Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat
and subsidiaries

Consolidated financial statements

December 31, 2019 and 2018

(With Independent Auditor's Report 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
Scotiabank Inverlat, S. A., Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

(Millions of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries (the Bank), 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 Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions 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 Bank 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)

Allowance for loan losses $11,606, in the consolidated balance sheet	
See notes 3(j) and 10(e) to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The allowance for loan losses for the commercial loans portfolio involves significant judgement for the evaluation of the borrowers' ability to pay, considering the different factors in accordance with the methodologies for the credit portfolio rating process established by the Banking Commission, 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 $9,604 (assets) and $9,442 (liabilities) and hedging transactions $4,052 (assets) and $4,509 (liabilities)	
See notes 3(g) and 9 to the consolidated financial statements.	
Key audit matter	**How the key audit matter was addressed in our audit**
Fair value determination 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 as a key audit matter.	As part of our audit procedures, we obtained evidence of the approval by the Bank's Risk Committee, of the valuation model for derivative financial instruments and hedging operations used by Management. Likewise, on a sample basis, we evaluated the reasonableness of those models and inputs used, through the involvement of our valuation specialists. In addition, on a sample basis, we evaluated the fair value determination of the derivative products and hedging operations, the proper compliance with the criteria and documentation to be considered as such, as well as their effectiveness.

(Continued)

Current income tax $1,842 **Deferred income tax $4,661, (asset) in the consolidated balance sheet**	
See notes 3(r) and 17 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 evaluate both current and future factors that allow to estimate the realization of such assets. Therefore, we consider the determination of current and deferred income 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. 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 Bank's Management. In addition we assessed the tax profit projections determined by the Bank's Management that support the probability of the realization of deferred income tax assets.

Other information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report for the year ended December 31, 2019 which will be provided to the Banking Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is estimated to be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

(Continued)

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

Management is responsible for the preparation of the consolidated financial statements in accordance with the Accounting Criteria issued 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgement 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 Bank's internal control.

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

(Continued)

- 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the 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 Bank 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 Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Cárdenas Dosal, S. C.

Ricardo Lara Uribe

Mexico City, February 27, 2020.

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

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

Consolidated balance sheets

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

December 31, 2019 and 2018

(Millions of Mexican pesos)

Assets	**2019**	**2018**
Cash and cash equivalents (note 6)	$ 37,943	45,908
Margin accounts	1,017	29
Investment securities (note 7):		
Trading	48,401	20,807
Available-for-sale	40,371	38,443
Held-to-maturity	4,943	4,804
	93,715	64,054
Debtors on repurchase/resell agreements (note 8)	2,574	3,303
Derivatives (note 9):		
Trading purposes	9,907	20,903
Hedging purposes	4,052	6,729
	13,959	27,632
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	35,282	38,053
Government entities	14,052	9,676
	225,719	199,960
Consumer loans	44,600	41,976
Residential mortgage loans:		
Medium and residential	129,055	116,584
Social interest housing	81	121
Loans acquired from INFONAVIT	4,491	3,623
	133,627	120,328
Total current loan portfolio	403,946	362,264
Past-due loan portfolio (note 10):		
Commercial loans:		
Business or commercial activity	4,082	3,454
Financial institutions	82	110
Consumer loans	1,904	1,497
Residential mortgage loans:		
Medium and residential	3,703	2,982
Social interest housing	13	17
Loans adquired from INFONAVIT	1	1
Total past-due loan portfolio	9,785	8,061
Loan portfolio	413,731	370,325
Less:		
Allowance for loan losses (note 10e)	11,606	9,739
Total loan portfolio, net	402,125	360,586
Other accounts receivable, net	18,281	8,426
Foreclosed assets, net (note 11)	120	87
Premises, furniture and equipment, net (note 12)	3,409	3,766
Permanent investments (note 13)	51	51
Available-for-sale long-term assets	24	32
Deferred icome taxes, net (note 17)	4,661	3,990
Other assets:		
Deferred income charges, prepaid expenses and intangibles	5,981	6,843
Total assets	$ 584,028	524,145

Liabilities and stockholders' equity	**2019**	**2018**
Deposit funding (note 14):		
Demand deposits	$ 167,240	162,932
Time deposits:		
General public	109,087	112,981
Money market	46,780	53,075
Debt securities issued	41,152	25,778
Global account of deposits without movements	611	594
	364,870	355,360
Bank 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)	8,163	167
Creditors on repurchase/resell agreements (note 8)	49,135	33,802
Derivatives (note 9):		
Trading purposes	9,697	21,458
Hedging purposes	4,589	4,964
	14,286	26,422
Valuation adjustments of hedging financial liabilities (note 14c)	18	24
Other accounts payable:		
Income tax payable	792	185
Creditors on settlement of transactions (notes 6, 7, 8 and 9)	17,152	5,798
Creditors on margin account	-	234
Creditors on collateral received in cash	1,034	1,204
Sundry creditors and other accounts payable	9,220	10,369
	28,198	17,790
Subordinated debt issued (note 18)	9,046	9,044
Deferred credits and prepayments	1,474	1,574
Total liabilities	530,832	474,517
Stockholders' equity (note 19):		
Paid-in capital:		
Capital stock	10,404	10,404
Additional paid-in capital	473	473
	10,877	10,877
Earned capital:		
Statutory reserves	6,264	5,546
Retained earnings	31,961	25,463
Result from valuation of available-for-sale securities	61	10
Result from valuation of cash flow hedge instruments	(104)	836
Remeasurements of defined employee benefits (note 16)	(811)	(280)
Net income	4,948	7,176
	42,319	38,751
Total stockholders' equity	53,196	49,628
Commitments and contingent liabilities (note 23)		
Subsecuent event (note 24)		
Total liabilities and stockholders' equity	$ 584,028	524,145

(Continued)

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

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

Consolidated balance sheets, continued

December 31, 2019 and 2018

(Millions of Mexican pesos)

Memorandum accounts (note 21)

	2019		2018	
Contingent assets and liabilities		$ 3		$ 3
Loan commitments		247,831		243,052
Assets in trust or under mandate:				
Trusts	$ 202,191		$ 191,685	
Mandate	29,296	231,487	29,081	220,766
Assets in custody or under management		696,902		545,841
Collateral received by the entity		32,558		43,057
Collateral received and sold or pledged by the entity		-		9,281
Investments on behalf of customers		99,713		120,811
Interest earned but not collected arising from past-due loan portfolio		474		378
Other accounts		$ 1,499,719		$ 1,277,090

"At December 31, 2019 and 2018, the historical capital stock amounts to $9,153, in both years".

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory, nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Adrián Otero Rosiles	Michael Coate	Jorge Córdova Estrada	H. Valerio Bustos Quiroz
General Director	Deputy General Director of Finance	Deputy General Director of Group Audit	Director of Group Accounting

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

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

Consolidated statements of income

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Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

		2019	2018
Interest income (note 22b)	$	50,720	43,713
Interest expense (note 22b)		(27,458)	(21,455)
Financial margin		23,262	22,258
Allowance for loan losses (note 10e)		(5,885)	(3,518)
Financial margin adjusted by credit risks		17,377	18,740
Commission and fee income (note 22c)		5,136	4,973
Commission and fee expense		(878)	(913)
Financial intermediation income (note 22d)		641	172
Other operating income (note 22e)		2,230	2,247
Administrative and promotional expenses		(17,717)	(17,285)
		(10,588)	(10,806)
Net operating income		6,789	7,934
Equity method in the results of associated companies		1	1
Income before income taxes		6,790	7,935
Current income taxes (note 17)		(1,847)	(1,124)
Deferred income taxes, net (note 17)		5	365
		(1,842)	(759)
Net income	$	4,948	7,176

See accompanying notes to consolidated financial statements.

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

SIGNATURE

Adrián Otero Rosiles
General Director

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

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Consolidated statements of changes in stockholders' equity

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Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

	Paid-in capital		Earned capital						
	Capital stock	Additional paid-in 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	$ 10,104	473	4,891	26,191	(13)	423	(264)	6,548	48,353
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meetings of April 27, 2018 and June 29, 2018:									
Creation of capital reserves	–	–	655	–	–	–	–	(655)	–
Appropriation of the 2017 net income	–	–	–	5,893	–	–	–	(5,893)	–
Dividends payment	–	–	–	(6,695)	–	–	–	–	(6,695)
Increase in capital stock (note 19a)	300	–	–	–	–	–	–	–	300
	300	–	655	(802)	–	–	–	(6,548)	(6,395)
Changes related to the recognition of comprehensive income (note 19c):									
Net income	–	–	–	–	–	–	–	7,176	7,176
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for ($167) and $68, respectively (notes 7a, 9 and 17)	–	–	–	–	23	413	–	–	436
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for ($36) and $36, respectively (notes 16 and 17)	–	–	–	74	–	–	(16)	–	58
Total comprehensive income	–	–	–	74	23	413	(16)	7,176	7,670
Balances as of December 31, 2018	10,404	473	5,546	25,463	10	836	(280)	7,176	49,628
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2019:									
Creation of capital reserves	–	–	718	–	–	–	–	(718)	–
Appropriation of the 2018 net income	–	–	–	6,458	–	–	–	(6,458)	–
	–	–	718	6,458	–	–	–	(7,176)	–
Changes related to the recognition of comprehensive income (note 19c):									
Net income	–	–	–	–	–	–	–	4,948	4,948
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes for $427 (notes 7a, 9 y 17)	–	–	–	–	51	(940)	–	–	(889)
Remeasurements of defined employee benefits, net of deferred taxes for $239 (notes 16 and 17)	–	–	–	40	–	–	(531)	–	(491)
Total comprehensive income	–	–	–	40	51	(940)	(531)	4,948	3,568
Balances as of December 31, 2019	$ 10,404	473	6,264	31,961	61	(104)	(811)	4,948	53,196

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Adrián Otero Rosiles General Director	Michael Coate Deputy General Director of Finance	Jorge Córdova Estrada Deputy General Director of Group Audit	H. Valerio Bustos Quiroz Director of Group Accounting

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Consolidated statements of cash flows

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Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

	2019	2018
Net income	$ 4,948	7,176
Items not requiring cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	7	6
Depreciation of premises, furniture and equipment	523	443
Amortization of deferred charges, prepaid expenses and intangible assets	322	181
Provisions, mainly allowance for loan losses	5,885	5,288
Current and deferred income taxes	1,842	759
Equity method in associated companies	(1)	(1)
Other, mainly fair value valuation	(974)	1,343
Subtotal	7,604	8,019
Operating activities:		
Change in margin accounts	(988)	38
Change in investment securities	(21,629)	(8,349)
Change in debtors on repurchase / resell agreements	729	8,689
Change in derivatives (asset)	10,639	(3,394)
Change in loan portfolio	(47,424)	(57,563)
Change in benefits receivable from securitization transactions	-	92
Change in foreclosed assets	(44)	(7)
Change in other operating assets	(8,093)	(901)
Change in deposit funding	9,510	35,168
Change in bank and other borrowings	25,308	16,921
Change in creditors on repurchase / resell agreements	15,333	5,756
Change in derivatives (liabilities)	(10,413)	2,304
Change in subordinated debt issued	2	6,943
Change in other operating liabilities	7,240	1,746
Payments of income taxes	(313)	(357)
	(20,143)	7,086
Net cash flows from operating activities	(7,506)	22,281
Investing activities:		
Proceeds from sale of property, plant and equipment	184	–
Payments for acquisition of premises, furniture and equipment	(265)	(573)
Collections of cash dividends	1	–
Payments for intangible assets acquisition	(294)	(1,111)
Other	–	157
Net cash flows from investing activities	(374)	(1,527)
Financing activities:		
Collection for issue of shares		
Dividend payments	–	(6,695)
Increase in capital stock	–	300
Payments due to subordinated debt issued	–	(302)
Net cash flows from financing activities	–	(6,697)
Net (decrease) increase in cash and cash equivalents	(7,965)	14,057
Cash and cash equivalents at beginning of the year	45,908	31,851
Cash and cash equivalents at end of the year	$ 37,943	45,908

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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	**SIGNATURE**
Adrián Otero Rosiles General Director	Michael Coate Deputy General Director of Finance
SIGNATURE	**SIGNATURE**
Jorge Córdova Estrada Deputy General Director of Group Audit	H. Valerio Bustos Quiroz Director of Group Accounting

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(1) Description of business and significant transactions-

a) Description of business

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank"), located in Lorenzo Boturini 202, 2nd floor, Tránsito, 06820 in Mexico City is an entity constituted under the Mexican laws. The Bank is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.4% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank include the operation of its subsidiaries for whom exercises control: Globalcard, S. A. de C. V., SOFOM, E. R., Grupo Financiero Scotiabank Inverlat (Globalcard) until September 30, 2019; Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria); Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card business; Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and is also holding company of two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 10177 (MexDer Trusts), created for the purpose of entering into futures, options and swaps contracts for the Bank's own account and on behalf of third parties, respectively. The Bank operates all over the Mexican territory and its corporate headquarters are located in Mexico City.

b) Significant transactions

On August 16, 2019, the Bank and Globalcard, its subsidiary, obtained the necessary authorizations from the Ministry of Finance and Public Credit, Banco de Mexico (Central Bank) and the National Banking and Securities Commission (the Banking Commission) to carry out the merger of Globalcard as a merged company that subsists. The merger was effective from October 1, 2019, 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 Bank (see note 16).

