BBVA Bancomer, S. A.,
Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer
and Subsidiaries

Consolidated financial statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

To the Stockholders and Board of Directors of
BBVA Bancomer, S. A., Institución de Banca Múltiple
Grupo Financiero BBVA Bancomer

Opinion

We have audited the consolidated financial statements of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries (the Bank), which comprise the consolidated balance sheets as at 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 the Bank, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the 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 the audit of the consolidated financial statements of the current period. These matters have been 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 express a separate opinion on those matters.

(Continued)

Allowance for loan losses	
(see note 11 to the consolidated financial statements)	
Key audit matter	**How the key audit matter was addressed in our audit**
Allowance for loan losses of the commercial credit portfolio for business activity involves significant judgments for the evaluation of the credit quality of the debtors, considering the various factors established in the Bank's internal methodology approved by the Commission for the rating process of said credit portfolio, such as the allocation of the collateral, guarantor's rating, assignment of "rating" for null values and impairment flag in applicable cases. In addition, the allowance for loan losses of the mortgage and credit card portfolio calculated based on the Bank's internal methodologies authorized by the Commission, considers the reliability in the documentation and the updating of the information that serves of input for the calculation of such estimate. Therefore, we have determined the allowance for loan losses that is determined based on internal methodologies authorized by the Commission, as a key audit matter.	The audit procedures applied to the determination of the allowance for loan losses determined by Management and its effect on the results of the year, included among others: - tests of design and implementation of key internal controls and test of operating effectiveness over selective samples. - evaluation through selective tests of both the inputs used as well as the calculation for credit portfolios based on the internal methodology authorized by the Commission, with the involvement of our credit risk specialists. - through selective tests, substantive test of details procedures were carried out, mainly aimed at recalculating the allowance for loan losses of selected items.

Derivative financial instruments not listed on recognized markets with complex valuation models	
(see note 8 to the consolidated financial statements)	
Key audit matter	**How the key audit matter was addressed in our audit**
The determination of the fair value at the date of the consolidated balance sheet of certain derivative financial instruments not quoted on organized markets is carried out through the use of valuation techniques that involve significant Management's judgments, mainly when the use of inputs obtained from various sources or of unobservable market data and complex valuation models, including those models related to embedded derivative financial instruments from structured notes. Therefore, we have determined the valuation of these financial instruments as a key audit matter.	As part of our audit procedures to evaluate the design and implementation of the selected controls, we obtained evidence of the approval by the Bank's Risk Committee of the valuation models for derivative financial instruments used by Management and we carried out tests of operating effectiveness on load oriented controls over prices and curves in the systems processing transactions agreed with derivative financial instruments. Also, through selective tests and through the involvement of our specialists, we assess the reasonableness of these models and the inputs used. Additionally, through selective tests, we assess the determination of the fair value of derivative products that use complex valuation models.

(Continued)

Risks associated to technology (IT)	
Key audit matter	**How the key audit matter was addressed in our audit**
The Bank operates through a complex IT environment with different processing centers. Procedures for automated accounting records and IT environment controls, which include government, general controls on development and changes of programs, access to programs and data, and operations, must be designed and operated effectively to ensure integrity and accuracy in the issuance of financial information. We identify IT systems and controls over financial reporting as a key audit matter because the accounting systems and financial reports of the Bank depend primarily on these systems and the different environments of general controls for the different application systems.	According to our audit methodology and through our IT specialists, the evaluation of the design and implementation of the controls over the key systems that process the Bank's financial information has been carried out in two areas: (i) general IT controls where we evaluate existing controls on the various technological platforms relating to user access to applications and data, management of changes in applications, management of systems development, as well as the management of operations in the production environment; and (ii) automatic controls on key processes of our audit, identifying the main information systems, of which we have analyzed the vulnerabilities related to the integrity, accuracy and availability of the information and we have identified and evaluated the operational efficiency of the implemented IT controls and the related compensatory controls, where appropriate, that mitigate said risks.

Other information

Management is responsible for the other information. The other information comprise the information included in the Annual Report for the year ended December 31, 2019, which must be reported to the Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our opinion. The Annual Report is estimated to be available after the date of this report from the auditors.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when it is 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 if it seems to be materially incorrect.

When we read the Annual Report, if we conclude that there is a material error in that other information, we are required to report that fact to those responsible for the government of the entity.

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Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

(Continued)

- 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's 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 to those charged with governance a statement that we have complied with the applicable ethical requirements regarding independence, and we communicate with them all the 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, consequently, the key audit matters. We describe these matters in our auditor's report unless law or regulatory provisions precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Cárdenas Dosal, S. C.

SIGNATURE

Hermes Castañón Guzmán

México City, February 27, 2020

BBVA Bancomer, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets

December 31, 2019 and 2018

(Millions of Mexican pesos)

Assets		**2019**	**2018**
Cash and cash equivalents (note 4)	$	148,372	232,851
Margin accounts (note 5)		18,329	10,548
Investment securities (note 6):			
Trading		281,900	263,419
Available-for-sale		147,741	124,201
Held-to-maturity		33,827	22,641
		463,468	410,261
Debtors on repurchase/resale agreements (note 7)		8,044	66
Derivatives (note 8):			
Trading		109,377	125,804
Hedging		10,932	14,813
		120,309	140,617
Valuation adjustments related to financial assets hedged		1,310	(518)
Current loan portfolio (note 9):			
Commercial loans:			
Business and commercial activities		507,622	498,432
Financial institutions		33,162	30,898
Government entities		143,725	129,178
		684,509	658,508
Consumer loans		300,302	273,234
Residential mortgages:			
Medium class and residential		222,023	197,825
Low income housing loans		9,190	10,752
		231,213	208,577
Total current loan portfolio		1,216,024	1,140,319
Past due loan portfolio (note 9):			
Commercial loans:			
Business and commercial		9,518	8,015
Consumer loans		10,341	9,034
Residential mortgages:			
Medium class and residential		7,033	5,603
Low income housing loans		562	622
		7,595	6,225
Total past due loan portfolio		27,454	23,274
Loan portfolio		1,243,478	1,163,593
Less:			
Allowance for loan losses (note 11)		(35,411)	(31,811)
Total loan portfolio, net		1,208,067	1,131,782
Benefits receivable on securitizations transactions (note 12)		25	87
Other accounts receivable, net (note 13)		94,054	76,778
Foreclosed assets, net (note 14)		1,438	1,759
Property, furniture and equipment, net (note 15)		38,459	40,169
Permanent investments (note 16)		815	534
Deferred income tax and ESPS, net (note 23)		20,992	16,667
Other assets (note 17):			
Deferred charges, prepayments and intangibles		6,906	6,658
Total assets	$	2,130,588	2,068,259

Liabilities and stockholders' equity		**2019**	**2018**
Deposits funding (note 18):			
Demand deposits	$	923,191	864,651
Time deposits:			
General public		236,263	222,013
Money market		17,807	22,498
Debt securities issued		85,852	88,162
Global deposit account without movements		4,507	3,565
		1,267,620	1,200,889
Banks and other borrowings (note 19):			
Demand loan		7,414	-
Short-term		7,040	9,425
Long-term		7,564	8,436
		22,018	17,861
Creditors on repurchase/resale agreements (note 7)		226,861	203,713
Securities lending		1	1
Sold/pledged collaterals (note 7):			
Securities lending		47,577	39,438
Derivatives (note 8):			
Trading		127,913	129,005
Hedging		8,388	9,072
		136,301	138,077
Valuation adjustments related to financial liabilities hedged		3,042	1,485
Other accounts payable:			
Income tax payable (note 23)		3,765	519
Employee statutory profit sharing (ESPS) payable		2	2
Creditors on settlement of transactions		67,358	101,467
Creditors on cash received as collateral (note 8)		10,318	27,302
Sundry creditors and other accounts payable		28,044	36,729
		109,487	166,019
Subordinated bonds issued (note 21)		95,061	99,029
Deferred credits and advance payments		7,754	7,524
Total liabilities		1,915,722	1,874,036
Stockholders' equity (note 24):			
Paid-in capital:			
Capital stock		24,143	24,143
Additional paid-in capital		15,860	15,860
		40,003	40,003
Earned capital:			
Statutory reserves		6,901	6,901
Retained earnings		121,029	106,475
Unrealized valuation of available-for-sale securities		(84)	(2,246)
Unrealized valuation of cash flow hedge derivatives		(113)	(106)
Cumulative translation effect		440	440
Remeasurements of employees benefit		(2,602)	(3,342)
Net income		49,254	46,060
		174,825	154,182
Total controlling interest		214,828	194,185
Non-controlling interest		38	38
Total stockholders' equity		214,866	194,223
Total liabilities and stockholders' equity	$	2,130,588	2,068,259

(Continued)

BBVA Bancomer, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer
and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated balance sheets, (continued)

December 31, 2019 and 2018

(Millions of Mexican pesos)

Memorandum accounts		**2019**	**2018**
Contingent assets and liabilities	$	730	658
Credit commitments (note 9)		632,810	588,114
Assets in trust or under mandate:			
In trust	$	426,149	414,525
Under mandate		24,269	24,257
	$	450,418	438,782
Assets in custody or under management	$	208,960	183,836
Collaterals received by the Institution (note 7)		67,693	45,855
Sold/pledged collaterals received by the institution (note 7)		54,283	40,437
Investment banking operations on behalf of third parties, net		1,380,485	1,231,184
Uncollected interest accrued on non-performing loans		8,432	6,066
Other memorandum accounts		3,243,969	3,570,501
Historical stockholders' equity	$	4,248	4,248

See accompanying notes to the 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 general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all 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
Eduardo Osuna Osuna
General Director

SIGNATURE
Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE
Adolfo Arcos González
General Director of Internal Audit

SIGNATURE
Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

https://investors.bancomer.com/ www.cnbv.gob.mx

BBVA Bancomer, S. A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer
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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of income

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

		2019	2018
Interest income (note 28)	$	201,558	188,632
Interest expense (note 28)		(72,056)	(65,720)
Net interest income		129,502	122,912
Allowance for loan losses (note 11)		(35,713)	(32,299)
Net interest income adjusted for allowance for loan losses		93,789	90,613
Commissions and fee income (note 29)		46,763	43,569
Commissions and fee expense (note 29)		(17,875)	(15,739)
Financial intermediation income (note 30)		6,403	3,471
Other operating income		884	504
Administrative and promotional expenses		(63,250)	(59,168)
Net operating income		66,714	63,250
Equity in the income of unconsolidated subsidiaries and associated companies (note 16)		31	36
Income before income tax		66,745	63,286
Current income tax (note 23)		(22,779)	(18,734)
Deferred income tax, net (note 23)		5,288	1,510
Income before non-controlling interest		49,254	46,062
Non-controlling interest		-	(2)
Net income	$	49,254	46,060

See accompanying notes to consolidated financial statements.

