgage loans to a non-related party, the face value of such loan portfolio was $340. The income received and the book value gain of such loan portfolio was $51. The results of these transaction were recorded as recoveries in the statement of income within the caption "Allowance for loan losses".

### *(e) Allowance for loan losses-*

As of December 31, 2019 and 2018, 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 are as follows:

| **Type of loan portfolio** | **Probability of default** | **Loss given default** | **Exposure at default** |
|---|---|---|---|
| **2019** | | | |
| **Bank** | | | |
| Commercial | 4.72% | 43.15% | $ 246,836 |
| Residential mortgages | 4.27% | 18.52% | 137,345 |
| Personal loans | 5.93% | 71.84% | 30,865 |
| Revolving | 10.19% | 72.88% | 33,062 |

(Millions of Mexican pesos)

| Type of loan portfolio | Probability of default | Loss given default | Exposure at default |
|---|---|---|---|
| **Crédito Familiar** | | | |
| Personal loans | 22,32% | 71.15% | $ 3,859 |

| Type of loan portfolio 2018 | Probability of default | Loss given default | Exposure at default |
|---|---|---|---|
| **Bank** | | | |
| Commercial | 4.09% | 42.46% | $ 235,054 |
| Residential mortgages | 5.09% | 15.55% | 123,318 |
| Personal loans | 5.19% | 71.83% | 29,434 |
| Revolving | 9.78% | 72.56% | 5,660 |
| **Crédito Familiar** | | | |
| Personal loans | 23.46% | 71.15% | $ 3,632 |

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

At December 31, 2019, the credit rated loan portfolio and the allowance for loan losses are analyzed in the next page.

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(Millions of Mexican pesos)

| Grade of risk | | Commercial | Financial institutions | Government Entities | Consumer | Residential mortgages | Total |
|---|---|---|---|---|---|---|---|
| A-1 | $ | 116,907 | 19,156 | 10,244 | 27,687 | 121,553 | 295,547 |
| A-2 | | 49,596 | 17,983 | 912 | 7,347 | 1,841 | 77,679 |
| B-1 | | 11,982 | 5,328 | 1,326 | 3,469 | 1,137 | 23,242 |
| B-2 | | 3,188 | 243 | - | 2,686 | 2,211 | 8,328 |
| B-3 | | 4,832 | 1,337 | 1,229 | 1,171 | 2,536 | 11,105 |
| C-1 | | 1,601 | 509 | 341 | 1,888 | 3,555 | 7,894 |
| C-2 | | 1,176 | - | - | 1,935 | 1,506 | 4,617 |
| D | | 2,091 | 57 | - | 1,682 | 2,135 | 5,965 |
| E | | 2,539 | 82 | - | 2,498 | 870 | 5,989 |
| **Total** | **$** | **193,912** | **44,695** | **14,052** | **50,363** | **137,344** | **440,366** |

| Grade of risk | | Commercial | Financial institutions | Government Entities | Consumer | Residential mortgages | Total |
|---|---|---|---|---|---|---|---|
| A-1 | $ | 705 | 82 | 58 | 579 | 216 | 1,640 |
| A-2 | | 563 | 201 | 9 | 326 | 11 | 1,110 |
| B-1 | | 195 | 94 | 24 | 170 | 10 | 493 |
| B-2 | | 71 | 6 | - | 148 | 28 | 253 |
| B-3 | | 171 | 62 | 50 | 97 | 45 | 425 |
| C-1 | | 95 | 27 | 19 | 204 | 91 | 436 |
| C-2 | | 158 | - | - | 331 | 134 | 623 |
| D | | 767 | 9 | - | 796 | 550 | 2,122 |
| E | | 2,370 | 80 | - | 1,791 | 444 | 4,685 |
| Subtotal | **$** | 5,095 | 561 | 160 | 4,442 | 1,529 | 11,787 |
| Reserves for residential mortgages past-due loans | | | | | | | 23 |
| Operational risk reserve | | | | | | | 56 |
| Reserves for accrued interest on past-due loans | | | | | | | 188 |
| Specific reserves authorized by the Banking Commission | | | | | | | 73 |
| **Total allowance for loan losses** | | | | | | **$** | **12,127** |

(Continued)

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(Millions of Mexican pesos)

At December 31, 2018, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

| Grade of risk | | Commercial | Financial institutions | Government Entities | Consumer | Residential mortgages | 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 | Government Entities | Consumer | Residential mortgages | 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)

(Millions of Mexican pesos)

The movement in the allowance for loan losses for the years ended December 31, 2019 and 2018 is summarized below:

| | | 2019 | 2018 |
|---|---|---|---|
| Balance at the beginning of the year | $ | 10,376 | 9,781 |
| Merger effect | | (1,040) | - |
| Provisions charged to results of operations | | 6,843 | 4,553 |
| Applications, write-downs and others | | (3,933) | (3,763) |
| Foreclosure | | (91) | (181) |
| Exchange rate fluctuations | | (28) | (14) |
| **Balance at the end of the year** | **$** | **12,127** | **10,376** |

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

During the year ended December 31, 2019, no support for natural disasters was presented.

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.

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 2019 and 2018.

(Continued)

(Millions of Mexican pesos)

## (11) Foreclosed assets-

At December 31, 2019 and 2018, foreclosed assets are analyzed below:

| | | 2019 | 2018 |
|---|---|---|---|
| Properties | $ | 138 | 100 |
| Furniture, securities and foreclosing rights | | 3 | 1 |
| | | 141 | 101 |
| Allowance for impairment | | (21) | (14) |
| | **$** | **120** | **87** |

The movement of the allowance for impairment for the years ended December 31, 2019 and 2018 is analyzed below:

| | | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | $ | (14) | (25) |
| Additional provisions due to aging charged to operations for the year | | (11) | (6) |
| Credit to income on sale of foreclosed assets | | 4 | 17 |
| | **$** | **(21)** | **(14)** |

(Millions of Mexican pesos)

## (12) Premises, furniture and equipment-

Premises, furniture and equipment and leasehold improvements at December 31, 2019 and 2018 are analyzed below:

| | | 2019 | 2018 | Annual depreciation rate |
|---|---|---|---|---|
| Lands | $ | 517 | 546 | - |
| Office premises | | 1,326 | 1,424 | Various |
| Transportation equipment | | 4 | 5 | 25% and 33% |
| Transportation equipment in capital lease | | 50 | 11 | 33% |
| Computer equipment | | 2,043 | 1,832 | Various |
| Computer equipment in capital lease | | 76 | 67 | 20% |
| Furniture and equipment | | 1,709 | 1,556 | 10% |
| Leasehold improvements | | 3,209 | 3,092 | Various |
| | | 8,934 | 8,533 | |
| Accumulated depreciation | | (4,885) | (4,409) | |
| | **$** | **4,049** | **4,124** | |

Depreciation charged to results of operations for the years ended December 31, 2019 and 2018 amounted to $598 and $490, respectively.

For the years ended December 31, 2019 and 2018, 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, 2019 and 2018, is minimum.

***Real estate selling***

During 2019, the Real Estate carried out the sale of real estate, the total profit on sale of real estate amounted to $85, which was recorded under the caption "Other operating income" in the consolidated statement of income.

(Continued)

(Millions of Mexican pesos)

## (13) Permanent investments-

At December 31, 2019 and 2018, the Group´s permanent investments in equity and associate classified by activity, are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Banking related services | $ | 47 | 47 |
| Derivatives market operators | | 59 | 59 |
| Other permanent investments | | 106 | 106 |
| Derivatives market operators (associate) | | 7 | 7 |
| | **$** | **113** | **113** |

## (14) Deposit funding-

At December 31, 2019 and 2018, the deposit funding caption, is analyzed as follows:

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Local currency** | **Foreign currency** | **Total** | **Local currency** | **Foreign currency** | **Total** |
| **Demand deposits:** | | | | | | | |
| Non-interest bearing | $ | 69,049 | 10,517 | 79,566 | 73,222 | 49 | 73,271 |
| Interest bearing | | 65,400 | 21,800 | 87,200 | 53,801 | 35,348 | 89,149 |
| | | 134,449 | 32,317 | 166,766 | 127,023 | 35,397 | 162,420 |
| **Time deposits:** | | | | | | | |
| General public | | 108,952 | - | 108,952 | 102,035 | 9,480 | 111,515 |
| **Money market:** | | | | | | | |
| Certificates of deposit (Cedes) | | 38,038 | - | 38,038 | 40,858 | 1,967 | 42,825 |
| Promissory notes | | 8,742 | - | 8,742 | 10,250 | - | 10,250 |
| | | 46,780 | | 46,780 | 51,108 | 1,967 | 53,075 |
| **Debt securities issued:** | | | | | | | |
| Bank stock certificates | | 35,157 | 4,463 | 39,620 | 23,098 | - | 23,098 |
| Bonk bonds | | 1,532 | - | 1,532 | 2,680 | - | 2,680 |
| | | 36,689 | 4,463 | 41,152 | 25,778 | - | 25,778 |
| **Global account of deposits without movements** | | 603 | 8 | 611 | 585 | 9 | 594 |
| **Total deposit funding** | **$** | **327,473** | **36,788** | **364,261** | **306,529** | **46,853** | **353,382** |

(Continued)

(Millions of Mexican pesos)

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2019 and 2018, are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Local currency** | **Dollars** | **Local currency** | **Dollars** |
| **Demand deposits** | 2.92% | 0.92% | 2.25% | - |
| **Time deposits:** | | | | |
| General public | 7.26% | 2.76% | 7.06% | 2.64% |
| Money market | 8.33% | - | 8.47% | 2.00% |

At December 31, 2019 and 2018, 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, 2019 and 2018, the Group issued Cedes with par value of one hundred pesos for an amount of $38,038 and $40,858, respectively. As of December 31, 2019, no Cedes in dollars were issued (as of December 31, 2018 were issued Cedes with par value of one hundred pesos for an amount of $1,967.

**December 31, 2019**

***Cedes-***

| **Interest payment** | **Annual rate** | **Term in days** | | **Amount** |
|---|---|---|---|---|
| 28 days | TIIE28+0.14% | 364 | $ | 550 |
| 28 days | TIIE28+0.10% | 364 | | 1,400 |
| 28 days | TIIE28+0.10% | 364 | | 300 |
| 28 days | TIIE28+0.09% | 364 | | 700 |
| 28 days | TIIE28+0.08% | 364 | | 400 |
| 28 days | TIIE28+0.09% | 336 | | 1,000 |
| 28 days | TIIE28+0.09% | 364 | | 300 |
| 28 days | TIIE28+0.09% | 336 | | 1,000 |
| 28 days | TIIE28+0.07% | 364 | | 380 |
| 28 days | TIIE28+0.08% | 364 | | 2,250 |
| 28 days | TIIE28+0.08% | 364 | | 1,350 |
| 28 days | TIIE28+0.06% | 364 | | 150 |
| 28 days | TIIE28+0.08% | 364 | | 1,000 |
| 28 days | TIIE28+0.08% | 364 | | 500 |
| 28 days | TIIE28+0.07% | 336 | | 1,500 |
| 28 days | TIIE28+0.08% | 364 | | 1,225 |
| 28 days | TIIE28+0.08% | 364 | | 1,000 |
| 28 days | TIIE28+0.08% | 364 | | 550 |
| 28 days | TIIE28+0.08% | 364 | | 550 |
| 28 days | TIIE28+0.06% | 280 | | 1,700 |
| Subtotal carried forward | | | $ | 17,805 |

(Continued)

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| Interest payment | Annual rate | Term in days | | Amount |
|---|---|---|---|---|
| Subtotal brought forward | | | $ | 17,805 |
| 28 days | TIIE28+0.06% | 280 | | 500 |
| 28 days | TIIE28+0.05% | 252 | | 1,000 |
| 28 days | TIIE28+0.07% | 336 | | 1,000 |
| 28 days | TIIE28+0.08% | 364 | | 1,000 |
| 28 days | TIIE28+0.07% | 364 | | 600 |
| 28 days | TIIE28+0.06% | 352 | | 1,000 |
| 28 days | TIIE28+0.07% | 364 | | 200 |
| 28 days | TIIE28+0.07% | 364 | | 300 |
| 28 days | TIIE28+0.07% | 364 | | 1,000 |
| 28 days | TIIE28+0.07% | 364 | | 500 |
| 28 days | TIIE28+0.07% | 280 | | 1,000 |
| 28 days | TIIE28+0.07% | 280 | | 700 |
| 28 days | TIIE28+0.07% | 252 | | 300 |
| 28 days | TIIE28+0.08% | 364 | | 1,300 |
| 28 days | TIIE28+0.05% | 364 | | 200 |
| 28 days | TIIE28+0.07% | 252 | | 2,000 |
| 28 days | TIIE28+0.08% | 364 | | 1,250 |
| 28 days | TIIE28+0.07% | 336 | | 1,500 |
| 28 days | TIIE28+0.06% | 364 | | 850 |
| 28 days | TIIE28+0.06% | 336 | | 700 |
| 28 days | TIIE28+0.07% | 364 | | 500 |
| 28 days | TIIE28+0.05% | 196 | | 1,000 |
| 28 days | TIIE28+0.07% | 363 | | 700 |
| 28 days | TIIE28+0.08% | 364 | | 1,000 |
| | | | | 37,905 |
| Accrued interest | | | | 133 |
| Subtotal Cedes local currency | | | $ | 38,038 |

**December 31, 2018**

| 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 |
| Subtotal carried forward | | | $ | 6,210 |

(Continued)

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| Interest payment | Annual rate | Term in days | | Amount |
|---|---|---|---|---|
| Subtotal brought forward | | | $ | 6,210 |
| 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 |
| 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 |

(Continued)

(Millions of Mexican pesos)

| | | |
|---|---|---|
| Subtotal brought forward | $ | 40,858 |

**Cedes in dollars-**

| Underlying | Periods | Term in days | | |
|---|---|---|---|---|
| TIIE 28 | 13 | 258 | | 1,967 |
| **Total cedes** | | | **$** | **42,825** |

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, 2019 and 2018, the Group issued promissory notes with par value of approximately one peso each as follows:

**December 31, 2019**

| Issuance date | Number of securities | Term in days | Annual rate | | Amount |
|---|---|---|---|---|---|
| March 2019 | 1,629,151,000 | 360 | 8.67% | $ | 1,498 |
| April 2019 | 200,000,000 | 364 | 8.72% | | 184 |
| April 2019 | 600,000,000 | 364 | 8.72% | | 551 |
| April 2019 | 814,913,331 | 364 | 8.56% | | 750 |
| April 2019 | 1,200,000,000 | 364 | 8.72% | | 1,103 |
| April 2019 | 760,622,000 | 360 | 8.70% | | 700 |
| August 2019 | 300,000,000 | 364 | 8.24% | | 277 |
| August 2019 | 1,079,333,331 | 350 | 8.24% | | 1,000 |
| September 2019 | 500,000,000 | 190 | 7.92% | | 480 |
| September 2019 | 859,696,000 | 364 | 7.38% | | 800 |
| September 2019 | 422,432,000 | 271 | 7.50% | | 400 |
| October 2019 | 643,862,000 | 362 | 7.29% | | 600 |
| | | | | | 8,343 |
| Accrued interest | | | | | 399 |
| **Total** | | | | **$** | **8,742** |

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**December 31, 2018**

| Issuance date | Number of securities | Term in days | Annual rate | | Amount |
|---|---|---|---|---|---|
| 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 |
| February 2018 | 542,600,000 | 365 | 8.45% | | 500 |
| 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 | 50,000,000 | 365 | 8.92% | | 45 |
| November 2018 | 167,750,000 | 302 | 4.48% | | 999 |
| December 2018 | 168,380,000 | 320 | 4.65% | | 998 |
| 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 |
| | | | | | 10,042 |
| Accrued interest | | | | | 208 |
| **Total** | | | | **$** | **10,250** |

***(b) Debt securities issued-***

At December 31, 2019 and 2018, 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 in the next page.