(Continued)

(2) Authorization and basis for presentation-

Authorization

On February 27, 2020, Adrián Otero Rosiles (General Director), Michael Coate (Deputy General Director of Finance), Jorge Córdova Estrada (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Bank's consolidated financial statements include the Bank's subsidiaries on which the Bank exercises control: Globalcard (until September 30, 2019), Inmobiliaria, Scotia Servicios and Scotia Derivados. Significant balances and transactions with the Bank'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 financial statements will be submitted to the next shareholders' meeting for approval.

Basis of presentation

a) Statement of compliance

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

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

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 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 allowance for loan losses: assumptions and inputs used in determination (see note 10);

—Impairment of premises, furniture and equipment: evidence of impairment of the value of fixed assets, including key assumptions for the 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 profit and the materialization of deferred taxes (see note 17).

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 millions dollars of the United States of America.

d) Recognition of assets and liabilities related to financial instruments

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

(3) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements has been applied consistently by the Bank:

(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 Bank's financial information are not recognized. Should the Bank 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 the Bank and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in consolidation.

(Continued)

Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

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

Subsidiaries	Participation	Location	Activity
Globalcard, S. A. de C. V., SOFOM, E. R. (until September 30, 2019)	99.99%	Mexico City	Grant credit cards
Inmobiliaria Scotia Inverlat, S. A. de C. V.	99.99%	Mexico City	Fixed asset management
Scotia Servicios de Apoyo, S. A. de C. V.	99.99%	Mexico City	Supports the administration of the credit card acquiring business
Scotia Inverlat Derivados, S. A. de C. V. and subsidiaries	99.99%	Mexico City	Futures and options contract operator in Mexder

(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") 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 Bank to the cash margin account are also recognized 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 income statement, under the caption "Interest income" or "Interest expense", as applicable.

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 Bank 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 Bank.

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".

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 Bank 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".

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 to 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".

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

Dividends from equity instruments are recognized in the year's income when the right to receive payment arises in the financial statements 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 until 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 current year 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, the Bank's management has not identified that there is objective evidence of the impairment of any security.

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 Bank 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 Bank 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 Bank 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.

The Bank 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 Bank 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 Bank, 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 Bank 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 "Collateral sold or pledged", as applicable.

(Continued)

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

(g) Derivatives-

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

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

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, under the caption "Unrealized result from valuation of cash flow hedge instruments", while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under "Financial intermediation income", and the counter-account with such effect are presented in the consolidated balance sheet under "Derivatives" caption. The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

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

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

(Continued)

Embedded and structured derivatives

The Bank holds embedded derivatives that are not used to hedge positions, solely as part of its trading strategy; and 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 14).

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.

(h) Settlement of clearing accounts-

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

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the financial statement caption "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(i) Loan portfolio-

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

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

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

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

INFONAVIT Portfolio-

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

REA is the form of payment to INFONAVIT of credits whose rights were acquired by the Bank, provided for by the INFONAVIT issued by the Board of Directors of INFONAVIT, which indicate the methodology to make payments on such credits.

(Continued)

ROA is the form of payment to INFONAVIT of credits whose rights were acquired by the Bank, 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 has 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 entity acquired from INFONAVIT or from 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 loan 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 Bank 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 Bank 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 maturity, is not considered as a sustained payment.

(Continued)

In any case, in order for the Bank 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 Bank:

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 particularly.

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

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

(Continued)

Fees

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

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

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

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

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

Costs and expenses related to loan origination

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

(Continued)

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

Acquisitions of credit portfolio

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

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

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

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

(j) Allowance for loan losses-

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

Commercial loans– The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission. Commercial loans shall be subject to credit rating without including those loans with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

(Millions of Mexican pesos)

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 Bank 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	0.90%
A2	0.901	1.5%
B1	1.501	2.0%
B2	2.001	2.50%
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)

Cartera hipotecaria incluyendo la originada y adquirida al 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) extension, 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 as follows:

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 Bank Provisions. 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 Bank.

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)

(Millions of Mexican pesos)

The risk grades and percentages of provision for loan losses at December 31, 2019 and 2018, are shown as follows:

	Range 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 Bank 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 Bank, as well as reserves maintained as prescribed by regulations.

Write-offs - The Bank 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.

(k) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, the Bank had adopted 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.

(l) Other accounts receivable-

Collection rights and the accounts receivable related to debts, whose maturity is agreed from origin to more than 90 calendar days term are evaluated by the Bank's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 90 days after their initial recording, if they correspond identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

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

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

(m) 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 Bank 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 show as follows:

	Reserve 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%

(n) 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.

(Continued)

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Bank'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 Bank periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

The Bank 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. Minor maintenance and repair expenses are recorded in the results when incurred.

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

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

a) The approving department of the Bank has formally committed to a sales plan.
b) Assets are available for its immediate realization, in its current condition, subject exclusively to the usual and customary terms for the sale of those assets and its sale is highly probable.
c) Actions to find a client and other activities to execute the sales plan are initiated. If no client has been found, it has been identified a potential market, at least.
d) It is expected that the sales plan will be executed in a less than a year term. This requirement is not applicable for those cases where the Bank holds agreements that are in substance purchase options and sale and lease back agreements. An extension to the less than a year period to conclude the sale does not impede the available for sale classification of the asset, as long as the delay is caused for facts and circumstances out of the control of the Bank, and there is sufficient evidence that the Bank is still committed to a sales plan to dispose the asset.
e) There is an adequate estimate of the price of the asset or group of assets.
f) Significant changes or cancellation of the original sales plan are not probable.

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

(Continued)

(p) 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 are decreased from the permanent investment.

(q) Other asset-

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 Bank.

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.

(r) Income taxes-

The income taxes 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 corresponds to an account receivable.

Deferred income taxes are accounted for under the asset and liability method. Deferred taxes (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 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 taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

(Continued)

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

(s) 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.

(t) 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 interests in deposit instruments that do not have an expiration date, or that having one are automatically renewed, as well as expired and unclaimed transactions or investments are recorded under the heading "Global account of deposits without movement". 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 Bank will be obligated to deliver the resources corresponding to public charity within maximum period of fifteen day counted from December 31, of the year in which the assumption foreseen is fulfilled.

(Continued)

(u) Provisions-

Based on management's estimates, the Bank 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.

(v) 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".

(w) Employees' benefits-

Short-term direct benefits

As of November 15, 2018 (date on when the employer substitution with SECOSA was effective, see note 16), short-term direct employee benefits were 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 Bank 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 Bank's net obligation in relation to direct long-term benefits, and which the Bank 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 the previous periods. This benefit is discounted to its present value. Remeasurements are recognized in the results as accrued.

Termination benefits

Until November 15, 2018, the Bank recognized a liability for termination benefits along with a cost or expense when the Bank had no realistic alternative other than to make the corresponding payments or when the offer of these benefits could not be withdrawn or when the conditions that require the recognition of restructuring costs were met, whichever occurred first. If benefits were not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they were discounted.

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Defined contribution plans

The Bank recognized until November 15, 2018, a defined contribution pension plan, where the amounts contributed by the Bank were recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 16).

Defined benefit plans

In addition, the Bank had a defined benefit plan in place that covered the seniority premiums and legal compensation to which active employees until November 15, 2018 were entitled in accordance with the Federal Labor Law. Effective November 16, 2018, the Bank only maintains a defined benefits plan for pension of the retired personnel, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for pension and other post-retirement benefits plans to manage the respective plan funds and assets of retirees and until November 15, 2018 of the active employee funds, 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 Bank, 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 retirees for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by multiplying the discount rate used to measure the defined benefit obligation by the beginning balance of the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

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

Continued)

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 retired personnel.

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 with 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).

(x) 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".

(y) 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 (12 months for credit cards), as applicable.

The commissions from assets in custody or under management are recognized in income as accrued in "Commission and fee income".

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.

(z) 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 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 Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(aa) 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".

(ab) Memorandum accounts-

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

Client's values held in custody, guarantee or under management, are recorded in the corresponding memorandum accounts in accordance with the accounting criteria established by the Banking Commission, and represent the maximum expected amount at which the Bank is obliged to respond to its clients.

The amounts of the assets in custody or under management are presented in the caption "Assets in custody or under management", while the trust transactions are presented in the caption "Assets in trust or under mandate".

(Continued)

(Millions of Mexican pesos, except otherwise stated)

(ac) 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.

(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 "Financial instruments to collect principal and interest"
- MFRS D-1 "Revenue from contracts for clients"
- MFRS D-2 "Costs from contracts with clients"
- 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 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 computed as of the third immediately preceding quarter. As of December 31, 2019 and 2018, the Bank's position is within the authorized limits. The foreign currency position is analyzed as follows:

	Millions dollars			**Equivalent in pesos**	
	2019	**2018**		**2019**	**2018**
Assets	6,949	4,541	$	131,087	89,236
Liabilities	(6,883)	(4,497)		(129,842)	(88,371)
Long position	**66**	**44**	**$**	**1,245**	**865**

(Continued)

(Millions of Mexican pesos, except otherwise stated)

At December 31, 2019, the position in foreign currency consists of 86.69% in U.S. dollars (94.41% in 2018) and 13.31% in other foreign currencies (5.59% 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.

(6) Cash and cash equivalents-

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

		2019	**2018**
Cash in hand	$	7,177	6,902
Banks:			
Domestic		2,890	7,298
Foreign		5,169	12,974
24, 48, 72 and 96-hour foreign currency sales		(8,097)	(3,381)
Other funds available (due on demand)		29	6
Restricted cash:			
Call money with maturity term of less than four days		4,717	6,502
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		14,089	3,441
	$	**37,943**	**45,908**

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.

(Continued)

(Millions of Mexican pesos)

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 Bank 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).

At December 31, 2019 and 2018, the Bank had an asset (liability) balance for foreign currency purchase and sale transactions payable at a later date than the date agreed for $5,737 and $(11,744), and $3,311 and ($3,367), respectively, 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 Bank 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 días	2,001	8.25%	2 días
Banco Nacional de Obras y Servicios Públicos, S. N. C.		-	-	-	2,000	8.25%	2 días
Nacional Financiera, S. N. C.		-	-	-	2,501	8.25%	2 días
BBVA Bancomer, S. A.		4,001	7.25%	2 días	-	-	-
Banco Nacional de México, S. A.		625	7.25%	2 días	-	-	-
	$	**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:

		Receivable in pesos		**Deliverable in pesos**	
		2019	**2018**	**2019**	**2018**
Dollar	$	14,075	3,373	(8,093)	(3,317)
Other currencies		14	68	(4)	(64)
	$	**14,089**	**3,441**	**(8,097)**	**(3,381)**

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".