"These consolidated statements of income 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, it reflects the revenues and disbursements relating to the transactions carried out by the Institution for the years ended 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 income were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Eduardo Osuna Osuna
General Director

SIGNATURE

Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE

Adolfo Arcos González
General Director of Internal Audit

SIGNATURE

Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

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Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of changes in stockholders' equity

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	Unrealized valuation of available-for-sale securities	Unrealized valuation of cash flow hedge derivatives	Cumulative translation effect	Remeasurements of employees' defined benefit plans	Net income	Majority stockholders' equity	Non controlling interest	Total stockholders' equity
Balances as of December 31, 2017	$	24,143	15,860	6,901	93,654	(2,067)	122	440	(2,459)	39,143	175,737	36	175,773
Changes resulting from stockholders' resolutions:													
Appropriation of prior year's net income		-	-	-	39,143	-	-	-	-	(39,143)	-	-	-
Dividends declared (note 24 (a))		-	-	-	(26,322)	-	-	-	-	-	(26,322)	-	(26,322)
Total		-	-	-	12,821	-	-	-	-	(39,143)	(26,322)	-	(26,322)
Changes related to the recognition of comprehensive income (note 2 (e)):													
Net income		-	-	-	-	-	-	-	-	46,060	46,060	2	46,062
Valuation effects of available-for-sale securities		-	-	-	-	(179)	-	-	-	-	(179)	-	(179)
Unrealized valuation of cash flow hedge derivatives		-	-	-	-	-	(228)	-	-	-	(228)	-	(228)
Remeasurements of employees' defined benefit plans		-	-	-	-	-	-	-	(883)	-	(883)	-	(883)
Total		-	-	-	-	(179)	(228)	-	(883)	46,060	44,770	2	44,772
Balances as of December 31, 2018		24,143	15,860	6,901	106,475	(2,246)	(106)	440	(3,342)	46,060	194,185	38	194,223
Changes resulting from stockholders' resolutions:													
Appropriation of prior year's net income		-	-	-	46,060	-	-	-	-	(46,060)	-	-	-
Dividends declared (note 24 (a))		-	-	-	(31,506)	-	-	-	-	-	(31,506)	-	(31,506)
Total		-	-	-	14,554	-	-	-	-	(46,060)	(31,506)	-	(31,506)
Changes related to the recognition of comprehensive income (note 2 (e)):													
Net income		-	-	-	-	-	-	-	-	49,254	49,254	-	49,254
Valuation effects of available-for-sale securities		-	-	-	-	2,162	-	-	-	-	2,162	-	2,162
Unrealized valuation of cash flow hedge derivatives		-	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Remeasurements of employees' defined benefit plans		-	-	-	-	-	-	-	740	-	740	-	740
Total		-	-	-	-	2,162	(7)	-	740	49,254	52,149	-	52,149
Balances as of December 31, 2019	$	24,143	15,860	6,901	121,029	(84)	(113)	440	(2,602)	49,254	214,828	38	214,866

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders´equity 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 general and mandatory nature and have been applied on a consistent basis. Accordingly, it reflects all the stockholders´ equity account entries relating to the transactions carried out by the Institution for the years ended 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
Eduardo Osuna Osuna	Luis Ignacio De la Luz Dávalos	Adolfo Arcos González	Ana Luisa Miriam Ordorica Amezcua
General Director	General Director of Finance	General Director of Internal Audit	Director of Corporate Accounting

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and Subsidiaries

Av. Paseo de la Reforma 510, Col. Juárez, México City

Consolidated statements of cash flows

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

		2019	2018
Net income	$	49,254	46,060
Items not requiring cash flows:			
Net impairment effect from investment activities		(252)	731
Depreciation of property, furniture and equipment		3,227	3,164
Amortization of intangible assets		2,639	2,542
Provisions		(809)	(172)
Current and deferred income tax		17,491	17,224
Equity in income of non-consolidated subsidiaries and associated companies		(31)	(36)
Non-controlling interest		-	2
		71,519	69,515
Operating activities:			
Change in margin accounts		(8,075)	3,807
Change in investment securities		(51,457)	20,234
Change in debtors on repurchase/resale agreements		(7,978)	10
Change in derivatives (asset)		16,427	(3,280)
Change in loan portfolio, net		(83,089)	(84,396)
Change in benefits receivable on securitization transactions		62	71
Change in foreclosed assets, net		321	842
Change in other operating assets, net		(18,078)	4,780
Change in deposits funding		73,806	38,360
Change in bank and other borrowings		4,217	482
Change in creditors on repurchase/resale agreements		23,148	(22,116)
Change in sold/pledged collaterals		8,139	(11,282)
Change in derivatives (liabilities)		(1,092)	(5,979)
Change in subordinated bonds issued with liabilities characteristics		(2)	20,110
Change in other operating liabilities		(58,597)	34,928
Change in hedging instruments (from hedged items related to operating activities)		3,003	(2,685)
Payment of income taxes		(18,383)	(16,520)
Net cash provided by operating activities		(46,109)	46,881
Investment activities:			
Proceeds from property, furniture and equipment disposals		682	595
Payments for property, furniture and equipment acquisitions		(2,199)	(2,580)
Collections from subsidiaries and associates sold		1	5
Collections of cash dividends		1	2
Payments on acquisition of intangible assets		(2,436)	(2,814)
Net cash flows used in investing activities		(3,951)	(4,792)
Net cash flows used in financing activities - Payment of cash for dividends		(31,506)	(26,322)
Net (decrease) increase in cash and cash equivalents		(81,566)	15,767
Effects of changes in cash and cash equivalents		(2,913)	(42)
Cash and cash equivalents at the beginning of the year		232,851	217,126
Cash and cash equivalents at the end of the year	$	148,372	232,851

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, it reflects cash inflows and outflows relating to the transactions carried out by the Institution for the years ended 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
Eduardo Osuna Osuna
General Director

SIGNATURE
Luis Ignacio De la Luz Dávalos
General Director of Finance

SIGNATURE
Adolfo Arcos González
General Director of Internal Audit

SIGNATURE
Ana Luisa Miriam Ordorica Amezcua
Director of Corporate Accounting

(1) Activity and operating regulatory environment-

BBVA Bancomer, S.A., Institución de Banca Múltiple and subsidiaries, Grupo Financiero BBVA Bancomer (the "Institution" or the "Bank") is a direct subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V. (the "Financial Group") and indirect of Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), which is governed among other by the Banking Law (*Ley de Instituciones de Crédito*) (the "Law"), and the General Rules applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) (the "Regulations") which regulate any matters under the supervision of the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) (the "Commission"), and it focuses on among others, accepting deposits, receiving and granting loans, operations with securities and derivative financial instruments as well as execution of trust agreements.

The powers vested in the Commission as the entity regulating credit institutions, include reviewing the Institution´s financial information and ordering any modifications thereto. The main regulatory aspects require that banking institutions maintain a minimum capitalization ratio in relation to market, credit and operational risks, compliance with certain acceptance limits of deposits, obligations and other types of funding that may be denominated in foreign currency, as well as the establishment of minimum limits of paid capital and capital reserves, with which the Institution satisfactorily complies.

The Institution does not have employees, except for the General Director (Chief Executive Officer), so its management is carried out mainly by BBVA Bancomer Operadora, S. A. de C. V., and BBVA Bancomer Servicios Administrativos, S. A. de C. V. (related companies), who provide services administrative proceedings under the contract signed between the parties (note 22).

(2) Authorization and basis of presentation-

Authorization

On February 27, 2020, Eduardo Osuna Osuna, General Director, Luis Ignacio de la Luz Dávalos, General Director of Finance (Chief Financial Officer), Adolfo Arcos González, General Director of Internal Audit, and Ana Luisa Miriam Ordorica Amezcua, Director of Corporate Accounting, authorized the issuance of the accompanying consolidated financial statements and the notes thereto (hereinafter, the "financial statements").

The Institution´s shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2019 financial statements will be submitted to the next Shareholders' Meeting for approval.

Basis of presentation

(a) Declaration of compliance

The Institution's financial statements have been prepared in accordance with the accounting criteria for Credit Institutions in Mexico (the "accounting criteria") established by the Commission. The Commission is responsible for inspecting and supervising Credit Institutions and reviewing their financial information.

The Accounting criteria establishes that the Commission shall issue specific rules for specialized transactions and indicates that without specific criteria of the Commission and, in a broader context, if there are no criteria established in the Mexican Financial Reporting Standards (For its spanish acronym *"NIF" Normas de Información Financiera*) (Mexican FRS) issued by the Mexican Board of Financial Reporting Standards, (*Consejo Mexicano de Normas de Información Financiera*, A.C.) (For its spanish acronym "CINIF"), the criteria set forth in Mexican FRS A-8 will apply. Any supplementary standard from another regulatory framework may only be used if the International Financial Reporting Standards (IFRS) referred to in Mexican FRS A-8 do not establish an accounting criterion, provided that all requirements of Mexican FRS are met. The hierarchy should follow the next order: generally accepted accounting principles in the United States of America (US GAAP) and any accounting standard that is part of a formal and recognized set of standards, provided that the requirements of the Commission's criterion A-4 are met.

(b) Use of judgment and estimates

The preparation of the financial statements requires Management to make several estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included below.

-Note 6 - Investments in securities: Securities market values without an observable market.

-Note 8 - Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market.

-Notes 11 and 13 - Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.

-Note 15 - Valuation of property, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.

-Note 20 - Measurement of obligations of employee benefits: key actuarial assumptions;

-Note 23 - Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred tax assets.

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 next financial year is included in the following notes:

-Note 6 - Investments in securities: Securities market values without an observable market.

-Note 8 - Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market.

-Notes 11 and 13 - Determination of allowance for loan losses and recoverability of accounts receivable: assumptions and inputs used in its determination.

-Note 15 - Valuation of property, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.

-Note 20 - Measurement of obligations for defined benefits: key actuarial assumptions;

-Note 23 - Recognition of deferred tax assets: availability of future taxable income, and the realization of deferred taxes assets.

(c) **Functional and reporting currency**

The financial statements are presented in the Institution´s reporting currency, Mexican pesos, which is the same as its recording and functional currency.

For disclosure purposes in the notes to the financial statements, any reference to "pesos", or $, or "MXN" means millions of Mexican pesos, and references to "dollars" or "USD" means millions of U.S. dollars.

(d) **Financial assets and financial liabilities recognition on trade date-**

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

(e) **Comprehensive income**

This caption consists of the net result for the year plus other items that represent a gain or loss in the same year, which, according to the accounting practices followed by the Institution, are presented in the stockholders' equity without the requirement to present a statement of comprehensive income, such as the gain or loss from valuation of securities available for sale, the gain or loss from valuation of cash flow hedge instruments and the cumulative translation effect, as well as the remeasurement of employees' defined benefits plans.

(3) Summary of significant accounting policies-

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Institution.

(a) Recognition of the effects of inflation-

The Institution´s financial statements were prepared in accordance with the accounting criteria, which include the recognition of the effects of inflation on financial information through December 31, 2007, as the Institution operates in a non-inflationary environment as from 2008 (cumulative inflation over the last three years less than 26%), using for such purpose the investment unit (Spanish acronym UDI), that is used to measure inflation and whose value is established by the Banco de México (Central Bank).

Rates of inflation measured through the value of the UDI for the years ended on December 31, 2019, 2018 and 2017 were 2.77%, 4.92% and 6.68%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2019, 2018 and 2017 was 15.03%, 15.71% and 12.60%, respectively, the reason why the economic environment for both years qualifies as non-inflationary. As mentioned above, the cumulative effects of inflation until December 31, 2007 are recorded in the consolidated balance sheet as of December 31, 2019 and 2018.

(b) Basis of consolidation-

The accompanying financial statements include the Institution's financial statements, and those of its subsidiaries and the consolidated trusts arising from securitization transactions. All significant inter-company balances and transactions have been eliminated.