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## Banking stock certificates

## December 31, 2019

| Issuance date | Number of securities | Term in years | Payment of interest in days | Issuance proportion | Interest rate | Amount |
|---|---|---|---|---|---|---|
| June 2013 | 11,500,000 | 10 | 182 | 7% | 7.30% | $ 1,150 |
| November 2015 | 23,000,000 | 5 | 28 | 8% | TIIE28+0.40% | 2,300 |
| March 2017 | 34,500,000 | 3 | 28 | 8% | TIIE28+0.39% | 3,450 |
| April 2017 | 28,750,000 | 5 | 28 | 8% | TIIE28+0.50% | 2,875 |
| August 2017 | 34,500,000 | 4 | 28 | 8% | TIIE28+0.36% | 3,450 |
| September 2017 | 34,500,000 | 3 | 28 | 8% | TIIE28+0.31% | 3,450 |
| March 2018 | 34,500,000 | 4 | 28 | 8% | TIIE28+0.24% | 3,450 |
| March 2018 | 28,750,000 | 4 | 28 | 8% | TIIE28+0.24% | 2,875 |
| May 2019 | 36,529,437 | 4 | 28 | 8% | TIIE28+0.18% | 3,653 |
| May 2019 | 23,575,595 | 3 | 28 | 8% | TIIE28+0.16% | 2,354 |
| December 2019 | 60,000,000 | 3 | 28 | 8% | TIIE28+0.15% | 6,000 |
| | | | | | | 35,007 |
| Accrued interest | | | | | | 150 |
| Subtotal Banking stock certificates | | | | | | 35,157 |

## Banking stock certificates in dollars-

| | | | | | | |
|---|---|---|---|---|---|---|
| May 2019 | 1,234,500 | 3 | 90 | 3% | LIBOR-3M+0.57% | 2,329 |
| July 2019 | 1,123,915 | 3 | 90 | 3% | LIBOR-3M+0.57% | 2,109 |
| Accrued interest | | | | | | 25 |
| **Total Banking stock certificates** | | | | | | **$ 39,620** |

## December 31, 2018

| Issuance date | Number of securities | Term in years | Payment of interest in days | Issuance proportion | Interest rate | Amount |
|---|---|---|---|---|---|---|
| June 2013 | 11,500,000 | 10 | 182 | 8% | 7.30% | $ 1,150 |
| 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 |
| | | | | | | 23,000 |
| Accrued interest | | | | | | 98 |
| | | | | | | **$ 23,098** |

(Continued)

(Millions of Mexican pesos)

**Structured banking bonds**

**December 31, 2019**

| Issuance date | Number of securities | Term in days | Underlaying | | Amount |
|---|---|---|---|---|---|
| February 2016 | 2,916,720 | 1,456 | TIIE28 | $ | 292 |
| March 2017 | 2,565,250 | 1,091 | SX5E | | 256 |
| June 2017 | 327,700 | 1,092 | IXM | | 33 |
| February 2018 | 278,750 | 729 | SX5E | | 28 |
| February 2018 | 278,750 | 729 | TC MXPUSD | | 28 |
| October 2018 | 1,105,300 | 730 | EEM UP | | 110 |
| April 2019 | 718,915 | 729 | NKY | | 72 |
| May 2019 | 741,550 | 359 | SPTSX60 | | 74 |
| May 2019 | 1,218,600 | 730 | SPTSX60 | | 122 |
| June 2019 | 276,300 | 359 | SPTSX60 | | 28 |
| June 2019 | 238,250 | 730 | SPTSX60 | | 24 |
| July 2019 | 250,000 | 182 | USDMXN | | 25 |
| July 2019 | 1,403,500 | 728 | TIIE28 | | 140 |
| September 2019 | 344,200 | 547 | IPC | | 34 |
| October 2019 | 60,000 | 152 | IPC | | 6 |
| November 2019 | 529,100 | 731 | MSFDVTHY | | 53 |
| November 2019 | 663,200 | 1,096 | MSFDVTHY | | 66 |
| December 2019 | 1,409,300 | 360 | *C_MXNUSDN_V48 | | 141 |
| **Total structured banking bonds** | | | | **$** | **1,532** |

**December 31, 2018**

| 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** |

(Continued)

(Millions of Mexican pesos)

### *(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, 2019 and 2018, 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 $18 and $24, respectively.

## (15) Bank and other borrowings-

At December 31, 2019 and 2018, bank and other borrowings are compromised as follows:

| **Due on demand** | | **2019** | **2018** |
|---|---|---|---|
| Short-term: | | | |
| Local currency: | | | |
| Central Bank loans | $ | 750 | - |
| Development banks [(2)] | | 7,526 | 1,675 |
| Development agencies [(1)] | | 3,456 | 2,767 |
| Other institutions | | 928 | - |
| Accrued interest | | 118 | 119 |
| | | 12,778 | 4,561 |
| Dollars translated into local currency: | | | |
| Multiple banking | | 9,905 | - |
| Development agencies [(1)] | | 491 | 199 |
| Development banks [(2)] | | 38 | 43 |
| Accrued interest | | 14 | 1 |
| | | 10,448 | 243 |
| **Total short term and due on demand** | | **23,226** | **4,804** |
| **Long-term:** | | | |
| Local currency: | | | |
| Development agencies [(1)] | | 5,903 | 4,555 |
| Development banks [(2)] | | 21,500 | 15,000 |
| Other organizations | | 4,728 | 5,657 |
| Total long-term in local currency | | 32,131 | 25,212 |
| Dollars translated into local currency: | | | |
| Development agencies [(1)] | | 285 | 318 |
| **Total long-term** | | **32,416** | **25,530** |
| **Total bank and other borrowings** | **$** | **55,642** | **30,334** |

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

(Continued)

(Millions of Mexican pesos)

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

(2) At December 31, 2019, the Group obtained seven borrowings from NAFIN for $20,526 with maturity dates between 1 and 5 years and interest rates ranging from 7% to 9%. At December 31, 2019 the Group obtained five borrowings from Sociedad Hipotecaria Federal, S.N.C. (SHF), for a total amount of $8,500 with maturity dates between 2 and 10 years and interest rates ranging from 7% to 9%. 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 SHF. At December 31, 2018, the Bank obtained six borrowings from NAFIN for $11,500 with maturity dates between 1 and 3 years and interest rates ranging from 8.95% to 9%.

At December 31, 2019 and 2018, long-term bank and other borrowings maturity dates are as follows:

| **Maturity** | | **2019** | **2018** |
|---|---|---|---|
| 2020 | $ | - | 10,324 |
| 2021 | | 11,786 | 8,227 |
| 2022 | | 5,109 | 1,156 |
| 2023 | | 3,626 | 3,545 |
| 2024 | | 9,200 | 231 |
| Over 5 years | | 2,695 | 2,047 |
| | **$** | **32,416** | **25,530** |

Banking borrowings that the Group maintains, relate mainly to 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 and loans whose limit is agreed to daily by the lender. At December 31, 2019 and 2018, the Group has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2019 and 2018, bank and other loans weighted average annual interest (unaudited) rates are in the next page.

(Continued)

(Millions of Mexican pesos)

| | 2019 annual rates | | 2018 annual rates | |
|---|---|---|---|---|
| | Local currency | Foreign currency | Local currency | Foreign currency |
| Domestic banks | - | 1.91% | - | - |
| Development banks | 8.59% | 3.23% | 9.26% | 3.29% |
| Development agencies | 7.57% | 1.25% | 7.42% | 2.61% |

## (16) Employees' benefits-

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, 2019 and 2018, the charge to results for SECOSA and the Brokerage Firm's contributions to the defined contribution pension plan amounted to $104 and $84, respectively, under the caption "Administrative and promotional expenses" in the consolidated statement of income.

The Bank, (until November 15, 2018), 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, 2019 and 2018.

The components of the defined benefit cost for the years ended December 31, 2019 and 2018 are in the following page.

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| | | Seniority premium | | Legal compensation | | Pension Plan | | Other post-retirement Benefits | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Current labor service cost (CLSA) | $ | 14 | 13 | 32 | 30 | 15 | 18 | 65 | 80 |
| Net interest on DBNL o (DBNA)* | | 4 | 3 | 41 | 36 | 135 | 103 | 70 | 76 |
| Actuarial losses gain (AGL) generated in the year | | 1 | - | - | - | - | - | - | - |
| (Income) from past services for reduction of personnel | | - | (1) | 98 | 3 | - | - | 8 | - |
| Net past service amortization | | - | 8 | - | - | 1 | 75 | - | 245 |
| Reclassification of remeasurements of DBNL recognized in OCI | | 1 | 2 | 2 | 47 | 20 | 101 | 2 | 63 |
| **Net cost of the year** | | **20** | **25** | **173** | **116** | **171** | **297** | **145** | **464** |
| Beginning balance of remeasurement of DBNL (DBNA) | | 9 | (7) | (11) | 24 | 207 | 162 | (97) | (65) |
| Remeasurements generated during the year | | (10) | 12 | 41 | 12 | 317 | (26) | 479 | (225) |
| Recognition of de AGL in OCI | | - | 6 | - | - | 162 | 172 | 152 | 256 |
| Reclassification of remeasurements recognized in OCI | | (1) | (2) | (2) | (47) | (20) | (101) | (2) | (63) |
| Final balance of remeasurements of (DBNA) DBNL | | (2) | 9 | 28 | (11) | 666 | 207 | 532 | (97) |
| **Increase (decrease) of remeasurements of DBNL or DBNA in OCI** | | **(11)** | **16** | **39** | **(35)** | **459** | **45** | **629** | **(32)** |
| **Defined benefits cost** | | **9** | **41** | **212** | **81** | **630** | **342** | **774** | **432** |
| Beginning balance of DBNL (DBNA) | | 41 | 23 | 427 | 418 | 1,098 | 679 | 539 | 291 |
| Recognition of modifications to the plan in retained earnings (progressive recognition) | | - | - | - | - | (16) | (21) | (23) | (60) |
| Cost (income) of defined benefits | | 9 | 41 | 212 | 81 | 630 | 342 | 774 | 432 |
| Plan contributions | | - | (23) | - | - | 89 | 98 | - | - |
| Payments charged to DBNL | | (3) | - | (157) | (72) | (6) | - | - | - |
| Restricted funds | | - | - | - | - | - | - | (112) | (124) |
| **Ending balance of DBNL** | $ | **47** | **41** | **482** | **427** | **1,795** | **1,098** | **1,178** | **539** |

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

(Continued)

(Millions of Mexican pesos)

The reconciliation of the financial position of the obligation and net projected asset (liability) as of December 31, 2019 and 2018 is as follows:

| | | **Seniority premium** | | **Legal compensation** | | **Pension Plan** | | **Other post-retirement Benefits** | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Defined benefits obligations (DBO) | $ | (182) | (170) | (482) | (427) | (2,556) | (2,228) | (3,988) | (3,340) |
| Plan assets | | 135 | 129 | - | - | 758 | 981 | 2,819 | 2,678 |
| Financial situation of the obligation | | (47) | (41) | (482) | (427) | (1,798) | (1,247) | (1,169) | (662) |
| Past services to be amortized | | - | - | - | - | (10) | (27) | (9) | (30) |
| Actuarial losses to be amortized | | - | - | - | - | 13 | 176 | - | 153 |
| **Net projected liability** | **$** | **(47)** | **(41)** | **(482)** | **(427)** | **(1,795)** | **(1,098)** | **(1,178)** | **(539)** |

**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.

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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, 2018 pending of progressive amortization and application during the following two years | $ | (57) | 329 |
| Remeasurements gradually recorded | | 40 | (315) |
| Amortization of past services | | - | (1) |
| **Balance at December 31, 2019 pending to be amortized gradually during the following year** | **$** | **(17)** | **13** |

At December 31, 2019 and 2018, the remeasurements of defined employee benefits recorded in the OCI are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Beginning balance of remeasurements | $ | 107 | 114 |
| Remeasurements gradually recorded | | 313 | 434 |
| Reclassification of remeasurements recognized in OCI in the year | | (25) | (214) |
| Remeasurements generated in the year | | 826 | (227) |
| Final balance of remeasurements | | 1,221 | 107 |
| Deferred IT [1] | | (146) | 153 |
| Deferred ESPS [1] | | (15) | 3 |
| **Effect in equity, net of deferred IT and ESPS** | **$** | **1,060** | **263** |

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

(Millions of Mexican pesos)

Movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2019 and 2018 is analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Fair value of the assets at beginning of year | $ | 3,788 | 4,436 |
| Transfers to defined contribution fund | | (89) | (76) |
| Restricted funds | | 112 | 123 |
| Return on plan assets | | 652 | (134) |
| Payments charged to the fund during the year | | (749) | (561) |
| **Fair value of the assets at end of year** | **$** | **3,714** | **3,788** |

During the year 2019, the Group transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year amounting to $89 ($75 in 2018).