(Continued)

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At December 31, 2019 and 2018, earnings from operations of buy/sell currencies amounted to $820 and $1,078, respectively, also, the valuation result amounts to $(178) and $351, respectively, which are recorded under the caption "Financial intermediation income".

(7) Investment securities-

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

		2019	2018
Trading securities:			
Debt securities:			
Government securities	$	48,373	19,763
Equity shares		28	1,044
Total trading securities		48,401	20,807
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	**$**	**93,715**	**64,054**

At December 31, 2019 and 2018, the fair value of the securities classified as trading, available-for-sale and held-to-maturity are analyzed in the following pages.

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		2019	2018
Trading securities:			
Government securities (restricted):			
Repurchase/resell agreements:			
LD BONDESD	$	16,859	11,695
IM BPAG		3,047	1,705
IS BPA		3,444	1,419
BI CETES		3,873	1,127
IQ BPAG		6,543	988
S UDIBONO		5,363	355
I BANOBRAS		859	-
M BONOS		2,497	200
		42,485	17,489
Value date purchases:			
BI CETES		2,897	1,675
LD BONDESD		2,388	390
S UDIBONO		337	-
M BONOS		266	209
		5,888	2,274
Total government securities		48,373	19,763
Equity shares (unrestricted):			
51 ScotiaG		-	1,038
1I XLF		-	4
1 GSANBORB		-	2
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 IB01 N		3	-
Total equity shares		28	1,044
Total trading securities	**$**	**48,401**	**20,807**

(Continued)

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		2019	2018
Available-for-sale securities:			
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 (unrestricted):			
DI BRAZE97		-	212
D4 TBILG47		252	-
Foreign government securities (restricted):			
D4 TBILG47		124	-
Total foreign government securities		376	212
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 securities		18,194	24,473
Bank promissory 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 bank promissory notes		12,397	12,537
Other:			
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		9,780	1,433
Total available-for-sale securities	**$**	**40,371**	**38,443**

(Continued)

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	Maturity date		2019	2018
Held-to-maturity securities:				
Government securities (special CETES*):				
CETES B4 270701	July 1, 2027	$	1,366	1,263
CETES B4 220804	August 4, 2022		2	2
CETES B4 220707	July 7, 2022		483	447
Total special CETES			1,851	1,712
BONOS XR BREMSR (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 Bank held assets (liabilities) balance for transactions with securities settled on a date subsequent to the agreed-upon date for $7,762 and $(5,389); ($179 and $(2,426) 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); ($37 less deferred income tax for $(11) and deferred ESPS for $(3) as of December 31, 2018). The valuation result from securities available for sale in hedge transactions at fair value recognized in income statement 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	$	2,499	879
Available-for-sale		2,947	2,551
Held-to-maturity		394	366

(Continued)

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(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:			
Value date sales:			
Government securities:			
BI CETES	$	(2,916)	(30)
M BONOS		(1,976)	(137)
LD BONDESD		(2,388)	-
S UDIBONO		(867)	-
I BANOBRA		(16)	-
Traded securities to be settled, unrestricted securities	**$**	**(8,163)**	**(167)**

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

At December 31, 2019 and 2018 investment in non-governmental 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

(8) Securities on 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 Bank acts as repurchase or as repurchaser, are analyzed as shown on the following page.

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Securities		Debtors on repurchase/resell agreements 2019	2018	Creditors on repurchase/resell agreements 2019	2018
IQ BPAG		-	-	(6,544)	(988)
IS BPA		21	4,885	(3,444)	(503)
M BONOS		263	2,279	(4,241)	(1,665)
BI CETES		124	500	(5,087)	(1,116)
LD BONDESD		1,716	2,219	(20,547)	(27,022)
CEDE		450	400	-	-
S UDIBONO		-	-	(5,366)	(802)
I BANOBRA		-	-	(859)	-
IM BPAG		-	2,301	(3,047)	(1,706)
		2,574	12,584	(49,135)	(33,802)
Collateral sold or pledged (creditor)					
IS BPA		-	(4,885)	-	-
LD BONDESD		-	(1,617)	-	-
M BONOS		-	(2,279)	-	-
BI CETES		-	(500)	-	-
		-	(9,281)	-	-
Debtors (creditors) on repurchase/resell agreements	**$**	**2,574**	**3,303**	**(49,135)**	**(33,802)**

At December 31, 2019 and 2018, the terms of resell/repurchase agreements are between 2 and 28 days, in both years, with annual weighted rates of 7% to 8% acting as repurchasee and 6% to 8% acting as repurchaser in 2019 (7% and 8% annual weighted rates in 2018).

During the years ended December 31, 2019 and 2018, premiums collected amounted to $1,045 and $1,931, respectively; premiums paid amounted to $4,202 and $3,265, 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 Bank did not deliver collaterals in repurchase/ resell agreements.

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At December 31, 2019 and 2018, the Bank kept a debit (credit) balance on repurchase/resell agreements to be settled at a subsequent date for $22 and ($18), respectively, ($8 and ($5) in 2018), which were recognized within the "Other accounts receivable, net" caption and "Creditors on settlement of transactions" caption, as it corresponds.

(9) Derivates-

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	943	888	1,303	1,215
Swaps	7,504	8,005	19,307	19,899
	9,907	9,697	20,903	21,458
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
	$ 13,959	**14,286**	**27,632**	**26,422**

At December 31, 2019 and 2018, the net valuation result on financial assets and liabilities related to trading derivatives amounted to $(532) and $(1,007), respectively. These amounts include the impairment or (reversal) 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 $859 and $(176), respectively ($1,146 and $357, respectively in 2018) and are presented in "Financial intermediation income".

(Continued)

At December 31, 2019, the Bank did not have transactions settled on a date subsequent to the traded date. At December 31, 2018, the Bank had transactions settled on a date subsequent to the traded date for $12.

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

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.

(Continued)

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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**	

(Continued)

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 coverage

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.
- 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.

(Continued)

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(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**
Assets					
Local currency:					
Business or commercial activity	$	140,150	3,814	122,629	3,166
Financial institutions		35,266	82	38,011	82
Government entities		14,052	-	9,676	-
Consumer loans		44,600	1,904	41,976	1,497
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
	$	367,658	9,456	332,586	7,658
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
	$	403,946	9,785	362,264	8,061
	$	413,731		370,325	
Memorandum accounts					
Loan commitments (see note 21a)		26,355		29,048	
	$	**440,086**		**399,373**	

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).

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

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(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 percentages of concentration are analyzed as follows:

	2019 Amount	%	2018 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	46,504	11	43,473	11
Community, social and personal services, mainly government entities	39,389	9	31,186	8
Financial, insurance and real estate services	70,502	16	69,460	17
Transportation, warehousing and communication	2,005	-	1,559	-
	$ 440,086	**100**	**399,373**	**100**

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

(c) Additional loan portfolio information-

Annual weighted lending rates:

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.

(Continued)

(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 a 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				
Business or commercial activity	$	9,720	1,021	10,741
Residential mortgages		3,615	298	3,913
Consumer loans		74	131	205
	$	13,409	1,450	14,859
2018				
Business or commercial activity	$	6,493	749	7,242
Residential mortgages		4,368	271	4,639
Consumer loans		44	69	113
	$	10,905	1,089	11,994

During 2019 and 2018, the Bank 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 Bank 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 Bank recorded restructuring from past-due commercial loans which remained as past-due for $654 and $83, respectively. During 2019, the Bank 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 Bank during 2019 amount to $3 and $37, respectively ($4 and $7, 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.

(Continued)

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During the years ended 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 to 365 days	1 to 2 years	Over 2 years	Total
2019						
Commercial *	$	737	492	1,128	1,807	4,164
Consumer		1,793	108	-	3	1,904
Residential mortgages		1,510	815	894	498	3,717
	$	**4,040**	**1,415**	**2,022**	**2,308**	**9,785**
2018						
Commercial *	$	722	443	588	1,811	3,564
Consumer		1,398	99	-	-	1,497
Residential mortgages		1,306	528	769	397	3,000
	$	**3,426**	**1,070**	**1,357**	**2,208**	**8,061**

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

(Continued)

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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	$	8,061	7,069
Merger effect		(702)	-
Settlements		(1,725)	(1,994)
Write-offs and write-downs		(3,064)	(2,972)
Net increase, for transfers from and to current loans		7,227	5,957
Foreign exchange fluctuation		(12)	1
Balance at the end of the year	**$**	**9,785**	**8,061**

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2019 amounted to $474 ($378 in 2018), which are recorded in memorandum accounts.

For the years ended December 31, 2019 and 2018, the Bank recorded write-offs from those past-due loans that had been fully reserved for $2,666 and $2,763, 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 Bank obtained recoveries from written-off loans for $305 and $232, respectively.

Additional guarantees

At December 31, 2019 and 2018, the Bank 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.

(Continued)

(Millions of Mexican pesos)

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.

(d) Portfolio sales-

Sale of consumer loans portfolio

On March 31, 2019, the Bank sold a totally written-off personal loans portfolio to a non-related party, the face value of such loan portfolio was $3,242. The income received and the book value gain of such loan portfolio was $8. 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 loans	10.19%	72.88%	33,062

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Type of loan portfolio	Probability of default	Loss given default		Exposure at default
2018				
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 loans	9.78%	72.56%		5,660
Globarcard				
Credit card	10.92%	73.54%	$	24,072
Personal loans	64.19%	72.70%		64

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 as follows:

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 116,907	19,156	10,244	27,130	121,553	294,990
A-2	49,596	20,833	912	6,725	1,841	79,907
B-1	11,982	5,328	1,326	3,029	1,137	22,802
B-2	3,188	243	-	2,456	2,211	8,098
B-3	4,832	2,066	1,229	977	2,536	11,640
C-1	1,601	509	341	1,535	3,555	7,541
C-2	1,176	-	-	1,274	1,506	3,956
D	2,091	57	-	1,413	2,135	5,696
E	2,539	82	-	1,965	870	5,456
Total	**$ 193,912**	**48,274**	**14,052**	**46,504**	**137,344**	**440,086**

(Continued)

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Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 705	82	58	572	216	1,633
A-2	563	230	9	310	11	1,123
B-1	195	94	24	154	10	477
B-2	71	6	-	138	28	243
B-3	171	87	50	86	45	439
C-1	95	27	19	179	91	411
C-2	158	-	-	263	134	555
D	767	9	-	737	550	2,063
E	2,370	80	-	1,463	444	4,357
Subtotal	$ 5,095	615	160	3,902	1,529	11,301

Reserves for residential mortgages past-due loans		23
Operational risk reserve		56
Reserves for accrued interest on past-due loans		153
Specific reserves authorized by the Banking Commission		73
Total allowance for loan losses	**$**	**11,606**

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

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 98,502	28,184	8,026	24,853	99,532	259,097
A-2	49,126	9,351	564	7,896	7,144	74,081
B-1	8,985	10,800	-	2,215	2,899	24,899
B-2	2,703	306	-	2,196	3,157	8,362
B-3	5,185	4,320	366	960	3,951	14,782
C-1	730	334	720	1,464	2,676	5,924
C-2	505	-	-	1,380	1,886	3,771
D	1,472	-	-	1,154	1,737	4,363
E	2,283	110	-	1,355	346	4,094
Total	**$ 169,491**	**53,405**	**9,676**	**43,473**	**123,328**	**399,373**

(Millions of Mexican pesos)

Risk grade	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 576	127	46	521	206	1,476
A-2	565	103	6	337	43	1,054
B-1	150	170	-	119	25	464
B-2	60	7	-	125	39	231
B-3	171	156	17	84	74	502
C-1	52	22	44	157	74	349
C-2	62	-	-	244	166	472
D	536	-	-	550	391	1,477
E	2,172	108	-	1,011	182	3,473
Subtotal	$ 4,344	693	113	3,148	1,200	9,498
Reserves for residential mortgages past-due loans						21
Operational risk reserve						25
Reserves for accrued interest on past-due loans						98
Specific reserves authorized by the Banking Commission						97
Total allowance for loan losses					**$**	**9,739**

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	$	9,739	9,156
Provisions debited to results of operations		6,190	3,750
Merger effect		(1,040)	-
Applications, write-downs and others		(3,164)	(2,972)
Foreclosure		(91)	(181)
Exchange rate fluctuations		(28)	(14)
Balance at the end of the year	**$**	**11,606**	**9,739**

(Continued)

(Millions of Mexican pesos)

(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 Bank applied mentioned criteria to its clients, as such, the total amount of the payments past due from those clients is for $4, in 2018.