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

Company	Participation in Consolidation	Location	Activity
-Opción Volcán, S.A. de C.V.	99.99%	Mexico	Banking real estate.
-Fideicomiso No. 29764-8, Socio Liquidador de Operaciones Financieras Derivadas Integral	100.00%	Mexico	Compensation and settlement of futures contracts on behalf of third parties and by its own.
-Adquira México, S.A. de C.V.	50.00%	Mexico	Establish, manage, commercialize and operate a shopping club, as well as markets via electronic means.
-Financiera Ayudamos, S.A. de C.V., S.O.F.O.M., E. R.(1)	99.99%	Mexico	Regular and professional credit granting under the terms of article 87-B of the general provision applicable to credit institutions.
-Fideicomiso Irrevocable para la Emisión de Certificados Bursátiles No. 881	100.00%	Mexico	Issuance of stock market certificates through the Mexican Stock Exchange guaranteed by residential mortgages.
-Fideicomiso Irrevocable para la emisión de Certificados Bursátiles No. 989	100.00%	Mexico	Issuance of stock market certificates through the BMV guaranteed by residential mortgages.
-Fideicomisos Empresariales Irrevocables de Administración y Pago No. F/1859 y No F/1860	100.00%	Mexico	Financing for the acquisition of the Modular Drilling Equipment, to subsequently grant it in a financial lease with option to purchase to PEMEX exploration and production.

(1) At a General Extraordinary Shareholders' Meeting held on November 1, 2019, it was resolved to approve the early dissolution and liquidation of this Company, effective on that same date, since as of September 2018, the Company suspended the placement of its credit products to the public and initiated the orderly closing of operations and branches, thus the financial statements as of and for the years ended December 31, 2019 and 2018 have not been prepared on the basis of going concern and therefore, these financial statements have been prepared in accordance with the applicable Accounting Criteria, determining estimated values from the disposal or liquidation of all net assets. Until the relevant liquidation procedures before the Commission are completed, this Company must continue to comply with the provisions applicable to regulated multi-purpose financial corporations (S.O.F.O.M.s).

As of December 31, 2019 and 2018, the assets amount to $110 and $272, and the stockholders' equity to $104 and $237, respectively. For the years ended December 31, 2019 and 2018, the net loss amounted to $33 and $127, respectively.

(c) Offsetting financial assets and financial liabilities-

Financial assets and liabilities are subject to offsetting so that the consolidated balance sheet shows the debit or credit balance, as applicable, if and only if, there is a contractual right to offset the amounts and the intention to settle the net amount, or to realize the asset and write-off the liability simultaneously.

(d) Cash and cash equivalents -

Cash and cash equivalents consist of cash-on-hand, deposits with Mexican and foreign banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. It also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits at the Central Bank (these latter deposits considered of restricted availability are formed pursuant to Official Circular 3/2012 "Provisions applicable to transactions of financial institutions and rural financial entities", issued by the Central Bank, with the purpose of regulating the liquidity of the money market, which accrue interest at the banking funding rate), remittances in transit and auctions carried out by the Central Bank.

Cash and cash equivalents are recognized at nominal value. For balances in dollars, the exchange rate used is the one published by the Central Bank on the date of translation, in accordance with the rules established by the Commission. As of the date of the financial statements, gains or losses due to the translation effect and accrued interest income are recognized in the results of the year.

The foreign exchange currencies acquired and agreed to be settled in 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency to receive), while the currencies sold are recorded as cash outflow (foreign currency to deliver). The rights and obligations for the sale and purchase 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.

(e) Margin accounts-

Margin accounts are made up of the pledged collateral in cash (and in other assets equivalent to cash) required from entities entering into transactions with derivative financial instruments carried out in organized markets or exchanges, recorded at nominal value.

For margin accounts with assets other than cash, such as debt instruments or shares, where the clearing house has the right to sell or pledge the financial assets which make up such margin accounts, the pledged financial asset is presented as restricted, and the valuation and disclosure standards are followed in accordance with the respective accounting treatment according to its nature.

Margin accounts are intended to comply with the obligations associated with transactions involving financial derivatives performed in organized markets and stock exchanges and refer to the initial margin, contributions and subsequent disbursements made during the effective term of the respective contracts.

(f) Investment securities-

Investment securities consist of government securities, bank promissory notes, and other debt securities listed or not in recognized markets, which are classified using the categories shown below, based on the intention of management of the Institution on their ownership.

– *Trading securities:*

– Trading securities are debt securities and equity shares in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. They are initially accounted at acquisition cost, which is equivalent to their fair value, whose valuation effect is included in the consolidated statement of income under the caption "Financial intermediation income."*Securities available-for-sale:*

  Consist of securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. These securities are measured in the same manner as "Trading securities", with unrealized gains or losses valuation recognized in stockholders' equity net of deferred taxes, which is recycled in earnings at the time of sale.

– *Securities held-to-maturity:*

  Securities held-to-maturity are debt instruments with fixed or determinable payments or an established maturity, acquired with both the intent and the capacity of holding them to maturity. These instruments are accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Institution determines the increase or decrease on fair value using prices provided by the price vendor, who uses different market factors in its determination.

Cash dividends of equity shares are recognized in the results of the year in the same period in which the right to receive the related payment is generated.

Transfers between categories:

Transfers from "Held-to-maturity" to "Available-for-sale" securities are permissible only when there is no intention or ability to hold them until maturity; the valuation result corresponding to the transfer date is recognized in stockholders' equity. Reclassifications from any category to "Held-to-maturity securities" and from "Trading securities" to "Available-for-sale", can be done with the approval of the Commission.

During the years ended December 31, 2019 and 2018, there were no transfers between categories.

Impairment:

The Institution must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date. A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined.

As of December 31, 2019, and 2018, the Institution's management has not identified objective evidence of impairment of any securities.

Value date transactions:

Securities purchased with a settlement date of a maximum of four working days after trade date, are recorded as restricted securities, while securities sold are recorded as securities to deliver reducing the investment securities position. The corresponding debit or credit is made to an asset or liability clearing account, as it corresponds.

When the amount of the securities to deliver exceeds the proprietary position of the same type of security (government, bank, equities and other debt securities), the amount is shown as a liability under the caption "Assigned values to be settled".

(g) **Repurchase/resale agreements-**

The repurchase/resale agreements that do not comply with the terms of criterion C-1 "Recognition and derecognition of financial assets", are treated as collateralized financing transactions, which reflects the economic substance of those transactions. This treatment is adopted regardless of whether it is "cash oriented" or "securities-oriented" repurchase/ resale agreement.

Acting as a seller on resale agreements-

On the contract date of the repurchase/resale agreement, either cash is received or a debit clearing account is created as well as a payable account valued at the price agreed at origination and represents the obligation to repay the cash to the seller at a future date. Throughout the term of the repurchase/resale agreement, the accounts payable are valued at amortized cost and the corresponding accrued interest is recorded in the results of the year, in accordance with the effective interest rate method.

In relation to the collateral granted, financial assets transferred to the seller are reclassified by the Institution in the consolidated balance sheet, and presented as restricted securities, which continue to be valued in accordance with the accounting policy of the corresponding asset classification, until the maturity date of the repurchase/resale agreement.

Acting as a buyer on repurchase agreements-

When the Institution acts as a buyer, on the date of contracting the repurchase agreement transaction, it recognizes the outflow of cash or a creditor settlement account, recording an account receivable initially measured at the agreed price, which represents the right to recover the cash delivered. The account receivable is valued later during life of the repurchase agreement at amortized cost through the recognition of the effective interest method in the results of the year.

In relation to the collateral received in repurchase transactions other than cash, it is recognized in memorandum accounts, by following the guidelines on custody transactions provided in accounting criterion B-9, "Custody and Administration of Assets" until the maturity date of the repurchase/resale agreement.

When the buyer sells collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value, or, if it is given as collateral in another repurchase transaction, at amortized cost (any spread between the price received and the value of the account payable is recognized in results of the year), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

Furthermore, if the buyer becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the agreed repurchase interest in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

(h) Securities lending

Securities lending transactions involve the transfer of securities from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for an interest as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the date of the transaction, when the Institution acts as lender, it records the security transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received to guarantee the securities loaned is recorded in memorandum accounts.

The interest earned is recognized in results of the year through the effective interest method during the term of the transaction.

When the Institution acts as borrower, at the transaction date it records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account B-9 "Assets in custody or under administration".

The security and the collateral received are presented in memorandum accounts under the caption "Collateral received by the Institution". The collateral received from other transactions are presented under the caption of "Sold/pledged Collaterals".

(i) Settlement clearing accounts-

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities lending and/or derivative financial instruments which have expired but have not been settled are recorded in clearing accounts under the captions "Other accounts receivable" and "Creditors on settlement of transactions", respectively, as well as the amounts receivable or payable for the purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date.

Financial assets and liabilities are offset and the net amount presented in the balance sheet as debit or credit balance, as appropriate, only when the Institution has a contractual right to offset amounts and intends either to settle them on a net basis or to realize the asset and cancel the liability simultaneously.

(j) Derivatives-

The Institution carries out two different types of transactions in accordance with its intention:

– Trading - Consists of the position assumed by the Institution as market participant for purposes other than hedging open-risk positions.

– Hedging - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Institution's policies require that for purposes of entering into derivative transactions, the rating and, where appropriate, authorization of risk exposure by each counterpart that has been authorized by the Central Bank to enter into the transaction. Prior to carrying out these transactions with corporate customers, a credit line must be authorized by the Credit Risk Committee or realizable guarantees must be in place through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all derivatives (including hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, reflecting the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are recognized in results under the caption “Financial intermediation income”.

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under the caption “Financial Intermediation income”.

Derivatives must be presented under a specific asset or liability caption depending on whether their fair value (because of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset if they comply with the offsetting rules established by the applicable accounting criterion.

In the consolidated balance sheet, derivatives must be split between those held for trading and hedging purposes.

The determination of fair value considers the information and inputs provided by the price vendor authorized by the Commission, or an internal valuation process, provided there are no derivative financial instruments listed on domestic exchanges or traded in markets recognized by the Central Bank.

Trading transactions-

– *Optional securities (“Warrants”):*

  Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issuance in Equity Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts:*

  For purchased options, the balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options:*

  For purchased options, the balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

  For sold options, the balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

– *Swaps:*

The balance represents the difference between the fair value of the asset and the liability.

Hedging transactions-

Hedging derivatives are valued at market value, and the effect is recognized depending on the type of hedge accounting, as described below:

a. If they are fair value hedges, the primary hedged position and the net effect of the derivative hedge instrument which is measured at fair value is recorded in results for the period under the caption "Financial intermediation income".

b. If they are cash flow hedges, the hedge is measured at fair and the valuation of the effective part of the hedge is recorded under the caption "Unrealized valuation of cash flow hedge derivatives" in stockholders' equity. The ineffectiveness is recorded in results of the period under the caption "Financial intermediation income".

c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner like cash flow hedges; the effectiveness is recognized in stockholders' equity and the ineffectiveness is recognized in results.

Embedded derivatives-

– The Institution bifurcates the embedded derivatives of structured notes, whereby the underlying reference is based on the exchange rate, stock indexes, interest rate options with extendable periods and Mexican sovereign bond price options.

  In the case of debt and bond contracts in which the underlying reference is an interest rate with implied cap, floor and collar, the underlying references are closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions performed over-the-counter markets-

– The account receivable from cash collateral provided in derivative transactions performed in over-the-counter markets is presented under the caption "Other accounts receivable, net", whereas the account payable generated for the reception of collateral provided in cash is presented under the caption "Sundry creditors and other accounts payable".

  Collateral delivered in securities is recorded as restricted securities for guarantees, and collateral received in securities for derivative transactions is recorded in memorandum accounts.

(k) Loan portfolio-

The balances in the loan portfolio represent the amounts disbursed to borrowers, plus accrued but unpaid interest, less prepaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan portfolio balance.