It is not expected to make contributions to the defined benefits fund during 2020. For 2020, it is expected to make payments from the reserve for $426.

The annual nominal rates as of December 31, 2019 and 2018 used in actuarial projections are as follows:

| | 2019 | 2018 |
|---|---|---|
| Return on plan assets | 8.90% | 10.60% |
| Discount rate | 8.90% | 10.60% |
| 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, 2019 and 2018 was 8.90% and 11.30%, respectively.

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 coupons and life insurance for retirees consist of 55% debt instruments and 45% 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, 2019 and 2018, are shown in the next page.

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| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Annual rates** | **DBO medical expense retirees** | **Annual rates** | **DBO medical expense retirees** |
| With no modification | 6.50% | 3,332 | 6.50% | $ 4,291 |
| 1% increase in medical inflation rate | 7.50% | 3,792 | 7.50% | 4,881 |
| 1% decrease in medical inflation rate | 5.50% | 2,954 | 5.50% | $ 3,790 |

As of December 31, 2019, the amortization periods in years for unrecognized items related to defined pension and other post-retirement benefits (unaudited) are as follows:

| | Pensions | | Other post-retirement benefits |
|---|---|---|---|
| | **Retirement** | **Disability** | |
| Prior service plan modifications | $ 1 | - | 1 |
| Net actuarial loss/(gain) and reclassification of remeasurements DBN(L)A to be recognized in OCI | $ 17.50 | - | 17.50 |

The components of the stress-analysis in pesos as of December 31, 2019 and 2018, are shown as follows:

| | Seniority premium | | Legal compensation | | Pension plan | | Other post-retirement benefits | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Defined benefit obligations (DBO) as of December 31 | $ 182 | 170 | 482 | 427 | 2,555 | 2,228 | 3,990 | 3,340 |
| Significant actuarial assumptions as of December 31 Sensitivity analysis, discount rate 10.60% (+0.50%) | $ (4) | (7) | (11) | (14) | (102) | (103) | (260) | (309) |
| Discount rate 8.50% (-0.50%) | $ 5 | 8 | 12 | 16 | 110 | 111 | 271 | 210 |
| Long-term inflation rate 3.75% (+0.25%) | $ 2 | 4 | - | - | 27 | 17 | 19 | 11 |
| Long-term inflation rate 3.25% (-0.25%) | $ (2) | (4) | - | - | (22) | (15) | (18) | (10) |

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## (17) Related-party balances and 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.

The main transactions carried out with related parties for the years ended at December 31, 2019 and 2018, are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| **Income:** | | | |
| Commissions and fee income | $ | 83 | 147 |
| Intermediation income | | 27 | (188) |
| **Expenses:** | | | |
| Commissions and fee income | | 2 | 3 |
| Administrative services | | 152 | 522 |
| Interest paid | | 808 | 366 |

Balances receivable from and payable to related parties as of December 31, 2019 and 2018 are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| **Payable:** | | | |
| Demand deposits | $ | (7) | (770) |
| Derivatives (1) | | 4,690 | 92,366 |
| Commercial loans | | - | 5,964 |
| Other accounts receivable | | 3,587 | - |
| **Payable:** | | | |
| Demand deposits and time deposits | | - | 21 |
| Derivatives (1) | | 2,110 | 93,076 |
| Other accounts payable | | 1,355 | - |

(1) Corresponds to balances before compensation

For the years ended December 31, 2019 and 2018 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 loans granted by the Group where reserves are created according to the methodology of the Banking Commission.

(Continued)

(Millions of Mexican pesos)

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 19). The loans granted with related parties by the Bank as of December 31, 2019 and 2018 amount to $4,388 and $5,973, respectively. The deposits made by related parties as of December 31, 2019 and 2018 amount to $838 and $54, respectively.

For the years ended December 31, 2019 and 2018, the benefits granted to senior management amounted to $255 and $158, respectively.

## (18) 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 2019 and 2018.

At December 31, 2019 and 2018, current and deferred IT and ESPS expense (benefit), is as follows:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **IT** | **ESPS** | **IT** | **ESPS** |
| **Current:** | | | | | |
| Bank and subsidiaries | $ | 1,842 | - | 798 | - |
| Brokerage Firm | | 164 | 59 | 145 | 52 |
| The Fund Management Company | | 87 | - | 86 | - |
| SECOSA | | 188 | 57 | 410 | 132 |
| Crédito Familiar | | 22 | - | 22 | 5 |
| **Current IT and ESPS** | | 2,303 | 116 | 1,461 | 189 |
| **Deferred IT and ESPS** | | 212 | (33) | (761) | 1,081 |
| **Total IT and ESPS** | | **2,515** | **83** | **700** | **1,270** |
| Reversed provisions from prior years | | (30) | (1) | (67) | (24) |
| IT additional provision | | 20 | - | 388 | 73 |
| **Total tax expense** | **$** | **2,505** | **82** | **1,021** | **1,319** |

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 effect in results and Stockholders' equity of deferred IT and ESPS at December 31, 2019 and 2018 are comprised of the items shown in the following page.

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| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **IT** | **ESPS** | **IT** | **ESPS** |
| Valuation of financial instruments: | | | | | |
| Trading | $ | 81 | - | 168 | (1) |
| Available-for-sale | | (36) | - | (4) | - |
| Cash flow hedge swaps | | 92 | - | (367) | - |
| Expense accruals and others | | (402) | 67 | (388) | 63 |
| Remaining balance to be deducted of premises, furniture and equipment | | 267 | (1) | 175 | (3) |
| Unearned fees collected | | 710 | - | 788 | - |
| Pension plan | | 344 | 16 | 209 | (2) |
| Other assets | | (16) | 31 | 276 | 91 |
| Foreclosed assets | | 291 | - | 247 | - |
| Allowance in excess | | 243 | - | 358 | - |
| Remeasurements of defined employee benefits | | 146 | 16 | (153) | (3) |
| Future loan write-offs | | 3,595 | - | 3,064 | - |
| Tax loss carryforwards | | 37 | - | 550 | - |
| | | 5,352 | 129 | 4,923 | 145 |
| Valuation allowance [1] | | - | - | (85) | - |
| | | 5,352 | 129 | 4,838 | 145 |
| | **$** | **5,481** | | **4,983** | |

(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

The (unfavorable) favorable effect in consolidated income statement and equity, for deferred IT and ESPS, for the years ended December 31, 2019 and 2018 are presented in the following page.

(Millions of Mexican pesos)

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **IT** | **ESPS** | **IT** | **ESPS** |
| *(Unfavorable) favorable effect* | | | | | |
| Valuation of financial instruments: | | | | | |
| Trading | $ | (87) | 1 | (38) | (69) |
| Available-for-sale | | (32) | - | (9) | (2) |
| Cash flow hedge swaps | | 459 | - | (156) | 71 |
| Expense accruals and others | | (14) | 4 | (697) | 35 |
| Remaining balance to be deducted of premises, furniture and equipment | | 92 | 2 | 77 | (86) |
| Unearned fees collected | | (78) | - | 276 | (171) |
| Pension plan | | 135 | 18 | 131 | (28) |
| Other assets | | (292) | (60) | 276 | 91 |
| Foreclosed assets | | 44 | - | 40 | (69) |
| Allowance in excess [1] | | (30) | - | 295 | - |
| Remeasurements of defined employee benefits | | 299 | 19 | (43) | 33 |
| Tax loss carryforwards [1] | | - | - | (83) | - |
| Future loan write-offs [1] | | 531 | - | (75) | (792) |
| Tax loss | | (513) | - | 550 | - |
| | | 514 | (16) | 544 | (987) |
| | **$** | **498** | | **(443)** | |

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

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **IT** | **ESPS** | **IT** | **ESPS** |
| *Deferred tax:* | | | | | |
| In statement of income | $ | (212) | (35) | 761 | (1,081) |
| In stockholders' equity: | | | | | |
| Valuation in available-for-sale securities | | (32) | - | (9) | (2) |
| Remeasurements of defined employee benefits | | 299 | 19 | (43) | 33 |
| Valuation of cash flow hedge securities | | 459 | - | (156) | 71 |
| Allowance for loan losses | | - | - | (9) | (8) |
| | | 514 | (16) | 544 | (987) |
| | **$** | **498** | | **(443)** | |

(1) Net of valuation allowance

(Millions of Mexican pesos)

The following is an analysis of the effective tax rate of the Bank without subsidiaries, for the fiscal years ended at December 31, 2019 and 2018:

| Entity | | Expected expense (benefit) | IT | Effective rate |
|---|---|---|---|---|
| **2019** | | | | |
| Group (*) | $ | - | - | -% |
| Bank (*) | | 1,602 | 1,323 | 25% |
| Globalcard (until September 30, 2019) | | 310 | 381 | 58% |
| Inmobiliaria | | 87 | 90 | 31% |
| Derivados | | 47 | 44 | 28% |
| The Brokerage Firm | | 190 | 187 | 30% |
| The Fund Management Company | | 87 | 87 | 30% |
| Crédito Familiar | | 50 | 83 | 49% |
| Administradora de Activos CF | | 7 | 9 | 36% |
| Servicios Corporativos CF | | 10 | 24 | 74% |
| SECOSA | | 172 | 287 | 50% |
| | **$** | **2,562** | **2,515** | **29%** |
| **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%** |

(*) Includes eliminations of intercompany transactions.

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The following is an analysis of the effective tax rate of the Bank without subsidiaries, for the fiscal years ended at December 31, 2019 and 2018:

| | | **Tax base** | **IT Tax at 30%** | **Effective rate** |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| **Operating income** | $ | 5,340 | (1,602) | (30%) |
| **Allocation to current tax:** | | | | |
| Adjustment for effects of inflation | | (919) | 276 | 5% |
| Valuation of financial instruments | | (770) | 231 | 4% |
| Depreciation and amortization | | 49 | (15) | - |
| Non-deductibles expenses [(1)] | | 116 | (35) | (1%) |
| Loan reserves surplus | | (217) | 65 | 1% |
| Allowance for loan losses | | 4,675 | (1,403) | (26%) |
| Deductible loan write-offs | | (3,500) | 1,050 | 20% |
| Current and deferred ESPS | | (36) | 11 | - |
| Deduction of paid ESPS | | (20) | 6 | - |
| Commission fees and advance payments | | 501 | (150) | (3%) |
| Financial instruments gain (loss) | | 434 | (130) | (2%) |
| Credit card administration fee | | 677 | (203) | (4%) |
| Other, net | | (1,741) | 522 | 10% |
| Current tax | | 4,589 | (1,377) | (26%) |
| | | | | |
| Allocation to deferred tax: | | | | |
| Valuation of financial instruments | | 682 | (205) | (4%) |
| Expense accruals and others | | (792) | 238 | 4% |
| Remaining balance to be deducted of premises, furniture and equipment | | (198) | 60 | 1% |
| Pension plan | | (261) | 78 | 2% |
| Foreclosed assets | | (147) | 44 | 1% |
| Unearned fees collected | | 97 | (29) | (1%) |
| Future loan write-offs | | (1,028) | 308 | 6% |
| Tax loss | | 1,467 | (440) | (8%) |
| Deferred tax | | (180) | 54 | 1% |
| **Income tax** | **$** | **4,409** | **(1,323)** | **(25%)** |

Tax loss carryforward for $1,467 corresponding to the Bank, was generated in 2018 and it was fully amortized in 2019.

(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)

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| | | 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% | (16) |
| Expense accruals and others | | 3,405 | (1,022) | (14%) | (28) |
| Remaining balance to be deducted of premises, furniture and equipment | | (202) | 62 | 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.

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.

(Millions of Mexican pesos)

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

At December 31, 2019, the tax loss carryforwards will expire as shown below:

| **Year** | | **Current amout at December 31, 2019** |
|---|---|---|
| 2023 | | 15 |
| 2024 | | 44 |
| 2026 | | 18 |
| 2027 | | 37 |
| 2028 | | 72 |
| **Total tax loss** | **$** | **186** |

*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.

## (19) Subordinated debt issued-

At December 31, 2019 and 2018, 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** |
|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | |
| 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 | | | | | | | | 138 |
| | | | | | | | **$** | **9,046** |

(Millions of Mexican pesos)

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

## (20) Stockholders' equity-

### *(a) Structure of capital stock-*

As of December 31, 2019 and 2018, 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, 2019 the Group did not declare nor paid dividends to BNS. At December 31, 2018 declared and paid dividends as shown as follows:

| Declare date | | Amount | Paid date 2018 | | Amount 2018 |
|---|---|---|---|---|---|
| May 25, 18 | $ | 6,997 | June 27, 18 | $ | 3,450 |
| | | | September 11,18 | | 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, 2019 and 2018 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, 2019 the capital contribution account (Cuenta de Capital de Aportación or CUCA, unaudited), and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN, unaudited), of the Group amount to $11,136 and $11,570, 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)

(Millions of Mexican pesos)

### *(e) Capitalization (unaudited)-*

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, 2019 and 2018 was $1,671 and $1,286, respectively.