(11) Foreclosed assets-

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

		2019	2018
Premises	$	138	100
Furniture, securities and foreclosed rights		3	1
		141	101
Impairment allowance		(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 the beginning of the year	$	(14)	(25)
Additional provisions due to aging debited to operations for the year		(11)	(6)
Credit to income on sale of foreclosed assets and others		4	17
	$	**(21)**	**(14)**

(Continued)

(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
Land	$	468	497	-
Office premises		1,103	1,201	Various
Transportation equipment		4	5	25% and 33%
Leased transportation equipment		-	3	33%
Computer equipment		1,531	1,390	Various
Computer equipment in financial lease		42	37	20%
Office furniture and equipment		1,436	1,403	10%
Leasehold improvements		3,014	2,982	Various
		7,598	7,518	
Accumulated depreciation		(4,189)	(3,752)	
	$	**3,409**	**3,766**	

Depreciation charged to results of operations for the years ended December 31, 2019 and 2018 amounted to $523 and $443, respectively.

For the years ended December 31, 2019 and 2018, there was not an effect from impairment of leasehold improvements.

During the years ended December 31, 2019 and 2018, the Bank had total write-offs for furniture and equipment of $100 and $66, canceling a depreciation of $34 and $52, respectively.

According to assessment carried out by the Bank the residual value (except land) at December 31, 2019 and 2018, is minimum.

Real estate selling

During 2019, the Bank 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)

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(13) Permanent investments-

At December 31, 2019 and 2018, the Bank's permanent investments in equity, classified by activity, are analyzed below:

		2019	2018
Other banking related services	$	45	45
Derivatives market operators		6	6
	$	**51**	**51**

(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	$	69,104	10,516	79,620	73,734	49	73,783
Interest bearing		65,820	21,800	87,620	53,801	35,348	89,149
		134,924	32,316	167,240	127,535	35,397	162,932
Time deposits:							
General public		109,087	-	109,087	103,501	9,480	112,981
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	**$**	**328,083**	**36,787**	**364,870**	**308,507**	**46,853**	**355,360**

(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 Bank 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 the Bank 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
Subtotal carried forward			$ 6,030

(Continued)

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Interest payment	Annual rate	Term in days	Amount
Subtotal brought forward			$ 6,030
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
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%	252	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
Total cedes			**$ 38,038**

(Continued)

(Millions of Mexican pesos)

December 31, 2018

Cedes-

Interest payment	Annual rate	Term in days	Amount
28 days	TIIE 28+.08%	365	$ 350
28 days	TIIE 28+.08%	365	1,100
28 days	TIIE 28+.08%	337	1,000
28 days	TIIE 28+.08%	337	700
28 days	TIIE 28+.07%	365	560
28 days	TIIE 28+.08%	365	1,500
28 days	TIIE 28+.04%	225	1,000
28 days	TIIE 28+.08%	309	1,000
28 days	TIIE 28+.08%	337	1,000
28 days	TIIE 28+.06%	225	1,000
28 days	TIIE 28+.02%	141	1,000
28 days	TIIE 28+.08%	141	500
28 days	TIIE 28+.08%	253	2,100
28 days	TIIE 28+.08%	225	600
28 days	TIIE 28+.08%	169	1,000
28 days	TIIE 28+.06%	351	1,410
28 days	TIIE 28+.06%	253	1,650
28 days	TIIE 28+.07%	365	1,400
28 days	TIIE 28+.07%	337	700
28 days	TIIE 28+.07%	316	400
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 carried forward			$ 40,858

(Continued)

(Millions of Mexican pesos)

				Amount
Subtotal cedes brought forward			$	40,858
Cedes in dollars-				
Underlying	**Periods**	**Term in days**		
TIIE 28	13	258		1,967
Total cedes			**$**	**42,825**

Promissory notes-

At December 31, 2019 and 2018, the Bank issued promissory notes with par value of one peso approximately as shown belows:

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**

(Continued)

(Millions of Mexican pesos)

December 31, 2018

Issuance date	Number of securities	Term in days	Annual rate		Amount
February 2018	500,000,000	365	8.45%	$	460
February 2018	500,000,000	365	8.44%		460
February 2018	500,000,000	365	8.47%		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	522,810,833	187	8.87%		500
December 2018	527,040,417	220	8.93%		500
December 2018	530,813,750	250	8.96%		500
December 2018	534,805,556	281	9.00%		500
December 2018	542,625,560	339	9.16%		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 following page.

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Banking stock certificates

December 31, 2019

Issuance date	Number of securities	Term in years	Interest payment in days	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	Interest payment in days	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 + 0.40%	2,300
April 2017	28,750,000	5	28	9%	TIIE + 0.50%	2,875
March 2017	34,500,000	3	28	9%	TIIE + 0.39%	3,450
August 2017	34,500,000	4	28	9%	TIIE + 0.36%	3,450
September 2017	34,500,000	3	28	9%	TIIE + 0.31%	3,450
March 2018	34,500,000	4	28	9%	TIIE + 0.24%	3,450
March 2018	28,750,000	4	28	9%	TIIE + 0.24%	2,875
						23,000
Accrued interest						98
Total banking stock certificates						**$ 23,098**

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

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Structured banking bonds

December 31, 2019

Issuance date	Number of securities	Term in days	Underlying		Amount
February 2016	2,916,720	1,456	TIIE28	$	292
May 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	Underlying		Amount
February 2016	2,924,220	1,457	TIIE28	$	292
February 2016	673,800	1,097	SX5E		68
February 2016	1,150,200	1,094	SPX		115
October 2016	626,750	1,095	SX5E		63
October 2016	335,350	1,095	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	1,092	SX5E		259
June 2017	327,700	1,093	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)

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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:

		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 organizations		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		38	43
Accrued interest		14	1
		10,448	243
Total short term and due on demand, carried forward	**$**	**23,226**	**4,804**

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

(Continued)

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		2019	2018
Total short term and due on demand, brought forward	$	23,226	4,804
Long-term:			
Local currency:			
Development banks[2]		21,500	15,000
Development agencies[1]		5,903	4,555
Other organizations		4,728	5,657
		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) Resources from development funds (see note 10c).

(2) At December 31, 2019, the Bank 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 Bank 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 Bank 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:

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

(Continued)

(Millions of Mexican pesos)

For the years 2019 and 2018, bank and other loans weighted average annual interest (unaudited) rates are as follows:

	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-

On November 15, 2018, the Bank carried out an employer substitution process transferring all its active employees to its related party SECOSA, because of that SECOSA took over, from that date on, all labor obligations derived from the active employees. Effects derived from this employer substitution were: cash outflow for $345 related to the net liability for defined benefits, mainly for legal compensation, as well as a transfer of plan assets to SECOSA for $2,218.

The Bank had in place, until November 15, 2018, a defined contribution plan for pensions that was also transferred to SECOSA. The plan provides for established contributions by both the Bank and employees, which may be fully withdrawn by employees when aged 55.

For the year ended December 31, 2018, the charge to results for the Bank's contributions to the defined contribution pension plan amounted to $58, under the caption "Administrative and promotional expenses" in the consolidated statement income.

The Bank had also established a defined benefits plan that covered seniority premiums and legal compensations which active employees were entitled to until November 15, 2018, in accordance with the Federal Labor Law. From November 16, 2018 and on, the Bank only keeps a defined benefits plan for pensions of retired personnel, as well as obligations related to post-retirement medical plans, food coupons and life insurance of retirees.

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2019 and 2018.

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The components of the defined benefit cost for the years ended December 31, 2019 and 2018 are as follows:

		Seniority Premium	Legal Compensation	Pension Plan		Other post-retirement benefits	
		2018	2018	2019	2018	2019	2018
Current labor service cost (CLSA)	$	9	20	-	16	-	71
Net interest on DBNL o (DBNA)		3	24	132	103	60	76
Net past service amortization		8	-	1	75	-	245
Reclassification of remeasurements of DBNL recognized in OCI		2	48	20	102	5	63
Net cost of the year		**22**	**92**	**153**	**296**	**65**	**455**
Beginning balance of remeasurement of DBNL (DBNA)		(6)	29	201	162	(65)	(65)
Remeasurements generated during the year		2	19	172	(31)	308	(193)
Recognition of de AGL in OCI		6	-	162	172	153	256
Reclassification of remeasurements recognized in OCI		(2)	(48)	(20)	(102)	(5)	(63)
Final balance of remeasurements of (DBNA) DBNL		-	-	515	201	391	(65)
Increase (decrese) of remeasurements of DBNL or DBNA in OCI		**6**	**(29)**	**314**	**39**	**456**	**-**
Defined benefits cost		**28**	**63**	**467**	**335**	**521**	**455**
Beginning balance of DBNL (DBNA)		22	332	(1,098)	677	(450)	290
Recognition of modifications to the plan in retained earnings (progressive recognition)		-	-	16	(22)	23	(60)
Cost (income) of defined benefits		28	63	(153)	335	(65)	455
Decrease in past services due to transfer or employees (paid to SECOSA)		-	(345)	-	-	-	-
Plan contributions		(50)	-	-	108	-	-
Payments charged to DBNL		-	(50)	-	-	-	-
Restricted funds		-	-	-	-	-	(235)
(Gains) / losses recognized in ORI		-	-	(314)	-	(456)	-
Ending balance of DBNL	$	**-**	**-**	**(1,549)**	**1,098**	**(948)**	**450**

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

(Continued)

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

		Pension plan		**Other post-retirement benefits**	
		2019	**2018**	**2019**	**2018**
Defined benefits obligations (DBO)	$	(1,986)	(1,825)	(2,027)	(1,683)
Plan assets		435	578	1,086	1,110
Financial situation of the obligation		(1,551)	(1,247)	(941)	(573)
Past services to be amortized		(11)	(27)	(7)	(30)
Actuarial losses to be amortized		13	176	-	153
Net projected liability	**$**	**(1,549)**	**(1,098)**	**(948)**	**(450)**

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 the Bank recognize at least 20%, or the total amount remaining in terms of the aforementioned transitory article, however, derived from the employer substitution with SECOSA, the remaining balance mentioned was recognized in the consolidated income statement of the year 2018.

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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 losses
Balance at December 31, 2018 pending of progressive amortization and application during the following two year	$	(57)	329
Remeasurements gradually recorded		40	(315)
Amortization of past services		-	(1)
Balance at December 31, 2019 pending to be amortized gradually during the next 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	$	136	120
Remeasurements gradually recorded		315	434
Reclassification of remeasurements recognized in OCI in the year		(25)	(215)
Remeasurements generated in the year		480	(203)
Final balance of remeasurements		906	136
Deferred IT[1]		(95)	144
Effect in equity, net of deferred IT	**$**	**811**	**280**

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

In the next page there is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2019 and 2018.