The Institution classifies its portfolio under the captions mentioned in the next page.

a. Commercial: Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial line of activity; includes loans granted to financial institutions (excluding interbank loans with maturities of less than three business days), loans for factoring transactions and loans related to finance leases which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly known as “structured” in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.

b. Residential mortgages: Direct loans denominated in Mexican pesos, foreign currency, UDIs or multiples of the minimum wage (“VSM”), and accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-business purposes; includes equity loans where the home is collateral and mortgage loans granted to former employees who rendered services to the Institution.

c. Consumer: Direct loans, denominated in Mexican pesos, or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions which are entered into with individuals.

The undrawn lines of credit are recorded in memorandum accounts under the caption “Credit commitments”.

At the time of contracting, transactions with letter of credits are recorded in memorandum accounts under the caption “Credit commitments” which, when drew down by the customer or its counterparty, are transferred to the loan portfolio.

Outstanding balance of the loan and the associated interest are classified as performing and past due, considering the following criteria:

Current loan portfolio-

– Loans that are current in the payments of both principal and interest.

– Loans that do not exhibit the characteristics of non-performing portfolio.

– Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio-

– Loans with a single payment of principal and interest at maturity are considered non-performing if they remain outstanding 30 days after the date of maturity.

– Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing if they remain outstanding 90 days after interest is due.

– Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing if they remain outstanding 90 days after an installment becomes due.

– If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due.

– Mortgage loans with periodic installments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.

- Customer checking accounts without an authorized credit line showing overdrafts, will be reported in the non-performing portfolio at the date of the overdraft.
- If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the loans on which the Institution continues to collect payments under the terms of fraction VIII, article 43 of the Commercial Bankruptcy Law and loans that are granted under the terms of the article 75 in relation with fractions II and III of article 224 of the Commercial Bankruptcy Law.
- Immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents”, of the Commission when not collected within the allotted period (2 or 5 days as appropriate).

In relation to maturity terms referred to in the preceding paragraphs, monthly periods can be used, regardless of the number of days in each calendar month, according to the following equivalences: (i) 30 days are equivalent to a month; (ii) 60 days are equivalent to two months; and (iii) 90 days are equivalent to three months.

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment.

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 one installment.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or upon maturity, it is considered that there is a sustained payment of the credit when any of the assumptions mentioned as following occurs.

a) the borrower has covered at least 20% of the original amount of the credit at the time of restructuring or renewal, or else,

b) the amount of interest accrued were covered according to the payment plan for restructuring or renewal corresponding to a 90-day term.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing until there is evidence of sustained payment. This includes loans with at least 80% of the original term remaining outstanding, loans for which payments received have not covered the total amount of accrued interest or covered the original principal amount, and loans that would have been settled as of the date of renewal or restructuring in question.

The accrual of interest is suspended at the time the loan is classified as non-performing, including those loans, that capitalize interest to the principal amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When interest on non-performing portfolio is collected, it is recognized directly in results of the year under the caption “Interest income”.

With regards to ordinary uncollected accrued interest on loans that are classified as non-performing, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

Financial factoring, discount and assignment agreement of credit rights-

At the beginning of the operation, the value of the portfolio received is recognized against the cash outflow, recording the agreed value as other accounts payable and, if applicable, as deferred credit the financial income to be accrued deriving from operations of factoring, discount or assignment of credit rights.

The deferred credit income referred to in the above paragraph will be determined by the difference between the value of the portfolio received, reduced by the advance rate and cash outflow. This accruable financial income must be recognized in deferred credits and prepaid expenses and amortized under the straight-line method for the life of the credit within "Interest income" caption.

If the transaction generates interest, it will be recognized as accrued.

The number of advances granted, if any, will be recognized as part of the financial factoring, discount or assignment of credit rights, within commercial credits loans.

Financial asset derecognition -

The Institution only derecognizes a financial asset when the related contractual rights expire or when the Institution transfers the financial asset because of: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

When a portion of the financial asset is derecognized, the Institution must:

a) Derecognize the portion of the transferred financial asset based on the most recent carrying amount, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.

b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value. For recognition purposes, the Institution utilizes an accounting criterion reflecting the nature of the payment in question.

c) Recognize in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred collections (recognized at fair value) and (ii) the effect (profit or loss) if any, the accrued valuation recognized in stockholders' equity.

(l) Allowance for loan losses -

The Institution recognizes the allowance for loan losses based on the following:

i) Commercial loan portfolio-

Business and commercial-

For the commercial portfolio classified in the groups denominated "Large Enterprises" (with annual sales over USD 50 million) and "Enterprises" (with annual sales over 60 million pesos and below USD 50 million, except for the Small Medium Enterprise (SME) "plus" segment, comprised of borrowers that do not belong to a business group, with annual net sales between 60 million pesos and 130 million pesos), the Commission approved that the Institution applies its own internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121-1/116843/2014 and 121-1/116844/2014 dated April 21, 2014, which are reviewed annually according to the Regulation.

Likewise, by means of official communications 121-1/1744/2018 dated April 19, 2018 and 121-1/118708/2019 dated July 19, 2019, the Commission approved the re-estimation (calibration) of the internal models mentioned in the preceding paragraph for the commercial portfolio groups of Large Enterprises and Enterprises, respectively.

As the Institution classifies the commercial credit loan portfolio into Large Enterprises and Enterprises, it considers an expected loss model for the following 12 months, according to the described as follows:

Probability of Default (PD) - estimated based on scores of a rating model pursuant to a master scale computed using the companies' financial information; for a past due portfolio, a 100% percentage is considered for this variable.

Loss Given Default (LGD) - estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period on which the borrower has been in non-compliance.

Exposure at default (EAD) - determined considering the amount of the loan drawn-down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

Commercial loans other that for Large Enterprises and Enterprises

For rating the commercial loan portfolio other than the one corresponding to Large Enterprises and Enterprises groups, the Institution considers the PD, LGD and EAD factors, according to the Regulations, as follows:

The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$R_i = PD_i \times LGD_i \times EAD_i$$

Where:

R_i =Amount of the allowance for loan losses to be created for the nth loan.
PD_i =Probability of Default of the nth loan.
LGD_i =Loss Given Default on the nth loan.
EAD_i =Exposure at Default on the nth loan.

The PD_i, will be calculated according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following formula:

$$\textit{Total Credit Score}_i = \alpha \times (\textit{Quantity Credit Score}_i) + (1 - \alpha) \times (\textit{Quality Credit Score}_i)$$

Where:

Quantity Credit

scorei ($QCSt_i$) = It is the score obtained for the nth borrower when evaluating the risk factors according to the Regulation.

Qualitative credit

scorei ($QCSl_i$) = It is the score obtained for the nth borrower when evaluating the risk factors according to the Regulation.

α = It is the relative weight of the quantitative credit score.

Unsecured loans-

The LGD_i of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.

b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.

c. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the originally terms.

The EAD_i will be determined based on the following:

I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EAD\ i = Si$$

II. For other credit lines:

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

Where:

S_i= The outstanding balance of the nth loan at the rate date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted.

In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

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

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the LGD, with the aim of decreasing the reserves derived from the portfolio classification, according to the Regulation.

Acceptable collateral may be financial and nonfinancial. Likewise, collateral is recognized only if it complies with the requirements established by the Commission in the Regulation.

ii) Portfolio of States and their Municipalities (governments)-

For rating states and municipalities, the Institution considers the PD, LGD and EAD factors, according to the Regulations, as described as follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following expression:

$$R_i = PD_i \text{ x } LDG_i \text{ x } EAD_i$$

Where:

R_i = The amount of the allowance for loan losses to be created for the nth loan.
PD_i = Probability of Default of the nth loan.
LGD_i = Loss Given Default of the nth loan.
EAD_i = Exposure at Default of the nth loan.

The PIi will be determined according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{1n(2)}{40}}}$$

For such purposes:

The total credit score of each borrower is calculated by applying the following formula:

Total Credit Score$_i = \alpha$ *x (Quantitative Credit Score*$_i$*)*+*(*1- *α) x (Qualitative Credit Score*$_i$*)*

Where:

$PCCt_i$	=	Quantitative Credit Score = IA + IB + IC
$PCCt_i$	=	Qualitative Credit Score = IIA + IIB
A	=	80%
IA	=	Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.

IB	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC	Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA	Local unemployment rate + presence of financial services of regulated entities.
IIB	Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

Unsecured loans-

The LGD of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.

b. 100%, for Subordinated Positions or when the credit reports 18 months or more of arrears for the amount due and payable under the original terms.

The EAD_i will be determined based on the following:

$$EAD_i = S_i * Max\left\{\left(\frac{S_i}{\text{Authorized credit line}}\right)^{-0.5794}, 100\%\right\}$$

Where:

S_i=	The outstanding balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.
Authorized Credit Line:	The maximum authorized amount of the credit line at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the LGD of the credits, for the purpose of reducing the allowance for loan losses derived from the portfolio classification, according to the accounting criteria.

Admissible security interests in real property may be financial and non-financial. Furthermore, only those security interests in real property which comply with the requirements established by the Commission may be recognized.

The allowances for loan losses from the commercial loan portfolio created by the Institution as a result of the rating of each loan are classified in accordance with the percentages observed as follows.

Risk Level	Percentages Ranges loss Reserves		
A-1	0%	to	0.90%
A-2	0.901%	to	1.50%
B-1	1.501%	to	2.00%
B-2	2.001%	to	2.50%
B-3	2.501%	to	5.00%
C-1	5.001%	to	10.00%
C-2	10.001%	to	15.50%
D	15.001%	to	45.00%
E	More than 45.00%		

iii) Mortgage loan portfolio-

By means of official communication 121-1/1813/2018 dated November 16, 2018, the Commission approved the Institution to apply prospectively the internal measurement models for the determination of the mortgage loan portfolio allowance for loan losses under an advanced approach.

For rating mortgage loans, the Institution considers an expected loss model for the next 12 months according to the following:

- PD = estimated based on scores allocated, considering the admission tool, credit behavior or number of defaults (scoring model), whether the loan is refinanced or not, based on the loan aging and the type of portfolio.
- LGD = estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee, the product, and period of non-compliance by the borrower.
- EAD - determined considering the principal loan balance at the end of each month.

The allowance for mortgage loan losses constituted by the Institution following this credit rating process is classified according to the following risk level and percentages:

Level of risk	Allowance Percentage Range for Loan Losses		
A-1	0%	to	0.50%
A-2	0.501%	to	0.75%
B-1	0.751%	to	1.00%
B-2	1.001%	to	1.50%
B-3	1.501%	to	2.00%
C-1	2.001%	to	5.00%
C-2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

iv) Non-revolving consumer loan portfolio-

Pursuant to Resolution issued by the Commission on January 6, 2017, the Institution, as from July 1, 2017, determines reserves under the methodology that considers PD, LGD and EAD factors, as described as follows:

The amount of the allowance for loan losses of each loan shall be the result of applying the following formula:

$$R_i = PD_i^x \times LGD_i^x \times EAD_i$$

Where:

R_i	=	The amount of the allowance for loan losses to be set up for the nth loan.
PD_i^x	=	Probability of default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
LGD_i^x	=	Loss Given Default of the nth loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
EAD_i^x	=	Exposure at Default of the nth loan.
X	=	Super index that indicates the loan type corresponding to ABCD (B), automobile (A), payroll (N), personal (P), other (O).

For rating non-revolving consumer portfolio, the Institution considers a loss model according to the following:

- PD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Regulations for each loan type, borrower's payment behavior variables within the Institution and other entities of the Mexican Financial System, mainly.