At December 31, 2019 and 2018, 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 individual Bank's capitalization information (capitalization index reported to the Central Bank and subject to its approval):

| **Capital at December 31,** | | **2019** | **2018** |
|---|---|---|---|
| **Basic capital** | | | |
| Common shares | $ | 10,877 | 10,877 |
| Prior years' results | | 31,961 | 25,463 |
| Other elements of the comprehensive income (and other reserves) | | 10,358 | 13,437 |
| **Basic capital 1 before regulatory adjustments** | | **53,196** | **49,777** |
| Regulatory adjustments: | | | |
| Investment in financial subsidiaries | | - | (2,337) |
| Deferred debits and prepayments | | (6,156) | (5,834) |
| Investments in clearing house | | (390) | (299) |
| Tax loss | | - | (440) |
| Deferred taxes, favorable items from temporary differences | | (59) | - |
| Investment in other instruments | | - | (36) |
| **Total regulatory adjustments to capital** | | **(6,605)** | **(8,946)** |
| Basic Capital 1 | | 46,591 | 40,831 |
| Basic Capital non-fundamental | | 3,578 | 3,577 |
| **Total Basic Capital** | | **50,169** | **44,408** |
| **Supplementary Capital** | | | |
| Allowable reserves that count as Complementary | | 16 | - |
| Equity instruments | | 5,048 | 5,467 |
| **Net Capital** | | **55,233** | **49,875** |
| Total risk weighted assets | $ | 403,378 | 353,102 |

(Millions of Mexican pesos)

**Equity and supplementary ratios**

| | | 2019 | 2018 |
|---|---|---|---|
| Basic Capital I Ratio | | 11.55% | 11.56% |
| Basic Capital Ratio | | 12.44% | 12.58% |
| Supplementary Capital Ratio | | 1.25% | 1.54% |
| Net Capital Ratio | | 13.69% | 14.12% |
| Specific institutional supplement | | 14.65% | 14.51% |
| Supplement capital conservation | | 2.50% | 2.50% |
| Supplement of local systemic importance (D-SIB) | | 0.60% | 0.45% |
| Tier 1 common equity available to cover supplements | | 4.55% | 4.56% |
| ** 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 | | | |
| Basic Capital I Ratio | $ | 2,171 | 1,860 |

*Total weighted assets at risk as of December 31, 2019:*

| | | Risk weighted assets | Capital requirement |
|---|---|---|---|
| Exposed positions to market risk by risk factor: | | | |
| Transactions in pesos at nominal interest rates | $ | 21,938 | 1,755 |
| Transactions with debt securities in pesos with premium and adjustable rates | | 1,513 | 121 |
| Transactions in Mexican pesos at real interest rates or denominated in UDIS | | 1,100 | 88 |
| Positions in UDIS or with returns linked to the INPC | | 25 | 2 |
| Foreign currency transactions at nominal interest rates | | 3,138 | 251 |
| Foreign currency positions or with exchange rate indexed returns | | 1,888 | 151 |
| Equity positions or with returns indexed to the price of a single share or group of shares | | 88 | 7 |
| Capital requirement for Vega impact | | 13 | 1 |
| **Total market risk, carried forward** | **$** | **29,703** | **2,376** |

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| | | Risk Weighted assets | Capital requirement |
|---|---|---|---|
| Total market risk, brought forward: | $ | 29,703 | 2,376 |
| Weighted assets subject to credit risk by risk group: | | | |
| Group I-B (weighted at 2%) | | 1 | - |
| Group III (weighted at 20%) | | 3,586 | 287 |
| Group III (weighted at 50%) | | 4,270 | 342 |
| Group IV (weighted at 20%) | | 2,032 | 163 |
| Group V (weighted at 20%) | | 233 | 19 |
| Group V (weighted at 150%) | | 3,884 | 311 |
| Group VI (weighted at 50%) | | 30,859 | 2,469 |
| Group VI (weighted at 75%) | | 18,897 | 1,512 |
| Group VI (weighted at 100%) | | 88,527 | 7,082 |
| Group VII-A (weighted at 20%) | | 10,888 | 871 |
| Group VII-A (weighted at 23%) | | 281 | 22 |
| Group VII-A (weighted at 50%) | | 7,328 | 586 |
| Group VII-A (weighted at 57.5%) | | 1,554 | 124 |
| Group VII-A (weighted at 100%) | | 158,460 | 12,677 |
| Group VIII (weighted at 115%) | | 3,140 | 251 |
| Group VIII (weighted at 150%) | | 1,800 | 144 |
| Group IX (weighted at 100%) | | 19,191 | 1,535 |
| Derivatives credit valuation adjustment | | 4,571 | 366 |
| Weighted assets subject to risk and capital requirement from operational risk | | 14,173 | 1,134 |
| Total market, credit and operational risk | $ | 403,378 | 32,271 |
| Annual average of positive net income for the past 36 months | | $ | 23,619 |

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*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 Vega impact | | 48 | 4 |
| 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 |
| Total market risk, carried forward | $ | 149,343 | 11,949 |

(Continued)

(Millions of Mexican pesos)

| | | Risk Weighted assets | Capital requirement |
|---|---|---|---|
| Total market risk, brought forward: | $ | 149,343 | 11,949 |
| Weighted assets subject to credit risk by risk group: | | | |
| 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 |
| 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 |

As of December 31, 2019, the net capital structure of the Bank of $55,233 had an increase of 10.7% compared to $49,874 of the year 2018, mainly due to the merge that took place in October 2019 with Globalcard, so the permanent investment that was held was no longer discounted.

The Bank carried out its "Capital Adequacy Assessment Exercise" during 2019, 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 May 27, 2019, the Board of Governors of the Banking Commission ratified the Bank as a multiple banking institution of local systemic importance, through Official Letter No. 131/3471/2019. Its degree of systemic importance was defined as Grade I, so it should constitute a capital supplement of 60 basis points. Based on the above, the minimum regulatory capital that the Bank must maintain is 11.10% as of December 31, 2019.

As of December 31, 2019, 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.

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## (21) Memorandum accounts-

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

At December 31, 2019 and 2018, the repurchase/resell transactions of customers are comprised as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Number of securities** | | **Fair value** | **Number of securities** | | **Fair value** |
| LD BONDESD | 139,875,656 | $ | 14,017 | 179,391,282 | $ | 17,955 |
| BI CETES | 376,004,052 | | 3,666 | 445,897,212 | | 4,338 |
| M BONOS | 35,995,338 | | 3,794 | 39,556,366 | | 3,847 |
| IS BPA | 47,904,912 | | 4,869 | 105,273,608 | | 10,746 |
| PRLV | - | | - | 43,642,293 | | 44 |
| S UDIBONO | 10,474,288 | | 6,730 | 2,653,408 | | 1,605 |
| IQ BPAG | 49,046,880 | | 4,970 | 19,548,896 | | 1,968 |
| IM BPAG | 4,604,786 | | 461 | 33,013,144 | | 3,295 |
| | | **$** | **38,507** | | **$** | **43,798** |

### *(b) Securities lending transaction on behalf of customers-*

At December 31, 2019 and 2018, the securities lending transaction on behalf of customers, are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Number of securities** | | **Fair value** | **Number of securities** | | **Fair value** |
| 1B NAFTRAC | 510,000 | $ | 22 | 410,000 | $ | 17 |
| 1 CEMEX | 828,612 | | 6 | 828,612 | | 8 |
| 1 MEXCHEM | - | | - | 70,375 | | 4 |
| 1 NEMAK | - | | - | 220,000 | | 3 |
| 1A VALE | - | | - | 12,000 | | 3 |
| 1 ALFA | 130,000 | | 2 | 130,000 | | 3 |
| 1 SIMEC | 40,000 | | 3 | 40,000 | | 2 |
| 1A FCX | 10,000 | | 2 | 10,000 | | 2 |
| 1 ALPEK | 175,000 | | 3 | 50,000 | | 1 |
| 1A INTC | 1,200 | | 1 | - | | - |
| 1A AAPL | 1,030 | | 6 | - | | - |
| 1 ALSEA | 40,000 | | 2 | - | | - |
| Subtotal, carried forward | | **$** | **47** | | **$** | **43** |

(Continued)

(Millions of Mexican pesos)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Number of securities** | | **Fair value** | **Number of securities** | | **Fair value** |
| Subtotal, brought forward: | | $ | 47 | | $ | 43 |
| 1A VALE | 12,000 | | 3 | - | | - |
| 1A NFLX | 300 | | 2 | - | | - |
| 1A FB | 1,200 | | 5 | - | | - |
| 1A BABA | 900 | | 4 | - | | - |
| 1 COST | 400 | | 2 | - | | - |
| 1 AMX | 140,000 | | 2 | - | | - |
| | | **$** | **65** | | **$** | **43** |

### *(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, 2019 and 2018, are analyzed as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Number of securities** | | **Fair value** | **Number of securities** | | **Fair value** |
| **Government:** | | | | | | |
| LD BONDESD | 70,400,128 | $ | 7,053 | 89,695,641 | $ | 8,975 |
| IS BPA | 23,952,456 | | 2,434 | 52,636,804 | | 5,372 |
| BI CETES | 223,974,779 | | 2,188 | 279,232,423 | | 2,722 |
| M BONOS | 17,997,669 | | 1,895 | 19,778,183 | | 1,924 |
| IM BPAG | 2,302,393 | | 231 | 16,506,572 | | 1,648 |
| S UDIBONO | 5,237,144 | | 3,363 | 1,326,704 | | 801 |
| IQ BPAG | 24,523,440 | | 2,485 | 9,774,448 | | 984 |
| | | | 19,649 | | | 22,426 |
| **Banking:** | | | | | | |
| PRLV | - | | - | 43,642,293 | | 44 |
| | | **$** | **19,649** | | **$** | **22,470** |

### *(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, 2019 and 2018 are recorded in memorandum accounts. The funds provided by these transactions are analyzed as shown in next page.

(Millions of Mexican pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Mutual funds | $ | 106,595 | 90,753 |
| Government securities | | 127,515 | 46,091 |
| Equity shares and other | | 173,883 | 234,296 |
| | **$** | **407,993** | **371,140** |

### *(e) Collaterals delivered in guarantee by customers-*

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2019 and 2018, are comprised as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Government securities | $ | 18,846 | 21,320 |
| Equity shares and holding companies certificates | | 59 | 47 |
| Margin credits | | 4,115 | 4,716 |
| | **$** | **23,020** | **26,083** |

Income earned from assets under management and custody during the years ended December 31, 2019 and 2018 amounted to $75 and $69, respectively.

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

As of December 31, 2019 and 2018 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:

| | | 2019 | 2018 |
|---|---|---|---|
| Private equity | **$** | - | 997 |
| Government securities | | 93,805 | 55,345 |
| Mutual funds | | - | 41,638 |
| Bank securities not issued by the Bank | | 5,908 | 20,343 |
| Others | | - | 2,488 |
| **Total** | **$** | **99,713** | **120,811** |

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

(Millions of Mexican pesos)

***Transactions for own behalf-***

***(g) Credit commitments-***

**Credit facilities:**

As of December 31, 2019 and 2018, the balance of authorized credit facilities not withdraw amounted to $221,476 and $199,768, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $25,959 and $19,772, in the same years.

**Letters of credit:**

As of December 31, 2019 and 2018, the Group has issued letters of credit for $26,355 and $29,048, respectively.

As of December 31, 2019 and 2018, the allowance created for credit letters amount to $224 and $226, 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, 2019 and 2018, is shown as follows:

| | | **2019** | **2018** |
|---|---|---|---|
| *Trust:* | | | |
| Administrative | $ | 199,475 | 188,231 |
| Guarantee | | 2,977 | 3,681 |
| | | 202,452 | 191,912 |
| Mandates | | 29,297 | 29,081 |
| | **$** | **231,749** | **220,993** |

Trust revenue accrued for the years ended December 31, 2019 and 2018 amounted $224 and $237, respectively and were recorded in the caption "Commission and fee income".

(Continued)

(Millions of Mexican pesos)

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

| | | 2019 | 2018 |
|---|---|---|---|
| Collaterals received by the entity: | | | |
| Repurchase / resell agreements: | | | |
| LD BONDESD | $ | 990 | 2,204 |
| IS BPA | | - | 1,404 |
| IM BPAG | | - | 2,298 |
| M BONOS | | - | 2,280 |
| BI CETES | | - | 500 |
| CEDE | | 450 | 400 |
| | | 1,440 | 9,086 |
| Guarantees received for derivate operations | | 411 | 2,176 |
| Equity instruments | | 419 | 94 |
| Guarantees received for credit operations | | 29,573 | 28,315 |
| | **$** | **31,843** | **39,671** |

Collaterals received and collaterals sold or delivered by the Group at December 31, 2019 and 2018 are analyzed below:

| | | 2019 | 2018 |
|---|---|---|---|
| LD BONDESD | $ | 1,310 | 19,566 |
| IS BPA | | - | 19,109 |
| M BONOS | | - | 6,128 |
| IM BPAG | | - | 3,296 |
| BI CETES | | - | 3,730 |
| IQ BPAG | | - | 1,968 |
| S UDIBONO | | - | 1,604 |
| | | 1,310 | 55,401 |
| Net equity instruments | | 47 | 45 |
| | **$** | **1,357** | **55,446** |

(Millions of Mexican pesos)

***(j) Assets in custody or under management-***

At December 31, 2019 and 2018, this caption is comprised of property and securities received in custody, guarantee or under management, are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| **Securities in custody:** | | | |
| Securities vault | $ | 114 | 103 |
| Investment transaction | | 40,195 | 2,663 |
| Management of securities | | 8,802 | 8,802 |
| Shares pledged as warranty | | 13,720 | 13,720 |
| Other | | 5,487 | 7,646 |
| | | **68,318** | **32,934** |
| **Securities under management:** | | | |
| Securities | | **315,756** | **324,282** |
| **Transactions with derivative financial instruments** | | | |
| Futures | | 22,865 | 51,387 |
| Swaps | | 619,344 | 472,944 |
| Options | | 95 | 2,355 |
| | | **642,304** | **526,686** |
| | **$** | **1,026,378** | **883,902** |

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

**(22) Additional information on operations and segments-**

***(a) Segment information-***

The Group’s operations are classified in the following segments: “Credit and services” (acceptance of deposits, granting of loans), “Treasury and trading” (securities, derivatives and currency transactions) and “Others”. For the year ended December 31, 2019 and 2018, income by segment is analyzed in the next page.