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(Millions of Mexican pesos)

		2019	2018
Fair value of the assets at beginning of year	$	1,688	4,403
Transfers to defined contribution fund		-	(58)
Restricted funds		-	235
Return on plan assets		232	(123)
Transfer of plan assets to SECOSA		-	(2,218)
Payments charged to the fund during the year		(399)	(551)
Fair value of the assets at end of year	**$**	**1,521**	**1,688**

During the year 2018, the Bank transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year amounting to $58.

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

The plan assets covering the pension and other post-retirement benefits for retirees consist of 60% debt instruments and 40% equity instruments subject to a trust and managed by a Bank-designated Committee.

(Continued)

(Millions of Mexican pesos, except otherwise stated)

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 below:

	2019		2018	
	Annual rates	**DBO medical expense retirees**	**Annual rates**	**DBO medical expense retirees**
With no modification	6.50%	$ 1,580	6.50%	$ 1,298
1% increase in medical inflation rate	7.50%	1,747	7.50%	1,423
1% decrease in medical inflation rate	5.50%	$ 1,437	5.50%	$ 1,190

As of December 31, 2019 and 2018, the amortization periods in years for unrecognized items related to defined pension and other post-retirement benefits are as follows:

	Pensions Retirement	**Other post-retirement benefits**
2019		
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
2018		
Prior service plan modifications	2	2
Net actuarial loss/(gain) and reclassification of remeasurements DBN(L)A to be recognized in OCI	18.41	18.41

The components of the stress-analysis in pesos as of December 31, 2019 and 2018, are shown in the next page.

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		Pension plan		Other post-retirement benefits	
		2019	**2018**	**2019**	**2018**
Defined benefit obligations (DBO) as of December 31	$	1,986	1,825	2,027	1,683
Significant actuarial assumptions as of December 31 Sensitivity analysis, discount rate 9.50% (+0.50%)	$	(71)	(59)	(97)	(72)
Discount rate 8.50% (-0.50%)	$	76	63	105	78
Long-term inflation rate 3.75% (+0.25%)	$	-	-	6	5
Long-term inflation rate 3.25% (-0.25%)	$	-	-	(6)	(5)

(17) Income taxes and employee 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	**IT**	**ESPS**
Current:				
Bank	$	1,377	-	-
Additional tax provision		11	388	72
Reversed provisions from prior years		(6)	(61)	(22)
Globalcard[1]		418	545	-
Inmobiliaria		3	202	-
Derivatives market entities		44	50	-
Current IT and ESPS		1,847	1,124	50
Deferred IT and ESPS		(5)	(365)	1,207
	$	**1,842**	**759**	**1,257**

[1] Tax generated until September 30, 2019.

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The Bank does not consolidate income tax results with its subsidiaries, thus the information presented below is for informational purposes only.

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

Deferred IT and ESPS:

The deferred tax and ESPS asset at December 31, 2019 and 2018 is analyzed below:

		2019 IT	**2018 IT**
Valuation of financial instruments:			
Trading securities	$	80	170
Available-for-sale securities		(36)	(4)
Cash flow hedge swaps		92	(367)
Expense accruals and others		(653)	(615)
Remaining balance to be deducted of premises, furniture and equipment		257	172
Unearned fees collected		710	788
Pension plan		296	218
Other assets		(66)	3
Remeasurements of defined employee benefits		95	(144)
Foreclosed assets		291	247
Credit reserves surplus		-	64
Future loan write-offs		3,595	3,082
Tax loss carryforwards		-	440
		4,661	4,054
Valuation allowance (1)		-	(64)
	$	**4,661**	**3,990**

(1) At December 31, 2019 and 2018, valuation allowance relates to the credit reserve surplus.

The (unfavorable) favorable effect in consolidated income statement and stockholders' equity, for the years ended December 31, 2019 and 2018 are presented in next page.

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(Millions of Mexican pesos)

		2019	2018	
		IT	**IT**	**ESPS**
Valuation of financial instruments:				
Trading securities	$	(90)	(35)	(68)
Available-for-sale securities		(32)	(11)	(3)
Cash flow hedge swaps		459	(156)	71
Expense accruals and others		(38)	(826)	-
Remaining balance to be deducted of premises, furniture and equipment		85	75	(89)
Unearned fees collected		(78)	276	(171)
Pension plan		78	140	(26)
Remeasurements of defined employee benefits		239	(36)	36
Other assets		(69)	3	-
Foreclosed assets		44	40	(69)
Tax loss carryforwards		(440)	440	-
Future loan write-offs [1]		513	252	(792)
		671	162	(1,111)
	$	**671**	**(949)**	

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

		2019	2018	
		IT	**IT**	**ESPS**
In statement of income:	$	5	365	(1,207)
In equity:		-		
Valuation in available-for-sale securities		(32)	(11)	(3)
Remeasurements of defined employee benefits		239	(36)	36
Valuation of cash flow hedge swaps		459	(156)	71
Allowance for loan losses		-	-	(8)
		671	162	(1,111)
	$	**671**	**(949)**	

(1) Net of valuation allowance.

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The following is an analysis, for information purposes, 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%)
Current tax allocation:				
Adjustment for effects of inflation, net		(919)	276	5%
Valuation of financial instruments		(770)	231	4%
Depreciation and amortization		49	(15)	-
Non-deductibles expenses		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%
Deduction of paid ESPS		(36)	11	-
Commission fees and advance payments		(20)	6	-
Financial instruments gain (loss)		501	(150)	(3%)
Credit card administration fee		434	(130)	(2%)
Other, net		677	(203)	(4%)
Tax loss, net		(1,741)	522	10%
Current tax		4,589	(1,377)	(26%)
Deferred tax allocation:				
Valuation of financial instruments		682	(205)	(4%)
Expense accruals and other		(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%
Fees collected in advance		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%)**

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		Tax base	IT Tax at 30%	Effective rate	ESPS at 10%[1]
December 31, 2018					
Operating income	$	7,274	(2,182)	(30%)	-
Current tax allocation:					
Adjustment for effects of inflation, net		(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%	-
Tax loss, net		(1,467)	-	-	-
Deferred tax allocation:					
Valuation of financial instruments		(406)	122	2%	(16)
Expense accruals and other		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)
Fees collected in advance		(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)**

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.

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

(Continued)

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Other considerations:

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

According to the IT Law, 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.

(18) Subordinated debt issued-

At December 31, 2019 and 2018, the Bank 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								
June-29-18	33,600,000	$	100	15	182	12.30%	$	3,360
Sep-11-18	34,550,000		100	Perpetual	182	11.32%		3,455
Dec-18-14	20,930,000	$	100	10	182	7.40%		2,093
								8,908
Accrued interest payable								138
							$	**9,046**
2018								
June-29-18	33,600,000	$	100	15	182	12.30%	$	3,360
Sep-11-18	34,550,000	$	100	Perpetual	182	11.32%		3,455
Dec-18-14	20,930,000	$	100	10	182	7.40%		2,093
								8,908
Accrued interest payable								136
							$	**9,044**

(19) Stockholders' equity-

(a) Structure of capital stock-

On June 29, 2018, at the Extraordinary General Stockholders´ Meeting, it was agreed to increase the capital stock by $150, through the issuance of 150,000,000 of ordinary shares, series "F", with a nominal value of one peso each.

On November 22, 2018, at the Extraordinary General Stockholders´ Meeting, it was agreed to increase the capital stock by $150, through the issuance of 150,000,000 of ordinary shares, series "F", with a nominal value of one peso each.

After the stockholder´s equity increases mentioned above, at December 31, 2019 and 2018, the Stockholders' equity is comprised of 9,153,500,000 common shares, with a par value of one peso per share, divided into two series: 9,153,499,916 shares "F" series shares and 84 "B" series shares for both years.

(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 December 31, 2019, there was no dividends decree or payed. On June 6, 2018, the Bank decreed and paid dividends for $6,695. As of December 31, 2018, there are no dividends pending payment.

(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 Bank 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 Bank'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.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

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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), like a Bank without subsidiaries amount to $15,832 and $2,997, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries.

(e) Capitalization (unaudited)-

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).

		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

(Continued)

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Equity and supplementary ration

		2019	2018
Basic Capital 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

<u>Total weighted assets at risk as of December 31, 2019:</u>

		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
Grupo VI (weighted al 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
Total credit risk, carried forward	$	359,502	28,761

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		Risk Weighted assets	Capital requirement
Total credit risk, brought forward	$	359,502	28,761
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

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
Total market risk, carried forward	$	19,256	1,541

(Continued)

(Millions of Mexican pesos)

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

(Continued)

(Millions of Mexican pesos)

		Risk Weighted assets	Capital requirement
Total credit risk, brought forward	$	319,008	25,521
Weighted assets subject to risk and capital requirement from operational risk		14,838	1,187
Total market, credit and operational risk	$	353,102	28,249
Annual average of positive net income for the past 36 months		$	20,414

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.

(Continued)

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.

(20) Related-party balances and transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc. According to the Bank’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 December 31, 2019 and 2018, are as follows:

		2019	**2018**
Holding Company			
Interest paid	$	22	17

(Continued)

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		2019	2018
Other related parties			
Income:			
Interest received	$	486	730
Rents and maintenance		70	27
Commissions		86	114
Financial advisory		-	55
Intermediation income		22	(147)
Co-distribution and administration services		412	433
Others		3	17
Expenses:			
Interest paid	$	866	412
Commissions		3	5
Interest and premiums on repurchase agreement		1,402	1,302
Financial advisory		-	1,265
Rents		20	19
Administrative services		8,998	-
Management and promotion		25	765
Issuance and placement of debt instruments expense		41	84
Other expenses		26	-

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

		2019	2018
Holding company			
Payable			
Demand deposits	$	420	130

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		2019	2018
Other related parties			
Receivable:			
Cash and cash equivalents*	$	(59)	(865)
Debtor on repurchase / resell agreements		1,113	3,467
Derivatives		4,697	92,365
Commercial loans		3,578	8,778
Co-distribution		37	35
Prepaid expenses		-	292
Debtors on settlement of operations		2,569	322
Collaterals delivered		2,280	-
Other accounts receivable		6	4
Payable:			
Demand deposits	$	610	1,870
Creditor on repurchase / resell agreements		18,852	15,518
Collateral sold or pledge		-	5,806
Derivatives		2,129	93,054
Creditors on settlement of transactions		3,644	64
Administrative services		910	226
Other accounts payable		55	-

*Corresponds to foreign currency to be delivered

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 Bank where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 35% of 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 $47 and $112, respectively.

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(21) Memorandum accounts-

(a) 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 Bank 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.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2019 and 2018, is shown as follows:

		2019	2018
Trust:			
Administration	$	199,214	188,004
Guarantee		2,977	3,681
		202,191	191,685
Mandates		29,296	29,081
	$	**231,487**	**220,766**

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".

(c) 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, is shown in the following page.

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(Millions of Mexican pesos)

		2019	2018
Securities in custody:			
Securities vault	$	114	103
Investment transactions		40,195	2,663
Securities transactions		8,802	8,802
Other		5,487	7,587
		54,598	19,155
Derivatives transactions:			
Futures		22,865	51,387
Swaps		619,344	472,944
Options		95	2,355
	$	**642,304**	**526,686**
Total assets in custody or under management	**$**	**696,902**	**545,841**

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

Collaterals received and collaterals sold or delivered by the Bank at December 31, 2019 and 2018 are analyzed as follows:

Collaterals received by the entity:

		2019	2018
Collaterals received by the entity:			
Repurchase / resell agreements:			
LD BONDESD	$	1,716	2,204
IS BPA		21	4,884
IM BPAG		-	2,298
M BONOS		450	2,280
BI CETES		263	500
CEBIC		-	-
CEDE		124	400
		2,574	12,566
Guarantees received for derivatives transactions		411	2,176
Guarantees received for credit operations		29,573	28,315
	$	**32,558**	**43,057**

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Collaterals received and sold or pledged by the entity:

		2018
LD BONDESD	$	1,616
M BONOS		2,280
IS BPA		4,885
BI CETES		500
Total	**$**	**9,281**

(e) Investments on behalf of customers-

As of December 31, 2019 and 2018, funds managed by the Bank 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 any funds invested in the Bank's own instruments forms part of the liabilities included in the consolidated balance sheet.