- LGD = it is determined based on the loan type classification (B, A, N, P and O), depending on the delays, incorporating in their determination SP percentages in the observed delays at the rating date.

- EAD = it corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

Allowance for consumer loan losses which, does not include credit card transactions, set up by the Institution as a result of the loan rating, are classified according to the risk degrees and percentages shown as follows:

Level of risk	**Allowance Percentage Range for Loan Losses**		
A-1	0%	to	2.00%
A-2	2.01%	to	3.00%
B-1	3.01%	to	4.00%
B-2	4.01%	to	5.00%
B-3	5.01%	to	6.00%
C-1	6.01%	to	8.00%
C-2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

v) Consumer credit card loan portfolio-

The Commission approved the Institution's request to apply its own rating model with an advanced approach to the internal allowance for credit card loan losses per Document 111-1/69930/2009 of June 22, 2009. Also, by official communication 121-1/1065/2019 dated June 17, 2019, the Commission approved the update of the parameters considered by said model such as the use of historical information until 2017, parameters that have been applied by the Institution beginning on July 2019.

For rating its revolving consumer loan portfolio, the Institution considers an expected loss model for the next 12 months based on the following:

– PD = estimated based on scores allocated, considering the admission tool or credit behavior (scoring model), based on the loan age and the type of portfolio.

– LGD = estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee and period of noncompliance by the borrower.

– EAD = determined considering the amount of the loan drawn down balance at the end of each month, plus a percentage on the undrawn balance of the loan.

The allowance for credit card losses created by the Institution following this credit rating process is classified according to the following risk level and percentages:

Level of risk	Allowance Percentage Range for Loan Losses		
A-1	0%	to	3.00%
A-2	3.01%	to	5.00%
B-1	5.01%	to	6.50%
B-2	6.51%	to	8.00%
B-3	8.01%	to	10.00%
C-1	10.01%	to	15.00%
C-2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	More than 75.01%		

vi) Restructuring processes-

A restructuring process is a transaction derived from any of the following situations, as described below:

a) The extension of credit enhancements given for the loan in question, or

b) The modification of original credit or payment scheme conditions, which include:

- The modification of the interest rate established for the remainder of the loan period;
- The change of currency or account unit, or
- The concession of a grace period regarding the payment obligations detailed in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Guarantees: only when they imply the extension or substitution of credit guarantees for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration at the maturity date or when the credit is paid at any time by using the proceeds generated by another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

If a restructuring or renewal process is used to consolidate different loans granted to the same borrower in a single loan, the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the worst rated among the component loans.

Current loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as current when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment and the payment of interest periodically or at maturity, which are restructured or renewed during the final 20% of the original credit period are only considered as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, and the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower’s capacity to pay are available, ergo, it is highly likely that the borrower will settle the outstanding payment.

Any recovery derived from loans previously written off or eliminated pursuant to the Regulations shall be recognized in the year results under the caption "Allowance for loan losses".

When the allowance for loan losses account balance has exceeded the amount required by the Regulations, the differential shall be canceled in the period when those changes occur against the year results, affecting the same item that originated it, that is, the allowance for loan losses.

(m) **Securitization with transfer of ownership-**

By securitizing the mortgage loan portfolio by transferring ownership, the Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Institution"), for placement among retail investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining flow's from the Trust after payment of the certificates due to their holders.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, the registration in the National Securities Register of a Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in the same year, regarding C-1 "Financial Asset recognition and derecognition", C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities". After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on the balance sheet of the Institution. Securitizations prior to 2009 are not consolidated, based on the treatment provided by the Commission, applicable as of that date.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Institution has tools to measure and quantify the impact of securitized transactions on the consolidated balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market. The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the foregoing, the Institution has decided not to recognize the valuation of the benefits on the remaining securitization transactions of trust 847, resulting from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trust, which are held at amortized cost. During 2019, trusts 711 and 752 were early terminated.

The principal terms of securitization contracts are detailed in Note 12.

***(n)* Other receivable, net-**

Balances of sundry debtors that are not settled within 90 or 60 days following their initial recognition, depending on whether balances are identified, are reserved with a charge to results of the year, regardless of the probability of recovery, except for recoverable taxes and settlement accounts.

(o) Net foreclosed assets or received through payment in kind, net -

Assets that are foreclosed or received through payment-in-kind, are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure is recognized on the date on which the foreclosure ruling is issued.

Property received as payment is recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized.

On the recording date of the foreclosed assets or assets received as payment-in-kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in accordance to the Regulations.

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference is recognized under the caption “Other operating income (expenses)”.

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Upon sale of the foreclosed property, spread between the sales price and the carrying value of the awarded property, net of allowances, must be recorded directly in earnings for the year under the caption “Other operating income (expenses)”.

Foreclosed property is valued according to the type of property in question, recording an allowance for awarded property against earnings for the year under the caption “Other operating income (expenses)”.

Considering the foregoing, and in compliance with the Regulations, the determination of the allowance for personal property or real property foreclosed or received in payment over a period, is computed based on the tables shown below, depending on the type of property in question.

Allowance for personal property

Time elapsed as of the repossession or Payment-in-kind (months)	Allowance percentage
Up to 6	0%
More than 12 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

Allowance for real estate property

Time elapsed as of the repossession or Payment-in-kind (months)	**Allowance percentage**
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

(p) Property, plant and equipment, net-

Property, plant and equipment, net is recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDI up to that date. The related depreciation and amortization are recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007 as appropriate, using the straight-line method as of the month following of the acquisition date, applying the rates detailed as follows:

	Rate
Real estate	2.5%
Construction	1.3%
Construction components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioner	2.8%
Computer equipment	25.0%
ATMs	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Security equipment	10.0%

The estimated useful lives, residual value and depreciation, method of construction and its components, are reviewed at the end of each year, and the effect of any change in such estimates are recognized initially recorded on a prospective basis.

Maintenance and minor repair expenses are recognized in results of the year when they are incurred.

(q) Impairment of long-lived assets in use-

The Institution tests the net carrying value of long-live assets in order to determine the existence of impairment indicators that such value exceeds its recovery value. The recovery value represents the potential amount of net income that it is reasonably expected to be obtained because of the use or realization of such assets.

If it is determined that net carrying value exceeds recovery value, the Institution records the required allowances. When it is intended to sell the assets, these are recorded in the financial statements at the lower of net carrying value or realizable value. The assets and liabilities of a group classified as available for sale are shown separately in the consolidated balance sheet.

(r) Equity investments-

Are represented by those equity investments made by the Institution in entities over which it has significant influence but lacks control, and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results of the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

(s) Income tax (IT)-

IT payable for the year are determined in conformity with the tax regulations in effect.

Deferred IT is accounted for under the asset and liability method which compares the carrying amount for the financial reporting purposes and the amounts used for taxation purposes.

Deferred tax 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 for operating loss carry forwards and other recoverable tax credits. 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 tax assets and liabilities of a change in tax rates is recognized on the statement of income in the period that includes the enactment date.

(t) Other assets-

Software, computer developments and intangible assets are originally recorded at value disbursed.

Amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method at a rate of 20%.

(u) Deposits funding-

Deposits funding comprises demand and time deposits from the general public, as well as bank bonds and money market funding and global deposit account without changes. Interest expenses are recognized in the statement of income on an accrual basis, under the caption “Interest expenses”.

(v) Bank and other borrowings-

Bank and other borrowings comprise loans from domestic and foreign banks. Interest is recognized on an accrual basis under the caption “Interest expenses” in the statement of income.

(w) Employee benefits-

The labor obligations derived from the post-employment benefits that the Institution has recognized correspond to the personnel whose retirement began before January 1, 2007, date from which the Institution ceased to have employees except for the General Director, who is subject to the obligations for defined benefit plans for retired personnel.

The Institution's net obligation relating to defined benefit plans, premiums for years of service, medical expenses, death benefits and sports club benefits, is calculated on a separate basis for each plan, estimating the amount of the future benefits brought to present value earned by retirees in previous years, deducting the fair value of the plan assets from such amount.

Calculation of the obligation for the defined benefit plans is performed on an annual basis by actuaries, using the projected unit credit method. When the calculation results in a possible asset for the Institution, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or any curtailment in future contributions thereto. To calculate the present value of the economic benefits, any minimum financing requirement must be taken into consideration.

The amendments to the plans that affect the cost for services provided are recognized in earnings immediately in the year where said amendment occurs, without the possibility for deferral in subsequent years. Furthermore, the effects of any death events or obligations curtailment for the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to benefits, respectively, are recognized in earnings for the period.

The Institution determines the net interest expense (income) on the net liability (asset) for defined benefits of the year, by multiplying the discount rate used to measure the defined benefit obligation by the net liability (asset defined) at the beginning of the reporting period, considering changes in the net liability (asset) from the defined benefits during the period as result of the estimations of the contributions and benefit payments. Net interest and labor cost are recognized as part of the cost of the year under "administrative and promotional expenses" caption.

Any remeasurement resulting from differences between the projected and actual actuarial assumptions by the end of the period are recognized in the period where they are incurred as part of Other Comprehensive Income (OCI) within stockholders' equity.

(x) Accruals-

Accruals are recognized when there is a present obligation resulting from a past event, which is likely to result in an outflow of economic resources, and that can be estimated reasonably.

(y) Foreign currency transactions-

Transactions denominated in foreign currency are recorded in the currency of the operation, and valued at the exchange rate reported by the Central Bank. Monetary assets and liabilities denominated in foreign currency are valued in local currency at the exchange rate at the end of each period, issued by the Central Bank. The differences in changes incurred in relation to assets or liabilities contracted in foreign currency are recorded in the results of the year.

The result of currency trading comes from the difference between the exchange rates used to buy and / or sell currencies, including adjustment to the final position, valued at the exchange rate referred to in the previous paragraph.

(z) Net interest income-

The Institution's net interest income consists of the difference resulting from interest income less interest expense.

Interest income-

Interest income comprises returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers at agreed upon interest rates, earned interest income in capital lease transactions, amortization of interest collected in advance, as well as interest from deposits held at financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities lending, accrual of collected fees for loan origination, as well as dividends of net worth instruments considered as interest income and insurance premium revenues.

Interest earned on loans granted is included in earnings as it accrues. Interest on past-due portfolio is included in earnings until it is collected.

Commissions charged for loan origination are recorded as deferred revenues under the caption "Deferred credits and prepayments," and are amortized to earnings under the caption "Interest income," using the straight-line method over the life of the loan, except for revolving loans, which are amortized over a 12-month period.

Interest expense-

Interest expense is comprised of premiums paid on bank deposit, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses-

The commissions charged for restructuring or renewal of loans are added to the commissions that were initially originated as stated above, being recognized as a deferred loan that is amortized to using the straight-line method throughout the new term of the loan.

Commissions recognized after the initial loan origination, those incurred as part of the maintenance of such loans, or those collected for other reasons that the granting are recognized in results when they are incurred.

Incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against results as "Interest expense" during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in results as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to results over a 12-month period under the respective line item that corresponds to the nature of such cost or expense.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12-month period are recognized directly in results of the year under the caption "Commissions and fee income".

(aa) Memorandum accounts-

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's consolidated balance sheet because the related rights are not acquired or such commitments are not recognized as a liability until such eventualities occur, respectively:

– *Contingent assets and liabilities:*

Formal claims that may involve any responsibility for the Institution.

– *Loan commitments:*

The balance represents the value of letters of credit granted by the Institution and that are considered as irrevocable commercial loans not used by borrowers and authorized unused lines of credit.