(Continued)

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| **December 31, 2019** | | **Credit and services** | **Trading and treasury** | **Other** | **Total** |
|---|---|---|---|---|---|
| Interest income, net | $ | 26,267 | (308) | (811) | 25,148 |
| Commissions and fees, net; result from trading and other operating income | | 6,123 | 641 | 1,973 | 8,737 |
| **Net operating revenues** | | **32,390** | **333** | **1,162** | **33,885** |
| Allowance for loan losses | | (6,503) | - | - | (6,503) |
| Administrative and promotional expenses | | (17,717) | (1,063) | (62) | (18,842) |
| **Income before current and deferred income taxes** | | **8,170** | **(730)** | **1,100** | **8,540** |
| Equity in the results of operations of associated companies | | - | - | - | 1 |
| Current and deferred income taxes, net | | - | - | - | (2,505) |
| **Net income** | **$** | | | | **6,036** |

| **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 | | 5,944 | 172 | 2,016 | 8,132 |
| **Net operating revenues** | | **29,497** | **1,234** | **1,541** | **32,272** |
| Allowance for loan losses | | (4,289) | - | - | (4,289) |
| Administrative and promotional expenses | | (17,195) | (990) | (1,003) | (19,188) |
| **Income before current and deferred income taxes** | | **8,013** | **244** | **538** | **8,795** |
| Equity in the results of operations of associated companies | | - | - | - | 1 |
| Current and deferred income taxes, net | | - | - | - | (1,021) |
| **Net income** | **$** | | | | **7,775** |

(Continued)

(Millions of Mexican pesos)

### *(b) Financial margin-*

For the years ended December 31, 2019 and 2018, the financial margin in the consolidated statement of income is comprised as follows:

<u>*Interest income:*</u>

Interest income for the years ended December 31, 2019 and 2018 is analyzed as follows:

| | | Credit and services | Trading and treasury | Other | Total |
|---|---|---|---|---|---|
| **December 31, 2019** | | | | | |
| Cash and cash equivalents | $ | - | 1,869 | - | 1,869 |
| Margin accounts | | - | 116 | - | 116 |
| Investment securities | | - | 5,916 | 461 | 6,377 |
| Securities on repurchase/resell agreements | | - | 845 | 24 | 869 |
| Securities lending transactions | | - | - | 15 | 15 |
| Current loan portfolio | | 42,483 | - | - | 42,483 |
| Past-due loan portfolio | | 164 | - | - | 164 |
| Loan origination fees | | 679 | - | - | 679 |
| | **$** | **43,326** | **8,746** | **500** | **52,572** |

| | | 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** |

(Millions of Mexican pesos, except otherwise stated)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2019 and 2018:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Current** | **Past-due** | **Current** | **Past-due** |
| Commercial | $ | 15,852 | 74 | 12,967 | 48 |
| Financial institutions | | 4,198 | 61 | 3,016 | - |
| Government entities | | 909 | - | 8,734 | 85 |
| Consumer | | 9,050 | 28 | 11,398 | - |
| Residential mortgages | | 13,153 | 1 | 1,040 | 3 |
| | | **43,162** | **164** | **37,155** | **136** |
| | $ | **43,326** | | **37,291** | |

For the years ended December 31, 2019 and 2018, commissions that represent a yield adjustment of 0.10%, 0.54% and 0.10%, for 2019, as well as 0.22%, 1.28% and 0.08% for 2018, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2019 and 2018, total interest income includes interest denominated in foreign currency amounting to $51 million dollars and $48 million dollars, respectively.

Loan origination fees for the years ended December 31, 2019 and 2018 are comprised as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Commercial | $ | 235 | 187 |
| Consumer | | 309 | 301 |
| Residential mortgages | | 135 | 103 |
| | **$** | **679** | **591** |

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

*Interest expense:*

Interest expense for the years ended December 31, 2019 and 2018 is comprised in the following page.

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| | | Credit and services | Trading and treasury | Others | Total |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Demand deposits | $ | (4,191) | - | - | (4,191) |
| Time deposits | | (12,093) | - | - | (12,093) |
| Debt securities issued | | - | (2,395) | - | (2,395) |
| Bank and other borrowings | | - | (2,885) | - | (2,885) |
| Subordinated debt issued | | - | (973) | - | (973) |
| Securities under repurchase/resell agreements | | 2 | (2,800) | (1,309) | (4,107) |
| Discount on debt issuance | | - | - | (2) | (2) |
| Residential mortgages loan origination fees and expenses | | - | (1) | - | (1) |
| Securities lending transactions | | (777) | - | - | (777) |
| | **$** | **(17,059)** | **(9,054)** | **(1,311)** | **(27,424)** |

| | | 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)** |

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### *(c) Commission and fee income-*

For the years ended December 31, 2019 and 2018, the commission and fee income are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Letters of credit with no refinancing | $ | 166 | 171 |
| Account handling | | 99 | 313 |
| Trust activities | | 224 | 237 |
| Fund transfers | | 161 | 145 |
| Electronic banking services | | 153 | 136 |
| Credit transactions | | 2,173 | 1,953 |
| Management services | | 1,560 | 1,668 |
| Other fees and commissions collected | | 2,622 | 2,444 |
| | $ | **7,158** | **7,067** |

### *(d) Financial intermediation income-*

For the years ended December 31, 2019 and 2018, financial intermediation income is analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| ***Unrealized valuation:*** | | | |
| Investment securities | $ | 49 | 8 |
| Derivatives: | | | |
| Trading | | (547) | (1,007) |
| Hedging | | (5) | 11 |
| Available-for-sale hedge securities | | (13) | 1 |
| Foreign currencies and metals | | (177) | 349 |
| **Unrealized valuation carried forward** | **$** | **(693)** | **(638)** |

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| | | 2019 | 2018 |
|---|---|---|---|
| **Unrealized valuation brought forward** | **$** | **(693)** | **(638)** |
| ***Realized gain or (loss):*** | | | |
| Investment securities | | (161) | (230) |
| Derivatives: | | | |
| Trading | | 629 | (44) |
| Hedging | | - | 2 |
| Available-for-sale hedge securities | | (2) | (2) |
| Foreign currencies and metals | | 828 | 1,041 |
| | | **1,294** | **767** |
| | **$** | **601** | **129** |

### *(e) Other operating income (expenses)-*

For the years ended December 31, 2019 and 2018, other operating income (expenses) is analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Dividends | $ | 99 | 180 |
| Donations | | (33) | (35) |
| Income on sale of foreclosed assets | | 131 | 131 |
| Income from securitization | | - | 16 |
| Taxation | | - | 4 |
| Other recoveries | | 5 | 2 |
| Armored transportation fees | | - | 16 |
| Loans employees | | 4 | 131 |
| Food coupons | | 63 | 124 |
| Loan write-offs and losses | | (520) | (216) |
| Others, mainly support services | | 2,360 | 1,770 |
| | **$** | **2,109** | **2,123** |

(Continued)

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***(f) Financial ratios (unaudited)-***

The following are the main quarterly financial ratios of the Group years ended at 2019 and 2018:

| | 2019 | | | |
|---|---|---|---|---|
| | **Fourth** | **Third** | **Second** | **First** |
| Delinquency rate | 2.45% | 2.32% | 2.33% | 2.28% |
| Coverage of past-due loan portfolio rate | 119.3% | 122.2% | 120.6% | 128.6% |
| Operating efficiency (administrative and promotional expenses / average total assets) | 3.5% | 3.4% | 3.2% | 3.5% |
| ROE (annualized net income for the quarter / average stockholders' equity) | 8.9% | 11.6% | 14.0% | 9.0% |
| ROA (annualized net income for the quarter / average total assets) | 0.9% | 1.2% | 1.4% | 0.9% |
| Net capital / Assets at credit risk | 15.36%* | 15.01% | 15.57% | 15.14% |
| Net capital / Assets at credit, market and operational | 13.69%* | 13.30% | 13.88% | 13.58% |
| Liquidity (liquid assets / liquid liabilities) | 71.6% | 59.9% | 62.4% | 60.9% |
| Financial margin after allowance for loan losses / Average earning assets | 3.3% | 3.7% | 4.1% | 3.2% |

| | 2018 | | | |
|---|---|---|---|---|
| | **Fourth** | **Third** | **Second** | **First** |
| Delinquency rate | 2.27% | 2.24% | 2.16% | 2.30% |
| Coverage of past-due loan portfolio rate | 123.4% | 128.3% | 133.2% | 137.2% |
| Operating efficiency (administrative and promotional expenses / average total assets) | 4.7% | 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% |

*For approval of the Central Bank

(Continued)

## (23) 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, 2019 and 2018, amounted to $1,010 and $1,057, 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 responsibilities for the losses of each and every one of these financial entities.

## (24) Subsequent event-

On January 31, 2020, the Bank sold a written off mortgage loans to a non-related party the face value of such loan portfolios was $181, the income received and the book value gain of such loan portfolio was $38. The result of this transaction was recorded as recoveries in the statement of income within the caption "Allowance for loan losses".

## (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.

The Board of Directors delegates to the Risk Committee and the Comprehensive Risk Management Unit (UAIR), the implementation of risk policies and the establishment of specific limits by risk factor, as well as the responsibility to implement the procedures for risk measurement, administration and control, in accordance with established policies.

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 7 managements designed to monitor and reduce the risks to which the institution is exposed; this in order to ensure an adequate 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 different 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 BNS.

(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 Group'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.

(Millions of Mexican pesos)

Value-at-risk (VaR)

The VaR is an estimate of the potential loss of value within a specific level of statistical, 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 daytime 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 2019, average global VaR was $22.18 and at December 31, 2018, the global VaR was $21.80.

During the fourth quarter of 2019, the average one-day VaR, broken down by the Group's risk factors is as follows:

| | **December 2019** | **December 2018** |
|---|---|---|
| **Risk factors:** | **Average VaR 1 day** | **Average VaR 1 day** |
| Interest rates | 16.45 | 2.39 |
| Equity | 20.57 | 2.24 |
| Foreign exchange rates | 1.84 | 0.92 |
| Total | 22.18 | 3.20 |

The distribution of the exposure to market risk (position vs. value at risk) of the trading portfolio in December 2019 is as follows:

| | | **Position** | | **VaR** | |
|---|---|---|---|---|---|
| | | **Average** | **Closing** | **Average** | **Closing** |
| Money market | $ | 40,777 | 45,074 | | |
| SC Swaps (MXN / USD) | | 618,476 | 615,700 | | |
| CC Swap | | 26,128 | 26,932 | | |
| Caps & Floors (MXN / USD) | | 62,963 | 61,695 | | |
| Derivatives market | | | | | |
| Market portfolio of interest rates and interest rate derivatives | $ | 748,344 | 749,401 | 12.16 | 16.45 |
| Equity shares | $ | 28 | 24 | | |
| Equity derivatives | | 8,172 | 7,851 | | |
| Equity shares portfolio | $ | 8,200 | 7,875 | 1.07 | 1.84 |

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| | | Position | | VaR | |
|---|---|---|---|---|---|
| | | **Average** | **Closing** | **Average** | **Closing** |
| Spot FX | | 94 | 47 | | |
| FX Derivatives | | 19,872 | 16,626 | | |
| FX FWD | | 14 | 14 | | |
| FX Options | | 19,857 | 16,612 | | |
| Foreign exchange currency derivatives portfolio | $ | 19,965 | 16,673 | 20.62 | 20.57 |

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 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 portfolio | | 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 | $ | 57,167 | 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)

(Continued)

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 2019 shows a maximum loss of $529.55, which compared with the $130 CAD (1,889 MXN) 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 2019 show acceptable levels under the BIS approach.

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 2019, 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.

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.

(Continued)

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%).

*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.

(Continued)

(Millions of Mexican pesos)

The following table shows the sensitivity of one bp at December 31, 2019 and 2018:

| **Sensibility 1pb** | | **2019** | **2018** |
|---|---|---|---|
| Money market | $ | 0.952 | 0.293 |
| SC Swaps (MXN / USD) | | (0.176) | 0.060 |
| CC Swaps | | (0.181) | 0.010 |
| Caps & floors (MXN / USD) | | 0.005 | 0.027 |
| Derivatives market | | 0.000 | 0.097 |
| Interest rate market and rate derivatives portfolio | | 0.776 | 0.390 |

Includes the Treasury position

At December 31, 2019, the Group presents sensitivity in the interest rate portfolio of $0.776.