(22) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: "Credit and services" (acceptance of deposits, granting of loans) and "Trading and treasury" (securities, derivatives and currency transactions). For the years ended December 31, 2019 and 2018, income by segment is analyzed in the next page.

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		Credit and services	Trading and treasury	Total
December 31, 2019				
Interest income, net	$	24,834	(1,572)	23,262
Commissions and fees, net; result from trading and other operating income (expense)		6,488	641	7,129
Net operating revenues		31,322	(931)	30,391
Allowance for loan losses		(5,885)	-	(5,885)
Administrative and promotional expenses		(16,654)	(1,063)	(17,717)
Income before income taxes and equity method in the results of associated companies		8,783	(1,994)	6,789
Equity method in the results of associated companies				1
Income taxes and deferred income, net				(1,842)
Net income			**$**	**4,948**
December 31, 2018				
Interest income, net	$	22,118	140	22,258
Commissions and fees, net; result from trading and other operating income (expense)		6,307	172	6,479
Net operating revenues		28,425	312	28,737
Allowance for loan losses		(3,518)	-	(3,518)
Administrative and promotional expenses		(16,356)	(929)	(17,285)
Income before income taxes and equity method in the results of associated companies		8,551	(617)	7,934
Equity method in the results of associated companies				1
Income taxes and deferred income, net				(759)
Net income			**$**	**7,176**

(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:

Interest income:

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

		Credit and services	Trading and Treasury	Total
December 31, 2019				
Cash and cash equivalents	$	-	1,868	1,868
Margin accounts		-	116	116
Investment securities		-	5,915	5,915
Securities on repurchase / resell agreements		-	1,045	1,045
Current loan portfolio		41,048	-	41,048
Past due portfolio		105	-	105
Loan origination fees		623	-	623
	$	**41,776**	**8,944**	**50,720**
December 31, 2018				
Cash and cash equivalents	$	-	1,906	1,906
Margin accounts		-	56	56
Investment securities		-	4,029	4,029
Securities on repurchase / resell agreements		-	1,931	1,931
Current loan portfolio		35,182	-	35,182
Past due portfolio		72	-	72
Loan origination fees		537	-	537
	$	**35,791**	**7,922**	**43,713**

(Continued)

(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	$	15,617	74	12,967	48
Financial institutions		3,444	2	3,016	-
Consumer		8,682	28	7,298	21
Residential mortgages		13,018	1	11,398	-
Government entities		909	-	1,040	3
		41,670	105	35,719	72
	$	**41,775**		**35,791**	

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 loans	$	235	187
Consumer loans		253	247
Residential mortgages loans		135	103
	$	**623**	**537**

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

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Interest expense:

Interest expense for the years ended December 31, 2019 and 2018 is comprised of the following:

		Credit and services	Trading and Treasury	Total
2019				
Demand deposits	$	4,195	-	4,195
Time deposits		12,128	-	12,128
Debt securities issued		-	2,395	2,395
Bank and other borrowings		-	2,885	2,885
Subordinated debt issued		-	973	973
Securities on repurchase/resell agreements		-	4,202	4,202
Issuance and placement of debt securities expense		-	42	42
Loan origination fees and expenses		619	-	619
Interests in charge associated with the global account of deposits without movements		-	19	19
	$	**16,942**	**10,516**	**27,458**

		Credit and services	Trading and Treasury	Total
2018				
Demand deposits	$	3,319	-	3,319
Time deposits		9,884	-	9,884
Debt securities issued		-	2,020	2,020
Bank and other borrowings		-	1,871	1,871
Subordinated debt issued		-	493	493
Securities on repurchase/resell agreements		-	3,265	3,265
Discounts debt issuance		-	1	1
Issuance and placement of debt securities expense		-	104	104
Loan origination fees and expenses		470	-	470
Interests in charge associated with the global account of deposits without movements		-	28	28
	$	**13,673**	**7,782**	**21,455**

(Continued)

(Millions of Mexican pesos)

(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		353	329
Trust activities		224	237
Fund transfers		161	145
Electronic banking services		153	136
Credit transactions		2,536	2,382
Purchase or sale of foreign currencies		126	101
Administration fees		445	552
Other fees and commissions collected		972	920
	$	**5,136**	**4,973**

(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	$	36	2
Derivatives:			
Trading		(532)	(1,007)
Hedging		(5)	11
Available-for-sale hedge securities		(13)	1
Foreign currencies and precious metals		(178)	351
		(692)	**(642)**
Realized gain or (loss):			
Investment securities		(98)	(235)
Derivatives:			
Trading		612	(30)
Hedging		-	2
Transaction costs		(1)	(1)
Foreign currencies and precious metals		820	1,078
		1,333	**814**
	$	**641**	**172**

(Continued)

(Millions of Mexican pesos)

(e) Other operating income (expenses)-

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

		2019	2018
Revenue from acquisition of credit portfolio, net	$	-	53
Dividends		99	180
Donations		(33)	(35)
Income on sale of foreclosed assets		131	131
Income from securitization		-	16
Taxation		-	4
Other recoveries		-	1
Income from credit insurance		1,244	1,104
Armored transportation fees		11	16
Distribution of shares of mutual funds		412	433
Loans to employees		4	131
Food coupons		63	124
Cancellation of allowance for loan losses excess		(500)	(202)
Cancellation of liabilities		253	66
Others, mainly support services		546	225
	$	**2,230**	**2,247**

(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Bank as of and for the years 2019 and 2018:

	2019			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.37%	2.23%	2.25%	2.20%
Coverage of past-due loan portfolio index	118.6%	121.5%	117.5%	125.8%
Operating efficiency (administrative and promotional expenses / average total assets)	3.4%	3.2%	3.0%	3.2%
ROE (annualized net income for the quarter / average stockholders' equity)	6.9%	9.7%	13.7%	8.2%
ROA (annualized net income for the quarter / average total assets)	0.6%	0.9%	1.3%	0.8%
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)	66.5%	57.4%	59.7%	58.8%
Financial margin after allowance for loan losses / Average earning assets	3.1%	3.4%	3.9%	3.0%

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	2018			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.18%	2.15%	2.06%	2.20%
Coverage of past-due loan portfolio index	120.8%	126.1%	131.4%	135.7%
Operating efficiency (administrative and promotional expenses / average total assets)	4.4%	3.4%	3.2%	3.1%
ROE (annualized net income for the quarter / average stockholders' equity)	11.2%	12.8%	18.1%	16.4%
ROA (annualized net income for the quarter / average total assets)	1.1%	1.3%	1.9%	1.8%
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)	62.0%	57.1%	52.3%	47.9%
Financial margin after allowance for loan losses / Average earning assets	4.0%	3.9%	4.6%	3.8%

(1) For approval of the Central Bank.

(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 $897 and $718, respectively.

(b) Claims and trials-

In the normal course of the operations, the Bank is 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 Bank has made necessary provisions. During 2018, the nullity lawsuits and claims filed against the Tax Administration Service (SAT) were resolved for the fiscal years: 2005 and 2007, whose claims mainly comes from differences in criteria applied in deduction for credit reserves, VAT and ESPS of the Companies.

(24) Subsequent event-

On January 31, 2020, the Bank sold a fully-defaulted 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 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.

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 Bank's risk management objectives, guidelines and policies. At least once a year, the Board of Directors approves 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 and Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. In like manner, the UAIR has policies for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Bank'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, technological, among others), on the Risk Corporate Management, which in turn is organized into 7 managements designed to monitor and reduce the risks to which the Bank is exposed; this in order to ensure an adecuate risk management to comply with the risk profile wanted and defined by the Management Board, and also to improve quality, diversification and composition of the diferent portfolios, optimizing the risk-return ratio.

(Continued)

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 Bank 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.

(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 Bank maintains business positions for its own account.

The Bank'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 mitigating factors 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. Furthermore, the models used to manage market risk are reviewed at least biannually; and the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as the Market Risk indicators. It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the Bank's risk appetite.

Market risk is managed is conducted through specialized systems that perform risk estimates such as risk value, sensitivity and stress tests.

(Continued)

(Millions of Mexican pesos)

The Bank's securities trading activities are directed primarily to providing service to its customers, therefore, for this purpose, the Bank 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 Bank 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.

Value-at-risk (VaR)

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

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

The global VaR observed at the end of a day during the fourth quarter of 2019 was $22; as a percentage of net capital ($55,233, latest figure available) at the period's end is equal to 0.03%. During the fourth quarter of 2019, the average one-day VaR, broken down by the Bank's risk factors is as follows:

Risk factor	December 2019 Average VaR 1 day	December 2018 Average VaR 1 day
IR (Interest Rate)	16.02	3.14
EQ (Equity)	20.63	0.10
FX (Foreign Exchange)	0.34	0.49
Total	21.99	3.14

(Continued)

(Millions of Mexican pesos)

The distribution of the exposure to market risk (position vs. value at risk) of the trading portfolio as of December 31, 2019 is as follows:

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Money market	$	40,169	44,662		
Derivatives market					
SC Swaps (MXN / USD)		618,476	615,700		
CC Swaps		26,128	26,932		
Caps & floors (MXN / USD)		62,963	61,695		
Market portfolio of interest rates and interest rate derivatives	$	747,736	748,989	13.36	16.02
Equity shares	$	28	24		
Capital derivatives		6,948	6,658		
Equity shares portfolio	$	6,976	6,682	0.44	0.34

		Position		VaR	
		Closing	**Average**	**Closing**	**Average**
Spot FX	$	94	47		
FX Derivatives		19,872	16,626		
FX FWD		14	14		
FX Options		19,857	16,612		
Foreign exchange portfolio	$	19,966	16,673	20.62	20.63

(Continued)

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

December 2018	**Position**	**VaR**
Bank	**742,316**	**2.871**
Money market	19,575	2.679
SC Swaps (MXN / USD)	578,075	
CC Swaps	24,633	
Caps & floors (MXN / USD)	54,230	
Derivatives market		1.040
Market portfolio of interest rates and interest rate derivatives	676,513	2.759
Equity shares	8	0.260
Capital derivatives	8,628	0.852
Equity shares portfolio	8,636	0.997
Spot FX	3	0.038
FX FWD	42,647	
FX Options	14,517	
FX Derivatives	57,164	0.018
Foreign exchange portfolio	57,167	0.043

Figures expressed in added value
Only trading positions are included
Capital derivatives include local and international underlying
Money market (bonuses) is expressed in net figures (Long-Short)
Included the Treasury's position

** VaR expressed in millions of pesos.*
** VaR is only presented because the position is in number of contracts operated in MexDer and they are presented in separate tables.*
** The Forwards position is a gross position (long + short) and the exchange table position is net (long - short)*
** The position is expressed in millions of US dollars*
** Included the Forward Treasury's position.*

Stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits.

The stress testing during the last quarter of 2019 shows a maximum loss of $470, which compared with the group limit of 130 Canadian dollars ($1,889) 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.

(Continued)

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.

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

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

Daily, the market risk sensitivities are calculated for each portfolio to which the Bank is exposed. During 2019, no changes were made to the assumptions, methods or parameters used for this analysis.

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

Interest rate portfolio

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

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

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.