The items recorded in this account are subject to loan rating.

– *Assets in trust or under mandate:*

The Institution records the transactions of Assets or Trusts in memorandum accounts according to the following:

- With respect to those that represent the value of property received in trust, all information concerning the management of each being kept in separate accounts.
- Those that, due to their assets and liabilities, result from the transactions and whose recognition and valuation is carried out in accordance with the provisions of the specific accounting criteria applicable to the Institution

Losses incurred by the Institution for liabilities incurred as a trustee are recognized in the consolidated statement of income of the period in which they are known, regardless of the time in which any legal action is carried out for this purpose.

The trust services unit maintains special accounting for each contract in the trustee system, and records in them and in its own accounting the money and other assets, securities or rights entrusted to them, as well as increases or decreases, for products or expenses respectively, invariably the balances of the special accounts of each trust agreement match the balances of the memorandum accounts in which the Institution recognizes the trust estate.

These assets in no event shall be assigned to other liabilities than those derived from the trust, or that that correspond to third parties in accordance with the Law.

When, due to the nature of the trusts created in the Institution there are assets or liabilities against or in favor of the Institution, these are recognized in the consolidated balance sheet, as appropriate.

The mandate is recorded at the goods stated value subject to the mandate agreements entered by the Institution.

The revenue recognition from management of trusts is based on the accrual basis. Revenue recognition is suspended when the debt is 90 or more days past due, and can be recognized again when the outstanding debt is paid in full.

If the income accrued from management of trusts is suspended from accrual and not collected, control thereof is kept in memorandum accounts. If such accrued income is collected, it is recognized directly in the consolidated statement of income of the year.

– *Assets in custody, guarantee and under management:*

Cash and securities owned by the clients under custody, guarantee and management are recognized in the respective memorandum accounts and are valued based on the price delivered by the price vendor.

Securities under custody and management are deposited at S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V.

– *Collateral received by the Institution:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, when the Institution acts as the repurchasing party and borrower

– *Collateral received and sold or given in guarantee by the Institution:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as the repurchasing party and borrower.

– *Uncollected earned interest derived from past due loan portfolio:*

The interest earned is recorded in memorandum accounts once a performing portfolio loan is transferred to past due portfolio.

– *Other record accounts:*

As of December 31, 2019 and 2018, the other memorandum accounts present a balance of $3,243,969 and $3,570,501, respectively, which comprise mainly credit letters and other collateral received by the Institution.

(ab) Contingencies-

Significant contingency-related obligations or losses are accounted for when materialization becomes likely and there are reasonable elements for quantification. In the absence of these reasonable elements, a disclosure is included on a qualitative basis in the notes to the financial statements. Contingent revenues, profits or assets are recorded when there is certainty about their realization.

(4) Cash and cash equivalents-

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

	2019	2018
Cash in hand	$ 52,786	50,098
Banks	43,783	85,052
Restricted cash:		
Foreign currency purchases [2]	66,623	125,517
Foreign currency sales[2]	(56,413)	(79,459)
Deposits at Central Bank[1]	40,304	40,275
Other restricted deposits	348	501
Bank and other borrowings (call money)[3]	–	9,914
Other cash and cash equivalents	941	953
Total	$ 148,372	232,851

[1] [2] and [3] See explanations below.

Banks include deposits in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of $18.8642 and $19.6512 pesos per one U.S. dollar, as of December 31, 2019 and 2018, respectively, and are comprised as follows:

	Mexican pesos		U.S. Dollars		Total	
	2019	2018	2019	2018	2019	2018
Deposits with foreign banks	$ 1,699	583	40,868	29,895	42,567	30,478
Central Bank	102	53,769	1,114	805	1,216	54,574
	$ 1,801	54,352	41,982	30,700	43,783	85,052

(1) As of December 31, 2019 and 2018, the deposits with Central Bank includes the Monetary Regulation Deposits (“DRM” from its Spanish acronym), which amount to $40,304 and $40,275, respectively. These DRM have an indefinite duration, for which purpose the Central Bank will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on this deposit is payable every 28 days by applying the rate established in the Regulations issued by Central Bank.

On May 12, 2016, through Circular 9/2016, the Central Bank issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Regulations establish that the DRM may be comprised of cash, securities or both.

As of December 31, 2019 and 2018, the Institution holds BREMS R in the amount of $32,688 and $32,685, respectively, which form part of the DRM. These amounts are recorded as restricted under the caption of “Investments in securities” in the category of securities available-for-sale (note 6(b) and 6(b.1)), due to applicable restrictions providing that they may only be sold to the Central Bank directly or through repurchase/resale transactions, when determined by the latter through its general provisions.

(2) As of December 31, 2019 and 2018, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 to 96 hours are as shown in next page.

	Balance in foreign currency (millions)		Mexican peso equivalent	
	2019	**2018**	**2019**	**2018**
Foreign currency purchases to be received at 24, 48, 72 and 96 hours:				
USD	3,313	6,139	$ 62,499	120,633
EUR	195	217	4,124	4,884
Total			$ 66,623	125,517
Foreign currency sales to be settled at 24, 48, 72 and 96 hours:				
USD	(2,985)	(3,959)	$ (56,313)	(77,794)
EUR	(4)	(74)	(75)	(1,655)
JPY	–	(57)	–	(10)
GBP	(1)	–	(25)	–
Total			$ (56,413)	(79,459)

Upon recording foreign currencies to be delivered or received from sales and purchases under the caption “Cash and cash equivalents”, the clearing accounts of the counter value of these transactions are recorded in the consolidated balance sheet under the caption “Other accounts receivable, net” and “Creditors on settlement of transactions”, accordingly.

(3) Bank and other borrowings (Call Money) in local currency contracted by the Institution, are agreed to within 2 days, and a rate of 7.25%. Call Money loans were documented according to the union contract called “Testimony of the Instrument of the Framework Contract for the Celebration of Interbank Loan Operations Call Money Instrument 3160 Book 83 Year 1997 LFLP / JJG / BMM”, which was signed by the union before a Notary Public. As of December 31, 2018, Call Money transactions are as shown below:

Counterparty	**Market Value**
Banco Inbursa S. A. I. B. M.	$ 200
Banco Santander México, S. A. I. B. M.	6,713
Nacional Financiera, S. N. C.	3,001
Total	$ 9,914

For the years ended December 31, 2019 and 2018, interest recognized in consolidated statement of income by Call Money amounts to $165 and $163, with average return rates of 8.10% and 7.69%, respectively.

(5) Margin accounts-

As of December 31, 2019 and 2018, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of $18,329 and $10,548, respectively.

(6) Investment securities-

As of December 31, 2019 and 2018, investment securities were as shown in next page.

a. Trading Securities

Instrument	2019 Acquisition cost	2019 Accrued interest	2019 Increase (decrease) valuation	2019 Carrying amount	2018 Carrying amount
Unrestricted:					
Equity shares, net	$ 5,548	–	32	5,580	336
American Depositary Receipts (ADRS)	1,399	–	(130)	1,269	2,982
Bank bonds	1	–	-	1	291
Sovereign debt Eurobonds	1,984	30	67	2,081	5,087
Fixed-rate government bonds	3,307	20	(1)	3,326	5,206
Promissory notes with returns settle at maturity (PRLV)	71	–	–	71	57
Federal Mexican Treasury Securities (CETES)	5,087	–	(1)	5,086	1,750
Federal Government Development Bonds (BONDESD)	1,884	2	–	1,886	1,319
Corporate commercial paper	129	–	–	129	-
Corporate Eurobonds	766	8	9	783	1,704
Securitization certificates	2,745	31	(104)	2,672	5,815
Exchangeable securitization certificates (CBICS)	757	15	(1)	771	698
Federal Government Development Bonds in UDIS (UDIBONOS)	910	6	2	918	3,847
Mexican Bank Saving Protection Bonds (BPAS)	6,795	159	–	6,954	2,269
Treasury notes	283	2	–	285	96
Total unrestricted securities carried forward	$ 31,666	$ 273	(127)	31,812	31,457
Restricted securities:					
Collateral granted (a.1.)	$ 252,410	273	1,767	254,450	226,269
Value date purchases (a.2.)	26,151	23	(13)	26,161	17,864
Value date sales (a.3.)	(30,495)	(40)	12	(30,523)	(12,171)
Total	$ 279,732	529	1,639	281,900	263,419

During 2019 and 2018, the Institution recognized income of $620 and losses of $995, respectively, on valuation of unrestricted securities (note 30).

Also, as of December 31, 2019 and 2018, residual terms of these unrestricted investments are as follows:

Instrument	2019 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted securities:					
Equity shares, net	$ –	–	–	5,548	5,548
ADRs	–	–	–	1,399	1,399
Bank bonds	–	–	1	–	1
Sovereign debt Eurobonds	–	–	1,984	–	1,984
Fixed-rate government bonds	–	–	3,307	–	3,307
PRLV	–	–	71	–	71
CETES	1,601	504	2,982	–	5,087
BONDESD	–	–	1,884	–	1,884
Corporate commercial paper	129	–	–	–	129
Corporate Eurobonds	–	–	766	–	766
Securitization certificates	583	8	2,154	–	2,745
CBICS	–	–	757	–	757
UDIBONOS	–	–	910	–	910
BPAS	2	–	6,793	–	6,795
Mexican Treasury notes	–	–	283	–	283
Total	$ 2,315	512	21,892	6,947	31,666

Instrument	2018 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total acquisition cost
Unrestricted securities:					
Equity shares, net	$ –	–	–	364	364
ADRs	–	–	–	3,285	3,285
Bank bonds	–	–	286	–	286
Sovereign debt Eurobonds	–	–	5,147	–	5,147
Fixed-rate government bonds	–	–	5,179	–	5,179
PRLV	–	–	57	–	57
CETES	101	120	1,529	–	1,750
BONDESD	514	–	799	–	1,313
Corporate Eurobonds	–	18	1,673	–	1,691
Securitization certificates	–	50	5,813	–	5,863
CBICS	–	–	683	–	683
UDIBONOS	–	–	3,851	–	3,851
BPAS	1	21	2,199	–	2,221
Treasury notes	–	–	98	–	98
Total	$ 616	209	27,314	3,649	31,788

a.1. Granted collateral as of December 31, 2019 and 2018 are comprised as follows:

	2019 Acquisition cost	2019 Accrued interest	2019 Increase (decrease) valuation	2019 Carrying amount	2018 Carrying amount
Collateral under securities lending:					
IPAB Bond	$ 11,767	31	2	11,800	25,646
Bonds	16,928	37	(35)	16,930	15,501
UDIBONOS	21,583	–	(2)	21,581	–
Total collateral under securities lending	50,278	68	(35)	50,311	41,147
Collateral under repurchase/resale agreements:					
Bank securitization certificates	3,777	–	(1)	3,776	14,488
Corporate commercial paper	497	–	–	497	–
Bank bonds	210	–	–	210	131
BONDESD	9,774	9	97	9,880	1,353
Fixed-rate government bonds	63,569	43	953	64,565	60,122
BPAS	64,045	86	594	64,725	57,745
CETES	42,289	67	178	42,534	34,321
UDIBONOS	1,866	–	(3)	1,863	15,655
CBICS	16,105	–	(16)	16,089	–
Securitization certificates	–	–	–	–	1,307
Total collateral under repurchase/resale agreements	202,132	205	1,802	204,139	185,122
Total restricted securities under granted collaterals	$ 252,410	273	1,767	254,450	226,269

a.2. Value date purchases as of December 31, 2019, and 2018 are comprised as follows:

	2019				2018
Instrument	**Acquisition cost**	**Accrued interest**	**Increase (decrease) valuation**	**Carrying amount**	**Carrying amount**
Equity shares, net	$ 251	–	(4)	247	40
ADRs	155	–	(1)	154	4,071
Fixed-rate government bonds	7,049	–	(2)	7,047	3,547
BPAS	3,730	–	–	3,730	–
BONDESD	3,573	22	–	3,595	541
CETES	7,850	–	–	7,850	6,453
UDIBONOS	3,504	–	(6)	3,498	1,504
Securitization certificates	1	–	–	1	–
Corporate Eurobonds	38	1	–	39	–
Sovereign debt Eurobonds	–	–	–	–	1,708
Total	$ 26,151	23	(13)	26,161	17,864

a.3. Value date sales as of December 31, 2019 and 2018 are comprised as follows:

	2019				2018
Instrument	**Acquisition cost**	**Accrued interest**	**(Decrease) valuation**	**Carrying amount**	**Carrying amount**
Equity shares, net	$ (102)	–	–	(102)	(70)
ADRS	(41)	–	–	(41)	(3,898)
Sovereign debt Eurobonds	(2)	–	–	(2)	(1,713)
CETES	(15,744)	–	1	(15,743)	(2,859)
Fixed-rate government bonds	(11,643)	(40)	5	(11,678)	(2,849)
BONDESD	–	–	–	–	(132)
UDIBONOS	(2,963)	–	6	(2,957)	(650)
Total	$ (30,495)	(40)	12	(30,523)	(12,171)

During 2019 and 2018, the Institution recognized losses of $1,621 and income of $1,629, respectively, on valuation of restricted securities from granted collateral (note 30).