*Equity shares and IPC derivatives sensitivities*

The following table shows the sensitivity (Delta) at the end of December 2019 and 2018:

| **Delta** | | **December 2019** | **December 2018** |
|---|---|---|---|
| Naftrac | $ | 296.847 | 85.076 |
| IPC Futures | | (306.868) | (61.790) |
| Warrants | | 14.078 | (32.780) |
| **Total** | | **4.057** | **(9.500)** |

At the end of December 2019, the Brokerage Firm presents sensitivity Open Delta of (4.94) 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 2019 is shown as follows.

| ***Delta*** | **Average 2019** | **Maximum 2019** | **Minimum 2019** |
|---|---|---|---|
| Shares | 0.198 | 0.332 | 0.015 |
| Warrants | 10.522 | 19.385 | 3.858 |
| **Total** | **10.721** | **19.717** | **3.872** |

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The figures for the fourth quarter of 2018 are presented below:

| ***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 following table presents the sensitivity measurements for non-linear instruments at the end of December 2019, 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** |
| AMZN.USM | 60.341 | (64.144) | 0.000 | 0.000 | (3.803) | 0.000 |
| Contingent Notional | 0.000 | (5.194) | 0.000 | 0.000 | (5.194) | 0.000 |
| CVS.USM | 11.199 | (11.199) | 0.000 | 0.000 | 0.000 | 0.000 |
| FB.USM | 3.712 | (3.712) | 0.000 | 0.000 | 0.000 | 0.000 |
| MEXBOL.INDX | 14.078 | 0.000 | (0.058) | 0.000 | 14.078 | (0.058) |
| | (306.868) | 0.000 | 0.000 | 0.000 | (306.868) | 0.000 |
| | 296.847 | 0.000 | 0.000 | 0.000 | 296.847 | 0.000 |
| MEXEEM.USM | 236.205 | (236.205) | 0.000 | 0.000 | 0.000 | 0.000 |
| MEXIXM.INDX | 30.686 | (30.686) | 0.000 | 0.000 | 0.000 | 0.000 |
| MEXSX5E.INDX | 479.217 | (479.217) | 0.000 | 0.000 | 0.000 | 0.000 |
| MEXTSX60.INDX | 150.793 | (150.793) | 0.000 | 0.000 | 0.000 | 0.001 |
| MXNNKY.INDX | 24.725 | (24.725) | 0.000 | 0.000 | 0.000 | 0.000 |
| NFLX.USM | 14.522 | (14.522) | 0.000 | 0.000 | 0.000 | 0.000 |
| **Total** | **1,015.457** | **(1,020.396)** | **(0.057)** | **0.001** | **(4.940)** | **(0.056)** |

*Sensitivities for warrants and capital options, "Greek"*

| Greek | Delta | Gama | Vega | Dividend risk | Rho |
|---|---|---|---|---|---|
| Total | (4.940) | - | (0.056) | - | - |

(Continued)

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

The following table presents the sensitivity at the end of December 2019 and 2018:

| **Sensibility 1 pb** | | **2019** | **2018** |
|---|---|---|---|
| Sport FX | $ | 9.432 | - |
| FX FWD | | 0.000 | - |
| FX Options | | 0.000 | (0.001) |
| FX Deivatives | | 0.000 | (0.001) |
| **Exchange and currency derivatives portfolio** | | **9.432** | **(0.001)** |

Treasury position are included

As of December 31, 2019, a change in the sensitivity to the Exchange rate was recorded at $9.43.

As of December 31, 2019 and 2018, the liquidating trusts of own and third-party accounts maintain positions in contracts in MEXDER; the market risk of these positions for the own account is monitored through the limit called "Pledging of Assets" approved by the Board of Scotia Inverlat Derivados.

The use of this own account limit as of December 31, 2019 and 2018, respectively, is as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | Exposure | Limit | Exposure | Limit |
| Brokerage firm | $ 21 | | 5 | |
| Bank | 597 | | 585 | |
| Total | 619 | 2,000 | 589 | 2,000 |
| US Exchange (USD) | - | 0.368 | - | 0.368 |

This limit monitors the market risk inherent in these operations, since their use is measured through the minimum initial contributions (AIM´s) requested by the Clearing House (Asigna).

For the third party position, each client that operates within the trust for a third party account, has an operating limit which is monitored on a daily basis, at the end of December 2019 and 2018, the exposure in contracts and the total AIM's of the third party account is summarized as shown in next page.

(Continued)

(Millions of Mexican pesos)

| | 2019 | 2018 |
|---|---|---|
| | Exposure | Exposure |
| AIM's | 3,554 | 6,409 |
| Long Futures(#) | 39,436 | 51,729 |
| Futures Short (#) | 92,493 | 167,783 |
| Long Options (#) | 2,526,815 | 2,124,213 |
| Short Options (#) | 3,581,288 | 2,874,475 |

### *(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.

(Continued)

(Millions of Mexican pesos)

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). The liquidity gaps are estimated under corporate guidelines that consider normal market conditions and are different from those gaps calculated for estimating the liquidity coverage ratio, since the last include stress factors for both 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 2019 and the annual average of 2019 of the Group:

| | December 2019 | Average 2019 |
|---|---|---|
| 30-day cumulative gap | $ 3,302 | 2,514 |

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

| | December 2019 | Average 2019 |
|---|---|---|
| 30-day cumulative gap | $ 3,361 | 2,577 |

The cumulative liquidity gaps at the closing of December 2019 and the annual average of 2018 of Brokerage Firm:

| | December 2019 | Average 2019 |
|---|---|---|
| 30-day cumulative gap | $ - | - |

The cumulative liquidity gaps at the closing of December 2019 and the annual average of 2018 of Crédito Familiar:

| | December 2019 | Average 2019 |
|---|---|---|
| 30-day cumulative gap | $ (58) | (63) |

(Millions of Mexican pesos)

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.

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 2019, is shown as follows:

| | **2019** | |
|---|---|---|
| **Economic value (+100pbs)** | **December** | **Average** |
| Group[(1)] | (1,040) | (419) |
| Bank | (1,026) | (407) |
| Crédito Familiar | (12) | (13) |
| Brokerage Firm | (2) | (0.71) |

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| **Margin sensitivity (+100pbs)** | **December** | **Average** |
|---|---|---|
| Group[(1)] | 477 | 593 |
| Bank | 469 | 562 |
| Crédito Familiar | 0.77 | 1 |
| Brokerage Firm | 7 | 6 |

(1) Include Bank, Brokerage Firm, Fund Management and Crédito Familiar. Sensitivities based on the interest rate model approved by the Risk Committee in November 2019.

*Treatment for securities available for sale*- Below is the valued position for the Financial Group's available for sale investments at December 2019 and annual average:

| | **2019** | |
|---|---|---|
| | **December** | **Average** |
| Bank | $ 13,675 | 9,341 |
| Corporate | 613 | 425 |
| Government | 26,083 | 28,388 |
| **Total** | **$ 40,371** | **38,154** |

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, 2019, the Financial Group has liquid assets for $47,631.

At the closing of December 2019, and average 2019, 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 2019, and average 2019, the Brokerage 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)

(Millions of Mexican pesos)

Above is shown 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 2019 Notional | December 2018 Notional |
|---|---|---|---|
| **Interest rate swaps paid at fixed rate (cash flows)** | $ | **23,175** | **26,885** |
| 0y - 3y | | 14,915 | 3,660 |
| 3y - 5y | | 5,260 | 18,225 |
| 5y - 10y | | 3,000 | 5,000 |
| **Interest rate swaps paid at floating rate (cash flows)** | | **0** | **4,090** |
| 0y - 3y | | 0 | 4,090 |
| **Interest rate swaps paid at fixed rate (fair value)** | | **18,883** | **12,008** |
| 0y - 3y | | 6,462 | 7,370 |
| 3y - 5y | | 10,224 | 6,712 |
| 5y - 10y | | 2,197 | 1,796 |
| **Interest rate swaps paid at fixed rate (fair value in USD)** | | **185** | **61** |
| 0y - 3y | | 19 | 61 |
| 3y - 5y | | 155 | 0 |
| 5y - 10y | | 12 | 0 |
| **CCIRS paid at fixed rate (fair value in USD)** | | **44** | **10** |
| 0y - 3y | $ | 10 | 10 |
| 3y - 5y | | 34 | 0 |

**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 2019 and the average of the fourth quarter of 2019 are shown in the following page.

(Continued)

| | | December average | 2018 average |
|---|---|---|---|
| Downgrade (3 levels) | $ | 1,194 | 1,417 |

### *(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 in loan portfolio, securities portfolio, transactions in derivatives, etc.

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 the management of credit risk, the information is extracted from the various applications and systems available to the Bank. It is also through specialized systems where estimates are made, such as the expected loss, unexpected and potential future exposure for the counterparty credit risk.

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. 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.

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) 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.

*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, 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)

(Millions of Mexican pesos)

*Methodology to identify, quantify, manage and control credit risk*- 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. 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, 2019 the portfolio is comprised as follows:

| Grupo | Appendix CUB | % Total Portfolio |
|---|---|---|
| States and Municipalities | Appendix 18 | 1.68% |
| Investment Projects with own source of payment | Appendix 19 | 1.40% |
| Financial Sector Entities | Appendix 20 | 8.93% |
| Corporations and Individuals with business activities with income or sales less than $14 UDIS * | Appendix 21 | 21.36% |
| Corporations and Individuals with business activities with income or sales greater than $14 UDIS | Appendix 22 | 66.63% |

* 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, used to control rating systems, 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.

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

*Reserve calculation* - With regard to the allowances for loan losses for borrowers related to consumer and mortgage portfolios, in addition to the commercial loan portfolio, the Bank 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.

**Methodological information**

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model carried out in a specialized, internal, robust and institutional use tool.

(Continued)

(Millions of Mexican pesos)

- The expected loss represents the amount that the Bank expects to lose during the next twelve months due to defaults given the characteristics of its portfolios. It is equals the result of multiplying the exposure at default (ED), the probability of default (PD) and the loss given default (LGD) of credit exposures.

- The unexpected loss is a measure of dispersion around the expected loss. Represents the economic capital necessary to keep the Bank solvent in the event of a large adverse event that impacts credit portfolios. Additionally, tests are carried out under extreme conditions to determine its impact on the expected and unexpected loss of the portfolio.

As of December 31, 2019 and 2018 and in average for the fourth quarter of 2018, the expected and unexpected loss over the Group's total portfolio, was as follows:

| **Metrics(1)** | | **2019** | | **2018** |
|---|---|---|---|---|
| | | **Closing** | **Average** | **Closing** |
| Expected loss | | | | |
| Bank(2) | $ | 5,023 | 4,747 | 3,723 |
| Crédito Familiar | | 292 | 292 | 291 |
| Globalcard | | - | - | 632 |
| | $ | 5,315 | 5,039 | 4,646 |
| Non expected loss | | | | |
| Bank(2) | $ | 21,836 | 21,352 | 19,976 |
| Crédito Familiar | | 756 | 817 | 871 |
| Globalcard | | - | - | 1,175 |
| | $ | 22,592 | 22,169 | 22,022 |

Only includes traditional loan portfolio (commercial and retail).

(1) Excludes past due portfolio

(2) As of October 1, 2019, includes the credit card portfolio acquired through the merger of Globalcard with Banco

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*Exposure of the loan portfolio by type of portfolio*[1] - As of December 31, 2019 and 2018, and in average for the fourth quarter of 2019, the exposure of the loan portfolio corresponds to the following:

| Total exposure (current more past due) loan portfolio | | December 2019 | Average | December 2018 |
|---|---|---|---|---|
| Mortgage loans | $ | 137,345 | 135,584 | 123,327 |
| Auto loans | | 25,627 | 25,433 | 24,956 |
| Non-revolving personal loans[1] | | 5,238 | 5,233 | 4,494 |
| Revolving personal loans[2] | | 15,639 | 15,818 | 3,037 |
| Commercial loans[3] | | 256,237 | 252,454 | 239,959 |
| **Total Bank[4]** | **$** | **440,086** | **434,522** | **395,773** |
| Crédito Familiar | | 3,859 | 12,214 | 3,393 |
| Globalcard[5] | | - | - | 10,986 |
| **Total Group** | **$** | **443,945** | **446,736** | **410,152** |

(1) Incorporates non-revolving personal loans (payroll and open market), Scotialine (SL) and credit card (TC) restructurings.

(2) Includes SL and TC (without restructuring): TC It was acquired by Scotiabank Inverlat as of October 1, 2019 as a result of its merger with Globalcard.

(3) Includes loans from Commercial portfolio, States and Municipalities, Federal Government, Investment Projects with own payment sources, Financial Institutions, Credit Letters, PyME and Konfio portfolio.

(4) Mortgages + Auto loans + Non-revolving consumer loans + SL + TC + Commercial Portfolio)

(5) Includes credit card a credit card restructures.

*Risk Parameters (PD, LGD and ED) of the credit portfolio (December 2019)*

| Portfolio | | Exposure to default (EI)[1] | Probability of default (PI)[2] | Loss given default (SP)[2] |
|---|---|---|---|---|
| Mortgage loans | $ | 128,949 | 1.5% | 18.3% |
| Infonavit (HITO) | | 4,491 | 8.7% | 24.9% |
| Non-revolving consumer loans | | 29,922 | 3.0% | 71.8% |
| Scotia Line (Revolving) | | 6,843 | 7.8% | 72.1% |
| Credit card[3] | | 25,257 | 7.7% | 72.9% |
| Commercial Portfolio[4] | | 258,461 | 3.0% | 43.0% |
| Investment Projects[5] | | 3,299 | 1.1% | 45% |
| Crédito Familiar | | 3,481 | 11.8% | 71% |

1 For the purposes of this document, both the balance of Scotia Line corresponding to restructuring ($34) and the balance corresponding to restructuring of Credit Card ($121) are presented in the Non-Revolving Personal Loans portfolio. Exposures associated with the portfolios HITO (mortgage portfolio originated by INFONAVIT but funded by the Bank) and KONFIO (acquired SME loans) are incorporated.

(Continued)

(Millions of Mexican pesos)

(1) Determined under regulatory methodology. (Exclude nonperforming loans, include PyME and Konfio Portfolio).

(2) Weighted risk parameter from exposure to default. (Exclude nonperforming loans).

(3) As of October 1, 2019, the credit card portfolio was acquired by Scotiabank Inverlat as of October 1, 2019 as a result of its merge with Globalcard.

(4) Excludes Investment Projects.

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

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 are shown as follows:

**Credit risk management information for the portfolio**

Total amount of gross exposures to credit risk at the end of December 2019 broken down by major types of portfolio, is shown as follows:

| **Bank**<br>**Portfolio Total Exposures (Segment)** | | **Exposures (disposed amount) December 2019** |
|---|---|---|
| Government | $ | 10,195 |
| Corporate Baking | | 146,551 |
| Enterprise Banking | | 95,726 |
| Small and Medium-sized entities (PyME for its acronym in Spanish) | | 3,730 |
| Consumer loans (Retail) | | 34 |
| **Total** | **$** | **256,236** |

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 and credit cards for $121 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, auto loans, personal loans, overdrafts, credit card and Scotialine restructures (the total amount of Scotialine considering restructurings at the close of December 2019 is $3,557).