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

Stock portfolio and IPC derivatives

Equity shares

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

Equities derivatives

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

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

In the case of non-linear products such as warrants and options, the Delta and the "Greeks". 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 index or stocks assumes a known continuous compound dividend rate. Dividends, however, are an estimate and therefore an unknown variable, representing a risk factor for the valuation and the consequent loss and profit analysis of operations 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 Bank, measurement is made by increasing the dividend rate 1% (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.

(Continued)

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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 basis point 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 basis point is made. In addition, a one basis point change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 basis point.

Quantitative information on sensitivities.

Interest rate sensitivities

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

Sensibility 1pb		**December 2019**	**December 2018**
Money market	$	0.937	0.286
Derivatives market		(0.176)	0.097
SC Swaps (MXN / USD)		(0.181)	0.060
CC Swaps		0.005	0.010
Caps & floors (MXN / USD)		0.000	0.027
Interest rate market and rate derivatives portfolio		0.762	0.390

At December 31, 2019, the Bank presents sensitivity in the interest rate portfolio of $0.762.

Equity shares and IPC derivatives

Sensitivities for the equity shares and IPC derivatives portfolio at December 31, 2019 and 2018, are not material.

(Millions of Mexican pesos)

FX and FX derivatives portfolio

Below are the sensitivities of the exchange table (spot / forward) and the portfolio of currency options as of December 31, 2019:

Sensibility 1pb		**2019**	**2018**
Spot FX	$	9.432	-
FX Derivatives		0.000	(0.001)
FX FWD		0.000	-
FX Options		0.000	(0.001)
Currency derivatives, FX portfolio		9.432	(0.001)

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 Derivatives.

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

	2019		**2018**	
	Exposure	Limit	Exposure	Limit
Casa de Bolsa	$ 21		5	
Banco	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 follows:

	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

(Continued)

(b) Liquidity and interest rate risk-

The Bank 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 Bank will be able to meet the totality of its obligations as they become due and payable. To such end, the Bank applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Bank 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 Bank Group Treasury but condensed and authorized by the Assets and Liabilities Committee, where various departments of the Bank 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 annually. 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 Bank'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 Bank's risk appetite.

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

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

(Continued)

The liquidity risk is monitored and controlled through accumulated liquidity gaps . These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, thus creating a daily gap that corresponds to the differences between payment obligations and receivables generated day to day. The liquidity gaps include the Bank's contractual maturity flows (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 December 31, 2019 and the average of the same year were as follows:

	December 2019	Average position
30-day cumulative gap (MXN+UDIs + USD)	$ 3,361	2,577
Liquid assets (under CCL metric)	46,414	41,720

Interest rate risk arises as a result of funding, placement and investment activities of the Bank 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.

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.

(Continued)

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

		2019(1)		2018(2)	
		December	**Average**	**December**	**Average**
Economic value	$	(1,026)	(407)	(61)	(39)
Margin sensitivity		469	562	657	616

(1) Sensitivities under +100 bps for Economic Value and Margin Sensitivity, this based on the interest rate model approved by the Risk Committee in November 2019.

(2) Sensitivities under -100 bps for Economic Value and +100 bps for Margin Sensitivity.

Treatment for securities available for sale

Below is the valued position for the Bank available for sale investments at December 31, 2019 and 2019 average:

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

Available-for-sale securities, as being integral part of the balance sheet management for the Bank, are monitored under the sensitivity measurements already explained (Economic Value and margin sensitivity) and therefore are excluded in the VaR calculation.

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The summary of hedging derivatives at December 31, 2019 and average of the fourth quarter used by the Bank 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 Bank and the risk factor sensitivity is measured within the Economic Value of the Bank and Margin Sensitivity is as follows:

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)	**-**	**4,090**
0y - 3y	-	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)	**186**	**61**
0y - 3y	19	61
3y - 5y	155	-
5y - 10y	12	-
CCIRS paid at fixed rate (fair value in USD)	**44**	**10**
0y - 3y	10	10
3y - 5y	34	-

(Continued)

Bank's rating downgrade-

The Bank 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 Bank would have on 3 levels at December 31, 2019 and the annual average of 2019 are shown below.

		2019	
		December average	**Annual average**
Downgrade (3 levels)	**$**	1,194	1,417

(c) Credit risk-

Potential loss due to default by a borrower or counterparty in transactions carried out by the Bank in loan portfolio, securities portfolio, transactions in derivatives, etc.

The Bank's credit risk management is based on the application of well-defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, credit analysis, close monitoring and a credit risk rating model, this credit risk management incorporates financial instruments.

The Bank 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, risk rating of the borrower, 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.

In the case of the 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 in the case of identified risks.

(Continued)

For mortgage and consumer portfolio portfolios, there are also policies and procedures established to manage the authorization processes of new credits and monitor the credit quality of the different credit portfolios.

Credit risk concentrations - The Bank 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, in its case.

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 including financial instruments and derivative, are monitored by the UAIR; the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of specific 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 methodologies for managing credit and counterparty risk.

Methodology used to determine allowances for loan losses - The Bank 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.

(Continued)

(Millions of Mexican pesos)

Commercial loans

The Bank applies the Standard Models determined by the Banking Commission for the entire portfolio; at December 31, 2019 the portfolio is comprised as follows:

Group	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 14MM UDIS *	Appendix 21	21.36%
Corporations and Individuals with business activities with income or sales greater than 14MM 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 y 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/or 2.
- Clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and/or 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.

(Continued)

Except to rate portfolio secured by or owned by the Federal Government, Central Bank and the Mexican Bank Savings Protection Institute or IPAB, in accordance with the Rule for rating the Loan Portfolio of Multiple Banking Institutions.

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 Bank has an application, used to control rating systems in which the credit application and authorization processes are executed, 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.

(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 Bank's total portfolio, was as follows:

Metrics[1]	**December 2019**[2]	**Average Q 2019**[2]	**December 2018**
Expected loss	$ 5,023	4,747	3,723
Non expected loss	$ 21,836	21,352	19,976

1/ Excludes past due portfolio.

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

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:

	2019		**2018**
Total exposure (current more past due) loan portfolio	**December**	**Fourth quarter average**	**December**
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 [4]	**$ 440,086**	**434,522**	**395,773**

(Continued)

[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.

(Millions of Mexican pesos)

1/ Incorporates non-revolving personal loans (payroll and open market), Scotianline (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.

Risk Parameters (PD, LGD and ED) of the credit portfolio (December 31, 2019)

Portfolio	Exposure to default (ED)[1]	Probability of default (PD)[2]	Loss given default (LGD)[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%

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%).

Credit risk management information for the commercial portfolio

The total amount of gross exposures with credit risk as of December 31, 2019, broken down by the main types of credit portfolio is made up as shown in the following sheet.

(Continued)

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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**

Nota: It includes letters of credit.

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:

Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowance
(Figures in millions of pesos at December 31, 2019)

Sector industrial	**Loan portfolio**		**Nonperforming**			**Total exposure**	**Allowance[1]**	**Variation allowance vs previous quarter (September 2019)**	**Average of days Past-due**
	Current loans	**Past-due loans**	**Current loans**	**Past-due loans**	**Opening balance**				
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	13,685	2	17	82	131	13,786	275	(49)	494
Food and beverages	24,885	2	241	1,066	1,445	26,194	1,088	21	454
Oil & Gas	16,855	3	-	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)

(Millions of Mexican pesos)

Distribution of exposures by region

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, preventive reserves for credit risks are shown below:

Geographical distribution by region of commercial loans
(Figures at December 31, 2019)

Region	Loan portfolio		Nonperforming		Total exposure December 2019	Allowance[1]
	Current	Past-due	Current	Past-due		
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/ Not included additional allowances.
2/ Not included (Total Exposure of $3,730, or Consumer (Retail) for $34).

Breakdown of the current and past due portfolio as of December 31, 2019 by remaining term is detailed below:

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

(Continued)

(Millions of Mexican pesos)

List of credit risk allowances

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

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.

The reconciliation of the changes in preventive reserves for loans that are troubled as of December 31, 2019 is detailed below:

Allowance for loan losses – Non-performing loans Commercial Portfolio *(at December 31, 2019)*	**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).*

(Continued)

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Financial Information of the 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).

Geographical distribution of the exhibitions by the main states

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

Financial information by geographical distribution of the loan portfolio ***(At December 31, 2019)***	**Mortgage loan portfolio[1]**	**Non revolving loan portfolio[2]**	**Revolving loan portfolio**	**Total**
Mexico City	56,191	25,924	3,944	86,059
State of 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
Others	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 restructure.*

(Continued)

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Distribution of exposure by product

Distribution of exposure by product at December 31, 2019, is as follows:

Loan portfolio *(at December 31, 2019)*	**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.*

Current and past due loan portfolio by remaining term

Financial information for current 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 loans.*
[2]*Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*

Financial information for past-due loan portfolio by remaining term *(Plazo promedio)*	**Months**	**Years**
Mortgage portfolio [1]	149	12
Non-revolving loans [2]	25	2
Revolving loans	-	-

[1]*Includes the portfolio corresponding to FOVI loans*
[2]*Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*

(Continued)

(Millions of Mexican pesos)

Financial information for 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 loans.*
[2] *Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*

Exposures distribution of the current and past due portfolio by product

Financial information loan portfolio status *(at December 31, 2019)*	**Current**	**Past-due**	**Total**
Mortgage portfolio [1]	$ 133,629	3,717	**137,345**
Non-revolving loans [2]	29,922	943	**30,865**
Revolving loans	14,678	961	**15,639**

[1] *Includes the portfolio corresponding to FOVI loans.*
[2] *Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*

Allowance for loan losses classified under Article 129

Allowance for loan losses by degree of risk of the Credit Portfolio (at 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] *Exclude the portfolio corresponding to FOVI loans, $81*
[2] *Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*

(Continued)

(Millions of Mexican pesos)

Variation in allowance for loan losses and impaired loans during the period

Variation of allowance for Retail 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] *Exclude the portfolio corresponding to FOVI loans, $81.*
[2] *Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal*

Non-performing loans broken down by significant states including, the amounts of the preventive reserves for credit risks related to each geographic area [3]

Financial information by geographical distribution of the non-performing loans* *(at December 31, 2019)*	**Mortgage portfolio [1]**		**Non-revolving loans [2]**		**Revolving loans**	
	Balance	**Allowance**	**Balance**	**Allowance**	**Balance**	**Allowance**
Mexico City	$ 845	255	714	559	212	162
State of 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	119	38	16	13	35	26
Puebla	116	33	8	6	24	18
Others	1,045	321	116	90	336	256
Total	**$ 3,717**	**1,131**	**943**	**738**	**961**	**732**

[1] *Exclude the portfolio corresponding to FOVI loans, $81.*
[2] *Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.*
**Note: Non-performing loans portfolio is equal to the past due portfolio.*

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Reconciliation of changes in allowance for loan losses to non-performing loans[3]

Variations in allowance for non-performing loans *	Mortgage Portfolio [1]	Non-revolving loans [2]	Revolving loans
Allowance at September 30, 2019	**$ 1,014**	**546**	**106**
Releases[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]Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.
[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.*

Variations in allowance for non-performing loans *	Mortgage Portfolio [1]	Non-revolving loans [2]	Revolving loans
Allowance at December 31, 2018	**$ 714**	**508**	**106**
Releases[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 loans and the portfolio of loans purchased from securitized loans.
[2]Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures, Personal.
[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.*

(Continued)

Credit risk mitigation techniques (Applicable to Commercial loans portfolio)

The Bank 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:

Coverage	Standard methodology
Eligible financial collateral	$ 1,446
Eligible non-financial collateral	32,080
Personal guarantees	1,400

The Bank does not have credit derivatives operations at 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 and real.

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.

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- When a loan is covered 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.