For the years ended December 31, 2019 and 2018, associated returns to all the trading securities recorded in income for the year amount to $30,031 and $31,432, respectively (note 28).

b. Available-for-sale

	2019				2018
Instrument	**Acquisition cost**	**Accrued interest**	**(Decrease) valuation**	**Carrying amount**	**Carrying amount**
Unrestricted securities:					
Equity shares, net	$ 535	–	183	718	581
CETES	–	–	–	–	20,756
Sovereign debt Eurobonds	19,601	388	1,113	21,102	17,093
Corporate Eurobonds	5,239	91	(15)	5,315	6,426
Development bank' Eurobonds	320	2	14	336	328
Fixed-rate bonds	–	–	–	–	15,795
BONDES	48,545	450	(115)	48,880	–
BPAS	9,932	281	22	10,235	–
Securitization certificates	5,185	62	(76)	5,171	5,444
CEDES UDIS	86	74	(5)	155	141
BREMS R[(1)]	27,643	29	–	27,672	32,685
UDIBONOS	404	–	(20)	384	360
Total unrestricted	117,490	1,377	1,101	119,968	99,609
Restricted [(b.1.)]	27,951	12	(190)	27,773	24,592
	$ 145,441	1,389	911[(2)]	147,741	124,201

[(1)] BREMS R are part of the monetary regulation deposit (DMR) (note 4).
[(2)] As of December 31, 2019, the result of the valuation of available-for-sale securities is presented in the net OCI of the negative valuation effect of $1,031, of the derivatives covered by the aforementioned securities position.

As of December 31, 2019 and 2018, the remaining scheduled maturities of the available-for-sale securities are detailed below:

	2019				
Instrument	**Less than 1 month**	**Between 1 and 3 months**	**More than 3 months**	**Without fixed term**	**Total Acquisition cost**
Unrestricted:					
Equity shares, net	$ –	–	–	535	535
Sovereign debt Eurobonds	–	377	19,224	–	19,601
Corporate Eurobonds	–	–	5,239	–	5,239
Development bank Eurobonds	–	–	320	–	320
BONDES	–	–	48,545	–	48,545
BPAS	–	–	9,932	–	9,932
Securitization certificates	552	–	4,633	–	5,185
CEDES UDIS	–	–	86	–	86
BREMS R	–	–	27,643	–	27,643
UDIBONOS	–	–	404	–	404
Total unrestricted	$ 552	377	116,026	535	117,490

Instrument	2018 Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	Total Acquisition cost
Unrestricted:					
Equity shares, net	$ –	–	–	535	535
CETES	–	–	20,805	–	20,805
Sovereign debt Eurobonds	–	–	16,078	–	16,078
Corporate Eurobonds	–	–	6,770	–	6,770
Development bank' Eurobonds	–	–	334	–	334
Fixed-rate bonds	–	–	16,444	–	16,444
Securitization certificates	–	–	5,736	–	5,736
CEDES UDIS	–	–	84	–	84
BREMS R(1)	–	–	32,656	–	32,656
UDIBONOS	–	–	395	–	395
Total unrestricted	$ –	–	99,302	535	99,837

b.1. Collateral granted (restricted securities) of investments available-for-sale as of December 31, 2019 and 2018 is as follows:

Instrument	2019 Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	2018 Carrying amount
Fixed-rate bonds	$ 21,722	4	(195)	21,531	19,000
Securitization certificates	–	–	–	–	1,042
CETES	–	–	–	–	3,218
BREMS R(1)	5,012	4	–	5,016	–
Collateral under repurchase/resale agreements	26,734	8	(195)	26,547	23,260
Treasury bills	1,217	4	5	1,226	1,332
Total restricted	$ 27,951	12	(190)	27,773	24,592

(1) BREMS R are part of the monetary regulation deposit (note 4).

For the years ended December 31, 2019 and 2018, the associated returns to all the recorded securities available-for-sale in income for the year amount to $4,671 and $3,119, respectively (note 28), are as follows:

c. Held-to-maturity:

Instrument	2019 Acquisition cost	Accrued interest	Carrying amount	2018 Carrying amount
Mortgage Debtor Support Program – Special CETES (note 9)	$ 17,107	–	17,107	15,809
Fixed-rate bonds	16,657	63	16,720	6,832
	$ 33,764	63	33,827	22,641

For the years ended December 31, 2019 and 2018, yields related to the overall held-to-maturity portfolio, recorded in the results for the year, amounted to $1,298 and $1,145, respectively (note 28).

d. Received/pledged collaterals

The terms and conditions for the delivery of securities as collateral are in line with the master service agreements of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which help mitigate credit risk, in order to have a reasonable level of collateral; if the received of pledged collateral does not fulfill criteria for transfer of ownership, then the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these master service agreements stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a drop in the guaranteed value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver or receive to or from the other party (which therefore presents a positive market value) assets, liabilities or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

As of December 31, 2019 and 2018, there are no investments in debt securities of one issuer other than government bonds exceeding 5% of the global capital of the Institution.

(7) Repurchase/resale transactions and securities lending-

a. Debtors on repurchase/resale agreement receivables

As of December 31, 2019 and 2018, debtors on repurchase/resale agreements transactions are comprised as follows:

	2019			2018		
	Asset	Liability		Asset	Liability	
Instrument	Receivable under repurchase agreement	Sold/pledged Collateral	Debit difference	Receivable under repurchase agreement	Sold/pledged Collateral	Debit difference
BONDES	$ 4,600	2,611	1,989	492	492	—
Fixed-rate bonds	100	100	—	—	—	—
BPAS	10,032	4,000	6,032	508	508	—
CETES	23	—	23	66	—	66
Total	$ 14,755	6,711	8,044	1,066	1,000	66

b. Creditors on repurchase / resale agreements

As of December 31, 2019 and 2018, creditors on repurchase/resale agreements are comprised as follows:

Instrument	2019	2018
BONDESD	$ 9,798	324
Fixed-rate bonds	83,230	77,060
BPAS	64,031	56,386
Securitization certificates	4,682	2,530
Bank bonds	210	130
CETES	42,343	37,264
CBICS	15,199	14,336
BREMS	5,004	—
UDIBONOS	1,867	15,683
Commercial Paper	497	—
Total	$ 226,861	203,713

As of December 31, 2019 and 2018, interest (premiums) receivable recorded by the Institution was $2,776 and $1,663, respectively, which is presented in the consolidated statements of income under the caption "Interest income". Also, as of December 31, 2019 and 2018, interest (premiums) charged to the Institution under the caption "Interest expense" was $22,404 and $21,034, respectively, see note 28.

c. Sold/pledged collaterals in repurchase/resale agreements and securities lending transactions as of December 31, 2019 and 2018 are as follows:

	2019			**2018**		
	Memorandum accounts		**Liability**	**Memorandum accounts**		**Liability**
Instrument	**Received collateral**	**Received Sold/pledged Collateral**	**Sold/pledged Collateral**	**Received collateral**	**Received Sold/pledged Collateral**	**Sold/pledged Collateral**
Securities lending:						
Fixed-rate bonds	$ 28,811	28,811	28,811	3,150	3,150	3,150
UDIBONOS	6,063	6,063	6,063	13,102	13,102	13,102
CETES	3,462	3,462	3,462	10,333	10,333	10,333
CBICS	8,825	8,825	8,825	12,649	12,649	12,649
Equity shares, net	419	416	416	699	203	204
	47,580	47,577	47,577	39,933	39,437	39,438
Repurchase agreements						
BONDES	4,603	2,614	—	492	492	—
Fixed-rate bonds	100	100	—	—	—	—
BPAS	10,025	3,992	—	508	508	—
CETES	19	—	—	66	—	—
	14,747	6,706	—	1,066	1,000	—
Other collateral received	5,366	—	—	4,856	—	—
Total	$ 67,693	54,283	47,577	45,855	40,437	39,438

Interest expense from sold/pledged collateral in repurchase transactions and securities lending recognized in profit or loss for the year ended December 31, 2019 amounted to $3,125, compared to $2 in interest receivable and $4,337 in interest payable in 2018 (see note 28).

As of December 31, 2019 and 2018, the Institution has repurchase agreements for an average period of 15 and 27 days, while transactions involving securities loans are performed over an average period of 8 and 14 days, respectively.

(8) Derivatives-

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

a. As of December 31, 2019 and 2018, the Institution carries out transactions with derivative financial instruments as described below. Foreign currency position arising from such derivative financial instruments is shown in the assets and liabilities position shown in note 25.

Trading:

	2019			
	Carrying amount		**Balance**	
	Assets	**Liabilities**	**Debit**	**Credit**
Futures long position	$ 50,010	50,010	—	—
Futures short position	46,980	46,980	—	—
Forwards long position	798,738	828,709	1,055	31,026
Forwards short position	849,667	827,599	24,758	2,690
Acquired options	3,289	—	3,289	—
Sold options	—	12,346	—	12,346
Swaps	1,184,182	1,185,758	80,275	81,851
	$2,932,866	2,951,402	109,377	127,913

	2018			
	Carrying amount		Balance	
	Assets	Liabilities	Debit	Credit
Futures long position	$ 35,061	35,061	—	—
Futures short position	13,186	13,186	—	—
Forwards long position	710,463	721,147	7,070	17,754
Forwards short position	738,898	734,053	13,701	8,856
Acquired options	4,145	—	4,145	—
Sold options	—	10,145	—	10,145
Swaps	1,280,973	1,272,335	100,888	92,250
	$ 2,782,726	2,785,927	125,804	129,005

Hedging:

	2019				
	Notional amount		Balance		
	Assets	Liabilities	Assets	Liabilities	Net position
Forwards long position	$ 2,685	2,814	—	129	(129)
Swaps	102,596	99,923	10,932	8,259	2,673
	$ 105,281	102,737	10,932	8,388	2,544

	2018				
	Notional amount		Balance		
	Assets	Liabilities	Debit	Credit	Net position
Forwards long position	$ 5,119	5,076	56	13	43
Swaps	104,561	98,863	14,757	9,059	5,698
	$ 109,680	103,939	14,813	9,072	5,741

b. Future and forward contracts – For the year ended December 31, 2019, the Institution carried out transactions on organized markets (Mexican Derivatives Market (Mex-Der) and Chicago), resulting in a loss of $(4,903) distributed according to the underlying in Rates of $(33), Foreign currency of $(4,578), Indexes of $42 and Securities of $(334). For the year ended December 31, 2018, the Institution carried out transactions on Mex-Der and Chicago, resulting in a loss of $(982) distributed in rates of $615, currencies of $(1,282), $(304) indexes and securities of $(11).