(Millions of Mexican pesos)

| **Bank**<br>**Loan portfolio** | | **Pesos** | **Dollars** | **Total** |
|---|---|---|---|---|
| Mortgage loans[1] | $ | 137,247 | 98 | 137,345 |
| Non-revolving loan portfolio[2] | | 30,865 | - | 30,865 |
| Revolving loan portfolio | | 15,639 | - | 15,639 |

(1) Includes the portfolio corresponding to FOVI loans.

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

Crédito Familiar

| **Crédito Familiar**<br>**Financial information**<br>**Distribution by product of loan portfolio** | | **Pesos** | **Dollars translated** | **Total** |
|---|---|---|---|---|
| Non-revolving loans | $ | 3,859 | - | 3,859 |

## a. 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 as follows:

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 | $ | 27,706 | 4 | - | - | _ | 27,710 | 207 | (2) | 3 |
| Consumer | | 28,050 | 102 | 62 | 331 | 650 | 28,545 | 607 | 125 | 173 |
| Financial Intermediaries and Investment-Others | | 13,685 | 2 | 17 | 82 | 131 | 13,786 | 275 | (49) | 494 |
| Food and beverages | | 24,885 | 2 | 241 | 1,066 | 1445 | 26,194 | 1,088 | 21 | 454 |
| Oil & gas | | 16,855 | 3 | 0 | 24 | 25 | 16,883 | 199 | (22) | 312 |
| Other sectors | | 140,167 | 235 | 405 | 2,313 | 3,623 | 143,120 | 3,495 | 278 | 389 |
| **Total** | **$** | **251,348** | **348** | **725** | **3,816** | **5,874** | **256,238** | **5,871** | **351** | |

(1) Does not include additional allowance

(Continued)

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

**b. 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 risks are shown as follows:

**Bank**
**Geographical distribution by region - Commercial loan portfolio**
(Figures in million of Mexican pesos)

| | Loan portfolio | | Non Performing (SAM) | | | |
|---|---|---|---|---|---|---|
| Region | Current | Past-due | Current | Past-due | Total exposure December 2019 | Allowance (1) |
| Central | $ 16,873 | - | 145 | 529 | 17,547 | 561 |
| Metropolitan | 186,425 | 14 | 98 | 1,189 | 187,727 | 2,802 |
| North | 30,972 | 16 | 302 | 960 | 32,250 | 1,191 |
| South | 13,599 | 31 | 180 | 1,138 | 14,948 | 1,057 |
| **Total** | **$ 247,869** | **61** | **725** | **3,816** | **252,472** | **5,611** |

(1) Does not include additional allowance

(2) Not included (Total Exposure of $3,730, or Consumer (Retail) for $34).

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Retail loan portfolio

The geographical distribution of the exposures in the main states and main exposures at December 31, 2019, are as follows:

**Bank**
**Financial information by geographical distribution of the loan portfolio**

| Region | | Mortgage loans [1] | Non revolving portfolio [2] | Revolving portfolio | Total |
|---|---|---|---|---|---|
| Mexico City | $ | 56,191 | 25,924 | 3,944 | 86,059 |
| Estado de Mexico | | 13,216 | 291 | 1,936 | 15,443 |
| Jalisco | | 11,082 | 280 | 1,030 | 12,392 |
| Nuevo León | | 8,721 | 310 | 922 | 9,953 |
| Querétaro | | 7,757 | 128 | 163 | 8,048 |
| Chihuahua | | 4,023 | 302 | 593 | 4,918 |
| Coahuila de Zaragoza | | 3,983 | 375 | 576 | 4,934 |
| Guanajuato | | 3,091 | 295 | 619 | 4,005 |
| Veracruz de Ignacio de la Llave | | 3,202 | 113 | 425 | 3,740 |
| Puebla | | 2,777 | 239 | 452 | 3,468 |
| Other states | | 23,302 | 2,608 | 4,979 | 30,889 |
| **Total** | **$** | **137,345** | **30,865** | **15,639** | **183,849** |

(1) Includes the portfolio corresponding to FOVI loans.

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

*Exist a difference of 0.00001% between the reported amount in the financial statements and the reported in the bullet which is under review.

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Geographical distribution of non-performing loans

Scotiabank
Financial information by geographical distribution of non performing loans

| | Mortgage portfolio [1] | | Non revolving loans [2] | | Revolving loans | |
|---|---|---|---|---|---|---|
| Region | Balance | Allowance | Balance | Allowance | Balance | Allowance |
| Mexico City | $ 845 | 255 | 714 | 559 | 212 | 162 |
| Estado de Mexico | 339 | 104 | 12 | 9 | 57 | 43 |
| Jalisco | 350 | 98 | 27 | 22 | 122 | 95 |
| Nuevo León | 260 | 97 | 13 | 10 | 50 | 37 |
| Querétaro | 229 | 53 | 11 | 9 | 49 | 38 |
| Chihuahua | 155 | 47 | 13 | 10 | 34 | 25 |
| Coahuila de Zaragoza | 113 | 41 | 10 | 8 | 34 | 26 |
| Guanajuato | 146 | 44 | 3 | 2 | 8 | 6 |
| Veracruz de Ignacio de la Llave | 119 | 38 | 16 | 13 | 35 | 26 |
| Puebla | 116 | 33 | 8 | 6 | 24 | 18 |
| Other states | 1,045 | 321 | 116 | 90 | 336 | 256 |
| **Total** | **$ 3,717** | **1,131** | **943** | **738** | **961** | **732** |

(1) Excludes $80.6MM 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.

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**Credito Familiar**

The geographical distribution of the exposures in the main states and main exposures to December 31, 2019, are as follows:

Financial information by geographical distribution of the loan portfolio

| Region | | Non revolving loans |
|---|---|---|
| Mexico City | $ | 1,012,334 |
| Estado de Mexico | | 583,466 |
| Jalisco | | 243,387 |
| Nuevo León | | 183,814 |
| Baja California Norte | | 169,168 |
| Tamaulipas | | 149,585 |
| Chihuahua | | 135,548 |
| Puebla | | 130,897 |
| Veracruz de Ignacio de la Llave | | 118,171 |
| Hidalgo | | 106,475 |
| Other states | | 1,025,906 |
| **Total** | **$** | **3,858,751** |

**Crédito Familiar**

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

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(Millions of Mexican pesos)

Financial information by geographical distribution of non-performing loans

| | | Non revolving loans | |
|---|---|---|---|
| **Region** | | **Balance** | **Allowance** |
| Mexico City | $ | 84,418 | 63,064 |
| Estado de Mexico | | 55,848 | 41,893 |
| Tamaulipas | | 19,317 | 14,283 |
| Nuevo León | | 18,741 | 14,026 |
| Jalisco | | 16,848 | 12,801 |
| Baja California Norte | | 19,509 | 14,480 |
| Chihuahua | | 16,991 | 12,746 |
| Veracruz de Ignacio de la Llave | | 13,443 | 9,942 |
| Guanajuato | | 11,966 | 9,035 |
| Sonora | | 10,091 | 7,566 |
| Sinaloa | | 8,393 | 6,246 |
| Puebla | | 6,963 | 5,230 |
| Guerrero | | 8,769 | 6,573 |
| Morelos | | 7,940 | 5,922 |
| Michoacán | | 9,439 | 7,009 |
| Hidalgo | | 6,837 | 5,127 |
| Coahuila | | 8,043 | 6,094 |
| San Luis Potosí | | 7,086 | 5,339 |
| Querétaro | | 5,974 | 4,498 |
| Oaxaca | | 5,218 | 3,863 |
| Tabasco | | 5,071 | 3,838 |
| Campeche | | 4,960 | 3,777 |
| Colima | | 4,279 | 3,161 |
| Durango | | 5,212 | 3,945 |
| Yucatán | | 4,803 | 3,656 |
| Nayarit | | 2,465 | 1,822 |
| Zacatecas | | 2,101 | 1,581 |
| Quintana Roo | | 2,009 | 1,525 |
| Aguascalientes | | 1,988 | 1,460 |
| Baja California Sur | | 1,496 | 1,118 |
| Tlaxcala | | 1,651 | 1,253 |
| **Total** | **$** | **377,869** | **282,873** |

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(Millions of Mexican pesos)

**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.

(Continued)

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**Breakdown of the current and past-due portfolio as of December 2019 by remaining term and loan type.**

Commercial loan portfolio

Bank
Current and past-due loan portfolio by remaining term

| Term | | Current | Past-due | Total |
|---|---|---|---|---|
| Past-due loans | $ | - | 4,163 | 4,163 |
| Up to 1 year | | 110,073 | 0 | 110,073 |
| 1 to 2 years | | 26,729 | 0 | 26,729 |
| 2 to 3 years | | 26,323 | 0 | 26,323 |
| 3 to 4 years | | 28,664 | 0 | 28,664 |
| 4 to 5 years | | 32,832 | 0 | 32,832 |
| Over 5 years | | 27,453 | 0 | 27,453 |
| **Total** | **$** | **252,074** | **4,163** | **256,237** |

Retail loans

**Bank**
**Financial information for current loan portfolio by remaining term**
**(Average term)**

| | Months | Years |
|---|---|---|
| Mortgage portfolio (1) | 174 | 15 |
| Non-revolving loans (2) | 32 | 3 |
| Revolving loans | - | - |

(1) Includes the portfolio corresponding to FOVI.

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

**Bank**
**Financial information for past-due loan portfolio by remaining term**
**(Average term)**

| | Months | Years |
|---|---|---|
| Mortgage portfolio (1) | 149 | 12 |
| Non-revolving loans (2) | 25 | 2 |
| Revolving loans | - | - |

(1) Includes the portfolio corresponding to FOVI.

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

(Continued)

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**Bank**
**Financial information total loan portfolio by remaining term**
**(Average term)**

| | Months | Years |
|---|---|---|
| Mortgage portfolio [1] | 173 | 14 |
| Non-revolving loans [2] | 32 | 3 |
| Revolving loans | - | - |

(1) Includes the portfolio corresponding to FOVI.

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

**Exposures distribution of the current and past due portfolio by product**

Retail loans

**Bank**
**Financial Information loan portfolio status**
As of December 31, 2019

| | | Current | Past-due | Total |
|---|---|---|---|---|
| Mortgage portfolio [1] | $ | 133,629 | 3,717 | 137,346 |
| Non-revolving loans [2] | | 29,922 | 943 | 30,865 |
| Revolving loans | | 14,678 | 961 | 15,639 |

(1) Includes the portfolio corresponding to FOVI.

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

**Crédito Familiar**
**Financial information loan portfolio status**
As of December 31, 2019

| | | Current | Past-due | Total |
|---|---|---|---|---|
| Non-revolving loans | $ | 3,481 | 378 | 3,859 |

**Financial information for current loan portfolio by remaining term**
**(Average term)**

| | Months | Years |
|---|---|---|
| Non-revolving loans | 27 | 2 |

(Continued)

(Millions of Mexican pesos)

**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 |

**c. List of credit risk allowances.**

The list of credit risk allowances classified according to Article 129 is as follows as of December 2019:

Commercial loans

| Score | Allowance[1] |
|---|---|
| A1 | 835 |
| A2 | 803 |
| B1 | 313 |
| B2 | 76 |
| B3 | 314 |
| C1 | 142 |
| C2 | 161 |
| D | 775 |
| E | 2,451 |
| **Total** | **5,870** |

(1) Not included additional allowances

(Millions of Mexican pesos)

**Bank**
**Allowance for loan losses by risk grading**
As of December 31, 2019

| | | Mortgage loans [1] | Non-revolving loans [2] | Revolving loans | Total |
|---|---|---|---|---|---|
| A-1 | $ | 216 | 128 | 447 | 791 |
| A-2 | | 11 | 50 | 262 | 323 |
| B-1 | | 10 | 55 | 99 | 164 |
| B-2 | | 28 | 80 | 58 | 166 |
| B-3 | | 45 | 24 | 62 | 131 |
| C-1 | | 91 | 38 | 141 | 270 |
| C-2 | | 151 | 46 | 218 | 415 |
| D | | 585 | 80 | 659 | 1,324 |
| E | | 472 | 878 | 647 | 1,997 |
| **Total** | **$** | **1,609** | **1,379** | **2,593** | **5,581** |

(1) Excludes $80.6 MM 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**
As of December 31, 2019

| | | Non-revolving loans |
|---|---|---|
| A-1 | $ | 7,320 |
| A-2 | | 16,009 |
| B-1 | | 15,947 |
| B-2 | | 10,162 |
| B-3 | | 10,711 |
| C-1 | | 24,684 |
| C-2 | | 68,307 |
| D | | 60,306 |
| E | | 361,971 |
| **Total** | **$** | **575,417** |

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**d. Non-performing loans at December 2019: Allowances, variations, geographical distribution and write-offs:**

Commercial loans

| **Scotiabank**<br>**Allowance for loan losses – Non-performing loans**<br>**(Figures in millions of pesos at December 31, 2018)** | **Amount** |
|---|---|
| Beginning balance of allowance September 2019 | **$ 5,599** |
| Increase in provision | 612 |
| Increase in provision (SMEs) | 2 |
| Debits in results | (255) |
| Due to FX changes | (28) |
| Reserve cancellation | **-** |
| Write-offs, Dations and partial write-offs | (227) |
| Final balance of allowance December 2019 | **$ 5,958** |
| Loan recovery | **-** |

* Includes additional allowance (past due interest and other)

Retail loans

| **Bank**<br>**Variation in allowance for loan losses** | **December 2018** | **December 2019** | **Variation** |
|---|---|---|---|
| Mortgage portfolio [1] | 1,260 | 1,609 | 349 |
| Non- revolving loans [2] | 1,136 | 1,379 | 243 |
| Revolving loans | 426 | 2,593 | 2,167 |

(1) Excludes $80.6 MM corresponding to FOVI allowance for loan losses.