- In syndicated loans with other Credit Institutions, the Bank 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:

Financial instrument rating[1]		**Securities held to maturity**	**Securities available for sale**	**Trading securities**	**Total for risk**	**% Concentration**
mxAAA[2]	$	4,943	19,680	26,335	50,958	59.6%
AA+[3]		-	377	-	377	0.4%
A-[3]		-	11,500	13,033	24,533	28.7%
BBB+[3]		-	8,357	843	9,200	10.8%
BBB[3]		-	457	-	457	0.5%
Without qualification4		-	-	27	27	0.0%
Total as December 31, 2019	**$**	**4,943**	**40,371**	**40,238**	**85,552**	**100%**
Concentration	**%**	**5.8%**	**47.2%**	**47.0%**	**100%**	
Total as December 31, 2018	**$**	**4,804**	**38,443**	**19,986**	**63,233**	**100%**
Concentration	**%**	**7.6%**	**60.8%**	**31.6%**	**100%**	

1/ Includes live sales operations.
2/ Local S&P Ratings
3/ Global S&P Ratings
4/ Includes stocks and investment funds.

(Continued)

(Millions of Mexican pesos)

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) was 0.02% and 0.03% respectively, while the unexpected loss was 0.18% and 0.22% respectively.

Credit risk in derivative transactions

In addition to the risk measures mentioned earlier for derivative transactions, the Bank quantifies its credit exposures in order to control the use of lines granted to its counterparties for the operation of derivative instruments. This control is carried out by calculating future potential exposure (PFE) at the counterparty level through specialized tools, incorporating mitigating risk elements such as netting agreements, collateral agreements and collateral. There are counterparty risk policies and monitoring of established limits that contemplate the process to be followed in the event of excesses occurring in them.

Following is presented the potential future exposure by counterparty credit risk and concentration by type of counterparty as of December 31, 2019 and 2018:

Type of counterparty	Potential future exposure	Concentration (%)
December 2019		
Financial institutions	$ 3,917	55%
Corporations	3,227	45%
Total maximum exposure	**$ 7,144**	**100%**
December 2018		
Financial institutions	$ 4,147	70%
Corporations	1,782	30%
Total maximum exposure	**$ 5,929**	**100%**

1/ The three mayor exposures by counterparty represent 20% of the total amount.

Methodology for setting credit limits for counterparties and capital allocation - The Bank, 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.

(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 adjusted value for credit valuation or CVA for its acronym in English.

The following table shows the gross fair value, the compensation benefit and the offset exposure at December 31, 2019 and 2018:

Type of counterparty	Gross Fair Value*	Offset Exposure
December 2019		
Financial institutions	$ 6,478	1,690
Corporations	1,497	1,413
Total	**7,975**	**3,103**
December 2018		
Financial institutions	20,890	4,090
Corporations	363	145
Total	**$ 21,253**	**4,235**

* *It refers to the positive value of market valuation and also represents the current potential exposure.*

Also, the deposit guarantees and/or values held by the Bank at December 31, 2019 and 2018 amount to $947 and $3,033, respectively.

The Bank has the guidelines of BNS 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 Bank, has implemented policies and procedures enabling them to have an appropriate operational risk management process, which are mentioned in the next page.

(Continued)

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 all the Bank.

Operational Risk Assessment

The Bank has a structured methodology for assessing operational risk, which allows the Bank 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.

During 2019 period, the Bank recognized operational risk losses of $379, and the operational risks at December 31, 2019, which if materialized will have a negative impact, amount to $124, $5 correspond to operational risk and $119 to legal risk, the 100% of the exposure has been provisioned.

Operational risk tolerance levels

This is an operational loss management tool that enables each 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.

Key risk indicators (KRI).

This process allows the Bank 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.

(Continued)

Capital Calculation.

The Bank uses the standard alternative method to determine its capital requirements for operational risk. Scotia Derivados does not determine capital requirements for its operational risk exposure.

Estimate of legal risk losses

There is 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 customers of the Bank.

In order to attend to requirements of regulations in terms of technological risk, the Bank 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)

(Millions of Mexican pesos)

Disclosure Form of the Liquidity Coverage Ratio (LCR)
Reporting period: October - December 19
Table 1.1 Disclosure Form of the Liquidity Coverage Ratio[2]

		Unweighted amount (average)	Weighted amount (average)
COMPUTABLE LIQUID ASSETS			
1	**Total Computable Liquid Assets**	**Non applicable**	**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**	**No aplica**	**291.16**
10	**Additional requirements:**	**223,466.72**	**19,575.89**
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**	**No aplica**	**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**	**38,645.79**
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**No aplica**	**49,578.10**
22	**TOTAL NET OF CASH OUTFLOWS**	**No aplica**	**38,599.25**
23	**LIQUIDITY COVERAGE RATIO**	**No aplica**	**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 and the change on its main components.*

[2] Previous figures subject to review of the Central Bank.

At December 31, 2019, the main changes that impacted the CCL are the following (considering a 30 day time window):[3]

a. 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.

b. 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.

c. 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.

(Continued)

[3] 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 [4];*

Change of 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 liquid assets weighted	**100%**	**100%**	**100%**

(e) *Concentration of financing sources;*

		2019	
Concentration of financing sources	***October***	***November***	***December***
DEPOSIT FUNDING			
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%**
BANK AND OTHER BORROWINGS			
Due on demand	**0%**	**0%**	**0%**
Short-term	**4%**	**4%**	**6%**
Long-term	**6%**	**8%**	**8%**
Total	**100%**	**100%**	**100%**

(Continued)

[4] Computable liquid assets under the guidelines established by the Central Bank.

(f) Exposures in derivative financial instruments and possible margin calls;

The Bank negotiates derivative products on behalf of its clients and takes positions on its own account, carries out transactions with derivative financial instruments, for hedging and/or trading purposes in accordance with established policies.

The general objectives of the derivative products that the Bank operates are the following:

- o Offer derivative financial instruments in the market, with a specific risk-performance profile, to meet the client's needs according to their risk profile.
- o 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.
- o Carry out negotiation with derivative products with the purpose of generating higher revenues.
- o Cover specific products or general risks, as well as optimize the management 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
Without compensation agreement	4,599
Possible margin call (December 2019)	
Collateral in Transit	$ 58
Downgrade (December 2019)	
Downgrade 3 levels	$ 1,729

The Bank's exposure to derivative financial instruments at the closing of December 2019 is as follows:

Net Exposure Derivatives	**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 Bank there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products.

The different areas of the Bank that generate business must inform in advance at least 24-48 hours in the different committees (pipeline) or directly to the Group Treasury, its short, medium and long term strategy, in order to program its funding structure to meet those commitments.

(i) Outflows and entries cash flows that, if appropriate, are not captured in this framework, but which the Institution considers relevant because of its liquidity profile.

It is important to mention that for the calculation of the Liquidity Coverage Ratio, the cash flows of outflows and entries at the contractual level are recorded; however, the Bank 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 Bank has the possibility to anticipate and take measures in order to meet the commitments after this period.

(Continued)

Likewise, the Institutions shall at least disclose the information corresponding to the immediately preceding last 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 Bank in terms of liquidity, it is established that the Bank 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 Bank establishes deposit concentration limits with the purpose of ensuring the diversification of its sources of funding among its relevant currencies.

Deposits concentration

Concept	Limit
Deposits concentration (MXN)	4,500
Deposits concentration (USD)	100

On the other hand, the Bank 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.

(Continued)

(Millions of Mexican pesos)

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:

	Closing balance	**Average balance**	**Limit**
30-day cumulative gap (MXN + UDIs + USD)	$ 3,361	2,577	(18,000)
Liquidity Buffer (métrica CCL)	$ 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 institution'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 Bank 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 Bank 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 Group Treasury and involved areas in order to correct any deviation that could impact the Bank'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 Bank 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

(Continued)

In order to mitigate liquidity risk, the Bank has established prudent guidelines, policies and procedures, paying particular attention to:

- o Measurement, monitoring and forecasting of commitments involving cash flows for the major currencies managed by the Bank (MXP + UDIs and USD).
- o 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
- o Maintain diversified funding sources.
- o Establish correspondent and Bank borrowings programs to help maintain market access.
- o Implement and maintain programs for the issuance of liabilities, and portfolio discount with specialized funds
- o Maintain operational capacity in the liquidation systems established by the Central Bank, considering for this the guarantee requirements and limits established for this purpose
- o Maintain liquid assets reserves to meet operating needs and contingencies of liquidity needs.

The Liquidity Contingency Financing Plan incorporates the corrective actions that the institution 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:

- o Increase in the expected loss of credit portfolios
- o Increase in withdrawal of deposits
- o Disposal of lines of credit
- o Increase in the Bank's obligations due to degradation of the institution's rating
- o Exit of the main depositors of the Bank
- o 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 Bank.

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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 Bank would have to put in place in case of contingency.

(e) A description of contingent financing plans.

Periodically, the Group reviews all aspects of liquidity for the management of potential risks. The Contingency Liquidity Financing Plan is an integral component of this review and provides a frame of reference for determining the actions to be taken in the a crisis event and to be able to reestablish the Bank'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 Financial 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).

(Continued)

(26) Recently issued financial reporting standards-

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, 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 FRS listed below:

FRS B-17 "Determination of fair value"- FRS B-17 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 FRS.

FRS 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 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.

FRS C-9 *"Provisions, Contingencies and Commitments"* - Some of the primary aspects covered by this FRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to FRS C-19 "Financial instruments payable".

(Continued)

- The definition of "liability" is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable".

FRS C-16 *"Impairment of financial instruments receivable"*- FRS C-16. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this FRS 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.

FRS C-19 "Financial instruments payable"- Some of the main points covered by this FRS 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.

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- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

FRS C-20 *"SPPI Financing instruments receivable"*- Some of the main aspects resulting from the adoption of this FRS 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 financial instruments, unless the entity changes its business model.

- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

FRS 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.

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FRS 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.

***FRS D-5 "Leases"* -** Main changes included the following:

The accounting standard introduces a single model of recognition of leases by the lessee and requires the lessee to recognize the assets and liabilities of all leases with a duration of more than 12 months, unless the underlying asset is of low value. You are required to recognize a right-of-use asset that represents your right to use the underlying leased asset and a lease liability that represents your obligation to make lease payments.

The following aspects of the new model are considered to be the most significant and important changes for tenants:

- modification of the definition of leasing;
- removal of classification of operating or financial leases for a lessee, and the lessee recognizes a lease liability at the present value of the lease payments, an asset for right of use for the same amount;
- increase in lease assets and financial liabilities of a lessee, which implies changes in financial indicators related to the entity's assets and liabilities;
- changes for lessees the nature of the expenses related to said leases: lease expense now divided into depreciation / amortization expense and interest expense;
- modification in the presentation of cash flows related to operating leases;
- modifies the recognition of the gain or loss in leases of assets in return.

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

FRS B-11 *"Disposal of long-lived assets and discontinued operations"*- FRS B-11 comes into effect for periods beginning January 1, 2020, and early application is not allowed. The first-time adoption of this FRS does not give rise to accounting changes in the financial statements. Among the principal aspects covered by this FRS are the following:

- FRS B-11 clarifies that long-lived assets are not reclassified as current assets until they meet the criteria to be classified as held for sale. In addition, certain assets of a class that an entity usually considers non-current, but that are exclusively acquired for the purpose of resale, will not be reclassified as current assets unless they meet the criteria to be classified as held for sale in accordance with this FRS.

- In relation to the assets presented in the statement of financial position following a criterion based on liquidity, this FRS considers non-current assets to be those that are expected to be recovered over a period greater than twelve months after the balance sheet date or that of its cycle of operations if greater than twelve months.

- FRS B-11 establishes disclosure requirements for long-lived assets or disposal groups that are classified as held for sale, as well as for discontinued operations.

The Bank is in the process of evaluating its impact.