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

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| **Scotiabank Variations in allowance for non-performing loans* (Figures in millions of pesos at December 31, 2018)** | **Non-revolving loans[2]** | **Revolving loans** | **Mortgage portfolio[1]** |
|---|---|---|---|
| **Allowance at September 30, 2019** | **1,014** | **546** | **106** |
| Release[3] | (110) | (286) | (53) |
| Transfer from current to past-due portfolio | 64 | 167 | 16 |
| Transfer from past-due to current portfolio | (86) | (42) | (8) |
| Decreases in the balance of reserves (includes write-offs and debt forgiveness) | (16) | (9) | (1) |
| Increases in the balance of reserves | 265 | 362 | 672 |
| **Allowance at December 31, 2019** | **1,131** | **738** | **732** |

(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.

| **Scotiabank Variations in allowance for non-performing loans* (Figures in millions of pesos)** | **Mortgage portfolio[1]** | **Non-revolving loans [2]** | **Revolving loans** |
|---|---|---|---|
| **Allowance at December 31, 2018** | **714** | **508** | **106** |
| Release[3] | (257) | (439) | (97) |
| Transfer from current to past-due portfolio | 50 | 41 | 14 |
| Transfer from past-due to current portfolio | (98) | (30) | (7) |
| Decreases in the balance of reserves (includes write-offs and debt forgiveness) | (9) | (9) | (1) |
| Increases in the balance of reserves | 731 | 667 | 717 |
| **Allowance at December 31, 2019** | **1,131** | **738** | **732** |

(1) Includes the portfolio corresponding to FOVI.

(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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(Millions of Mexican pesos)

| **Crédito Familiar**<br>**Variation in allowance for loan losses**<br>**(Figures in millions of pesos)** | **December 2018** | **December 2019** | **Variation** |
|---|---|---|---|
| Non-revolving loans | 683,231 | 575,417 | (107,814) |

| **Crédito Familiar**<br>**Variation in allowance for loan losses**<br>**(Figures in millions of pesos)** | **Non-revolving loans** |
|---|---|
| Allowance at September 30, 2019 | **278,386** |
| Release | (146,573) |
| Transfer from current to past-due portfolio | 137,123 |
| Transfer from past-due to current portfolio | (1,005) |
| Decreases in the balance of reserves | (7,294) |
| Increases in the balance of reserves | 22,236 |
| Allowance at December 31, 2019 | **282,873** |

The recovery of written off loans fully impaired and recorded in income accounts at the end of December 2019 for non-revolving portfolio is for $5,762.

| **Crédito Familiar**<br>**Variation in allowance for loan losses**<br>**(Figures in thousands of pesos)** | **Non-revolving loans** |
|---|---|
| Allowance at December 31, 2018 | **260,370** |
| Release | (216,983) |
| Transfer from current to past-due portfolio | 56,876 |
| Transfer from past-due to current portfolio | (854) |
| Decreases in the balance of reserves | (10,829) |
| Increases in the balance of reserves | 194,293 |
| Allowance at December 31, 2019 | **282,873** |

The recovery of written offs loans fully impaired and recorded in income accounts during 2019 was for the non-revolving portfolio for principal $35,022.

**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.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As December 31, 2019 the coverage of the guarantees reported by the Bank in standard and intern methodology, which are applicable to commercial loans portfolio is shown below:

| **Scotiabank**<br>***Guarantee amount***<br>As of December 31, 2019 | |
|---|---|
| **Hedge** | **Standard methodology** |
| Eligible financial collateral | $ 1,446 |
| Eligible non-financial collateral | 32,080 |
| Personal guarantees | 1,400 |

The Group does not have credit derivatives operations at the closing of December 31, 2019.

**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.

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)

(Millions of Mexican pesos)

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 client is evaluated periodically, and at least once a year an exhausting review and risk analysis is performed. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions.

*Credit risk in investment securities* - Following is a summary of exposures, credit quality and concentration by risk level of investment securities for the Bank as of December 31, 2019 and 2018:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Exposure** | **Concentration** | **Exposure** | **Concentration** |
| **Held to maturity** | | | | |
| The Bank | $ 4,493 | 5% | 4,804 | 7% |
| **Available-for-sale** | | | | |
| The Bank | 40,371 | 46% | 38,443 | 59% |
| **Trading** | | | | |
| The Bank | 40,237 | | 19,986 | |
| The Brokerage Firm | 2,485 | | 1,571 | |
| Other business lines and subsidiaries (1) | 249 | | 255 | |
| **Subtotal** | 42,971 | 49% | 21,812 | 34% |
| **Total by risk** | **$ 87,835** | **100%** | **65,059** | **100%** |

(1) Includes the Fund Management Company and Globalcard position

As of December 31, 2019 and on average during the fourth quarter of the same year, the expected loss on the exposure of the securities investment portfolio (without considering direct sales and value date sales in positions for the Bank and Brokerage Firm) was 0.02% and 0.03% respectively, while the unexpected loss was 0.17% and 0.20% respectively.

(Millions of Mexican pesos)

*Credit risk in derivative transactions*

In addition to the risk measures mentioned earlier for derivative transactions, the Group 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 as of December 31, 2019 and 2018, is presented as follows:

| Type of counterparty | | Future potential exposure | Concentration (%) |
|---|---|---|---|
| **December 2019** | | | |
| Financial institutions | $ | 3,959 | 55% |
| Corporations | | 3,227 | 45% |
| **Total maximum exposure** | $ | **7,186** | **100%[1]** |
| | | | |
| **December 2018** | | | |
| Financial institutions | $ | 4,217 | 70% |
| Corporations | | 1,782 | 30% |
| **Total maximum exposure** | $ | **5,999** | **100%** |

(1) Al the closing of 2019, the three mayor exposures by counterparty represent 20% 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)

(Millions of Mexican pesos)

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 31, 2019 and 2018.

| **Type of counterparty** | | **Gross fair value*** | **Offset exposure** |
|---|---|---|---|
| **December 2019** | | | |
| Financial institutions | $ | 6,513 | 1,704 |
| Corporations | | 1,497 | 1,413 |
| **Total** | **$** | **8,010** | **3,117** |
| **December 2018** | | | |
| Financial institutions | $ | 20,933 | 4,125 |
| Corporations | | 363 | 145 |
| **Total** | **$** | **21,296** | **4,270** |

* Refers to the positive value of market valuation and also represents the current potential exposure

Also, the deposit guarantees and/or values maintained by the Financial Group at year-end of December 2019 and 2018 amount to $947 and $3,033, 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.

***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 which 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 2019 the Group recognized operational risk losses of $389.7, they were higher by $209.6 to those recorded in 2018 ($180.1).

*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 Brokerage Firm, 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)

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Appendix 5[(1)]. Disclosure Form of the Liquidity Coverage Ratio (LCR)
Reporting period: October 2018 – December 2018
Table 1.1 Disclosure Form of the Liquidity Coverage Ratio[(1)]

| | | Unweighted amount (average) | Weighted amount (average) |
|---|---|---|---|
| **COMPUTABLE LIQUID ASSETS** | | | |
| **1** | **Total Computable Liquid Assets** | **Not apply** | **49,578.10** |
| **CASH OUTFLOWS** | | | |
| **2** | **Non-guaranteed retail financing** | **$ 125,225.53** | **10,074.52** |
| 3 | Stable financing | 48,960.61 | 2,448.03 |
| 4 | Less stable financing | 76,264.92 | 7,626.49 |
| **5** | **Wholesale financing not guaranteed** | **123,318.33** | **47,295.09** |
| 6 | Operational deposits | 46,928.00 | 10,490.26 |
| 7 | Non-operational deposits | 70,120.55 | 30,535.05 |
| 8 | Unsecured debt | 6,269.78 | 6,269.78 |
| **9** | **Guaranteed Wholesale Financing** | **Not apply** | **291.16** |
| **10** | **Additional requirements:** | **223,466.72** | **19,575.88** |
| 11 | Outflows related to financial derivative instruments and other guarantee requirements | 6,159.44 | 2,946.14 |
| 12 | Outflows related to losses on the financing of debt instruments | - | - |
| 13 | Credit lines and liquidity | 217,307.28 | 16,629.75 |
| **14** | **Other contractual financing obligations** | **8.38** | **8.38** |
| **15** | **Other contingent financing obligations** | **28,686.76** | **-** |
| **16** | **TOTAL CASH OUTFLOWS** | **Not apply** | **77,245.04** |
| **CASH INFLOWS** | | | |
| **17** | **Guaranteed cash inflows** | **4,781.90** | **231.15** |
| **18** | **Cash inflows for unsecured transactions** | **38,412.84** | **26,014.10** |
| **19** | **Other cash inflows** | **12,400.54** | **12,400.54** |
| **20** | **TOTAL CASH INFLOWS** | **55,595.28** | **38,645.80** |
| **21** | **TOTAL COMPUTABLE LIQUID ASSETS** | **Not apply** | **49,578.10** |
| **22** | **TOTAL NET OF CASH OUTFLOWS** | **Not apply** | **38,599.25** |
| **23** | **LIQUIDITY COVERAGE RATIO** | **Not apply** | **129.39** |

(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 (LCR) and the change on its main components.

(1) Previous figures subject to review of the Central Bank

[1] Appendix 5 of the general provisions on liquity requirements applicable to credit institutions

(Continued)

– **During December 2019, the main changes that impacted the LCR are the following (considering a 30 day time window):** [2]

- Main Cash outflows:

Outflows due to demand deposits of $28,396 and time deposits of $17,144, outflows derived from the Look Back Approach (LBA) and the estimation related to the impact on liquidity due to the possible impairment of the institution's rating in 3 levels for $1,361 and $1,729, respectively, outflows by undrawn credit commitments for $16,509.

- Main Cash inflows:

Cash inflows for loan portfolios for $15,344, call money operations for $9,931 and maturity of securities with a rating lower than 2B for $11,950.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $25,204 in debt securities level 1, $13,697 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, It is worth mentioning that said position does not include BREMS because they are reported as level 1 debt securities, additionally, the available cash for $7,177 and $342 in securities level 2A

*(c) Changes in the main components of the quarter being reported.*

**September 2019 to December 2019 (+22%)** The Liquidity Coverage Ratio increased by 22% compared to September 2019, mainly due to:

a. Professional and interbank funding increased by $13,317, which gave the Bank more liquidity.
b. In cash outflows, outflows associated with immediate demand deposits decreased by $5,797 while time deposits increased by $1,788.
c. In cash inflows, portfolios grew just $528.
d. Finally, liquid assets increased by $1,655.

[2] Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions

(Millions of Mexican pesos)

*(d) The change of the composition of eligible and computable liquid assets[1];*

| **Change in liquid assets Q4- 2019** | **October** | **November** | **December** |
|---|---|---|---|
| Cash | 13% | 14% | 15% |
| Deposits in Central Bank | 25% | 31% | 29% |
| Level 1 | 60% | 53% | 54% |
| Level 2A | 1% | 1% | 1% |
| Level 2B | 1% | 1% | 1% |
| **Total weighted liquid assets** | **100%** | **100%** | **100%** |

*(e) Concentration of financing sources;*

| Concentration of financing sources | October | November | December |
|---|---|---|---|
| DEPOSIT FNDING | | | |
| Demand deposits | 40% | 40% | 40% |
| Time deposits | 42% | 40% | 36% |
| General public | 28% | 27% | 26% |
| Money market | 14% | 13% | 10% |
| Debt securities issued | 8% | 8% | 10% |
| Global account of deposits without movements | 0% | 0% | 0% |

| Concentration of financing sources | October | November | December |
|---|---|---|---|
| BANK AND OTHER BORROWINGS | | | |
| Due on demand | 0% | 0% | 0% |
| Short-term | 4% | 4% | 6% |
| Long-term | 6% | 8% | 8% |
| 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.

(Continued)

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 administration 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.

| | |
|---|---|
| **Potential Future Exposure (December 2019)** | |
| With compensation agreement | $ 2,544 |
| With no compensation agreement | 4,599 |
| **Possible margin call (December 2019)** | |
| Collateral in Transit | $ 58 |
| **Downgrade (December 2019)** | |
| Downgrade 3 levels | $ 1,729 |

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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 | $ 748,344 |
| Exchange rate | 19,966 |
| Capital market | 8,199 |
| **Total** | **$ 776,509** |

*(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.

(Continued)

*(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, 2019 and the average of the fourth quarter of 2019 are:

| **Scotiabank (Millions of mexican pesos)** | **Closing balance** | **Average balance** | **Limit** |
|---|---|---|---|
| 30-day cumulative gap (MXN+UDIs+USD) | 3,361 | 2,571 | (18,000) |
| Liquidity buffer (LRC metric) | $ 46,414 | 49,578 | 26,000 |

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 the Group 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)
- 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, with 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.

*(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 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 2019, which were greater than 100%, and according to the Provision for credit institutions on liquidity requirements, the Bank during the 3 months of the fourth quarter of 2019, falls in Scenario I (i.e. Scenario I, when the Liquidity Coverage Ratio corresponding to each day of the previous month is at least 100 percent).

## (26) Recently issued financial reporting standards-

### Changes in the Provisions of the Banking Commission

At the date November 4, 2019, the Ministry of Finance and Public Credit announced through the Official Gazette various resolutions amending the resolutions that modify the general provisions applicable to credit institutions, brokerage firms, mutual funds and financial institutions of multiple purpose, published in the Official Gazette on December 27, 2017; These amendments consider the entry into force on January 1, 2021, of the FRS, issued by the Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) and referred to in paragraph 3 of Criterion A-2 "Application of particular rules" of Annex 33 that is modified by this instrument.

The CINIF has issued the MFRS and improvements listed below:

**MFRS B-17** ***"Determination of fair value"*****-** This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS.

**MFRS C-3 "*****Accounts receivable*****"**- Some of the primary changes presented are the following:

- 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.

- 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.

- 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.

- 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.

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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.

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.

It is worth mentioning that these changes will take effect on January 1, 2021. The Bank is in the process of evaluating their impact.

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**2020 FRS Revisions**

**MFRS B-11 *"Disposal of long-lived assets and discontinued operations"*-** MFRS 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 MFRS.

- In relation to the assets presented in the statement of financial position following a criterion based on liquidity, this MFRS 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.

- MFRS 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.

The Group is in the process of evaluating its impact.