The Institution also entered into advanced "forward" contracts with the main currencies. As of December 31, 2019, open contracts are as follows:

***Trading*:**

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$40,184	40,184	48,908	48,908	—
Futures	Index	6,330	6,330	—	—	—
	S&P	466	466	1,102	1,102	—
		$46,980	46,980	50,010	50,010	—

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Payable	Net position
	U.S. dollars	$835,707	813,497	783,779	814,005	(8,016)
Forwards	Equity	13,960	14,102	13,634	13,481	11
	Index	—	—	1,325	1,223	102
		$849,667	827,599	798,738	828,709	(7,903)

***Hedging*:**

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Payable	Net position
Forwards	U.S. dollars	$ —	—	2,685	2,814	(129)

At December 31, 2018, the following contracts were open:

Trading:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Payable	Net position
	U.S. dollars	$11,656	11,656	34,159	34,159	—
Futures	Index	813	813	—	—	—
	M10 Bond	—	—	655	655	—
	S&P	717	717	247	247	—
		$ 13,186	13,186	35,061	35,061	—

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Payable	Net position
	U.S. dollars	$688,797	685,123	696,191	705,556	(5,691)
Forwards	Equity	825	773	739	790	1
	Index	14,668	13,531	13,533	14,801	(131)
	Bonds	34,608	34,626	—	—	(18)
		$738,898	734,053	710,463	721,147	(5,839)

Hedging:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Payable	Net position
Forwards	U.S. dollars	$ —	—	5,119	5,076	43

c. **Options** - As of December 31, 2019, options transactions are as follows:

Trading:

	Type of transaction	Underlying	Reference amount	Fair value
Purchases	OTC options (1)	U.S. dollars	$ 83,212	$ 1,283
		Interest rates	85,698	650
		Equity securities and indexes	8,032	1,134
				3,067
	OM options (2)	Equity securities and indexes	$ 2,700	222
				$ 3,289
Sales	OTC options (1)	U.S. dollars	$ 85,327	$ 1,726
		Interest rates	122,862	287
		Equity securities and indexes	14,512	10,173
				12,186
	OM options (2)	Equity securities and indexes	$ 4,734	157
		U.S. dollars	173	3
				160
				$ 12,346

As of December 31, 2018, options transactions are show are as follows:

	Type of transaction	Underlying	Reference amount	Fair value
Purchases	OTC options [1]	U.S. dollars	$ 26,171	$ 841
		Interest rates	136,586	1,669
		Equity securities and indexes	15,976	884
				3,394
	OM options [2]	Equity securities and indexes	$ 7,526	749
		U.S. dollars	96	2
				751
				$ 4,145
Sales	OTC options [1]	U.S. dollars	$ 25,355	$ 872
		Interest rates	196,844	1,824
		Equity securities and indexes	12,831	6,492
				9,188
	OM options [2]	Equity securities and indexes	$ 14,351	949
		U.S. dollars	840	8
				957
				$ 10,145

[1] OTC (Over the Counter) equivalent to Non-Organized Markets
[2] OM (Organized Markets)

d. **Swaps** - As of December 31, 2019, the Institution's swaps transactions are as follows:

Trading:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 171,479	176,945	$ 229,629	239,353	(9,724)
	U.S. dollar	248,566	194,664	264,478	198,784	65,694
	UDIS	58,624	62,567	–	–	–
	Euro	45,577	87,714	46,535	95,699	(49,164)
	Yen	–	127	–	129	(129)
	COP	2,191	–	–	–	–
	GBP	1,249	1,249	1,588	1,612	(24)
	CLP	2,981	–	–	–	–
	CHF	–	3,900	–	3,980	(3,980)
				$ 542,230	539,557	2,673
			Notional amount			
Interest rates	Peso[1]		$3,944,282	519,850	522,204	(2,354)
	Euro		156,123	1,302	1,573	(271)
	U.S. dollar		1,599,354	120,759	122,021	(1,262)
	GBP		500	4	7	(3)
	COP		700	74	63	11
				641,989	645,868	(3,879)
Equity	Peso		$ 1,208	22	102	(80)
	U.S. dollar		138	3	16	(13)
				25	118	(93)
CDS	U.S. dollar		$ 189	4	5	(1)
	Subtotal			1,184,248	1,185,548	(1,300)
Valuation adjustments				(66)	210	(276)
	Total			$1,184,182	1,185,758	(1,576)

(1) The Institution entered into nominal interest rate swaps in Mexican pesos, in 2019, with various institutions at annual rates ranging from 4.46% and 20.26%.

As of December 31, 2018, the Institution's swap transactions are as follows:

Trading:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 204,591	194,110	$ 273,747	275,750	(2,003)
	U.S. dollar	270,507	221,480	290,409	229,970	60,439
	UDIS	74,956	83,614	–	–	–
	Euro	53,114	92,338	56,251	101,868	(45,617)
	Yen	–	131	–	135	(135)
	COP	1,925	–	–	–	–
	GBP	1,252	1,252	1,580	1,613	(33)
	CLP	3,363	–	–	–	–
	CHF	–	3,997	–	4,175	(4,175)
				$ 621,987	613,511	8,476
			Notional amount			
Interest rates	Peso(1)		$ 2,921,569	520,548	518,897	1,651
	Euro		179,958	2,748	2,866	(118)
	U.S. dollar		1,624,110	135,571	136,820	(1,249)
	GBP		501	11	15	(4)
	COP		738	112	105	7.
				658,990	658,703	287
Equity	Peso		$ 428	26	36	(10)
CDS	U.S. dollar		$ 295	10	10	–
	Subtotal			1,281,013	1,272,260	8,753
Valuation adjustments				(40)	75	(115)
	Total			$ 1,280,973	1,272,335	8,638

(1) In 2018, the Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 4.47% and 20.26%.

Swaps for hedging purposes:

As of December 31, 2019:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 20,441	24,600	$ 21,361	25,877	(4,516)
	U.S. dollar	38,159	8,853	41,385	9,523	31,862
	GBP	–	1,179	–	1,354	(1,354)
	Euro	–	22,051	–	24,118	(24,118)
				62,746	60,872	1,874
			Notional amount			
Interest rates	Peso(1)		$ 36,734	14,077	14,646	(569)
	U.S. dollar		78,576	25,773	24,405	1,368
				39,850	39,051	799
				$ 102,596	99,923	2,673

(1) In 2019, the Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.78% and 8.91%.

As of December 31, 2018:

Underlying	Currency	Contract value receivable	Contract value payable	Receivable	Payable	Net position
Currency	Peso	$ 16,817	31,024	$ 17,460	33,169	(15,709)
	U.S. dollar	49,577	5,441	54,417	5,866	48,551
	GBP	–	1,182	–	1,362	(1,362)
	Euro	–	23,828	–	26,376	(26,376)
				71,877	66,773	5,104
			Notional amount			
Interest rates	Peso[(1)]		$ 22,268	10,260	9,230	1,030
	U.S. dollar		72,345	22,424	22,860	(436)
				32,684	32,090	594
				$ 104,561	98,863	5,698

(1) In 2018, the Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.78% and 8.91%.

Collateral received in OTC derivatives as of December 31, 2019 and 2018 is recorded under the caption “Creditors on cash received as collateral” as shown as follows:

	2019			2018
Collateral received in cash in derivative transactions	**Acquisition cost**	**Accrued interest**	**Carrying amount**	**Carrying amount**
Actinver Casa de Bolsa, S. A. de C. V.	$ 5	–	5	5
Alsea S. A. B. de C. V.	57	–	57	201
Banca Afirme, S. A. IBM	18	–	18	–
Banca Mifel, S. A. IBM	8	–	8	–
Banco Base, S. A. IBM	11	–	11	–
Banco del Bajío, S. A. IBM	20	–	20	59
Banco Inbursa, S. A. IBM	634	1	635	703
Banco Invex, S. A. IBM	4	–	4	–
Banco Mercantil del Norte, S. A. IBM	300	1	301	4,087
Banco Nacional de Comercio Exterior, S. N. C.	–	–	–	88
Banco Nacional de Obras y Servicios Públicos, S. N. C.	1,281	8	1,289	–
Banco Regional, S. A. IBM	275	–	275	–
Banco Santander México, S. A. IBM	–	–	–	711
Banco Ve por más, S. A. IBM	–	–	–	20
Bank of America Merrill Lynch	69	–	69	437
BBVA Madrid	–	–	–	1,935
Casa de Bolsa Finamex, S. A. de C. V.	27	–	27	144
Citi Banamex USA	–	–	–	6,662
Compass Bank	–	–	–	1
Credit Agricole CIB	1,151	2	1,153	891
Credit Suisse International	572	1	573	–
Credit Suisse Securities	–	–	–	137
Deutsche Bank	2,047	3	2,050	2,828
Goldman Sachs México Casa de Bolsa	478	1	479	–
Goldman Sachs Paris	–	–	–	3,509
HSBC México, S. A. IBM	55	–	55	640
Intercam Casa de Bolsa, S. A. de C. V.	29	–	29	–
J. Aron & Company	715	1	716	638
Masari Casa de Bolsa, S. A. de C. V.	1	–	1	–
Morgan Stanley & CO	4	–	4	–
Morgan Stanley CAP	–	–	–	6
Morgan Stanley S A S	409	1	410	1,555
MUFG Bank México	92	–	92	49
Nacional Financiera, S. N. C.	53	–	53	1
Natixis	1,747	3	1,750	1,431
Standard Chartered Bank	–	–	–	3
Toronto Dominion Bank	33	–	33	–
UBS AG	66	–	66	331
Xignus	–	–	–	59
Collateral received in cash in derivative transactions	10,161	22	10,183	27,131
Collateral received in cash other than derivative transactions	135	–	135	171
	$ 10,296	22	10,318	27,302

As of December 31, 2019 and 2018, the Institution recorded collateral received in memorandum accounts under the caption "Collateral received by the Institution" in the amount of $5,177 and $5,352, respectively

e. Transactions with embedded derivatives

Embedded derivatives as of December 31, 2019 and 2018 shown in below are part of the derivatives for trading balances.

	2019			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Acquired options	$ 259	–	259	–
Sold options	–	493	–	493
Swaps	1,610	1,668	159	217
	$ 1,869	2,161	418	710

	2018			
	Carrying amount		Balance	
	Asset	Liability	Asset	Liability
Acquired options	$ 550	–	550	–
Sold options	–	586	–	586
Swaps	10,253	9,671	2,067	1,485
	$ 10,803	10,257	2,617	2,071

e.1. Embedded options (Underlying):

Trading:

			2019	
		Underlying	Nominal amount	Fair value
Purchases	OTC options	U.S. dollars	$ 2,029	4
		Indexes	22,815	255
				$ 259

			2019	
		Underlying	Nominal amount	Fair value
Sales	OTC options	U.S. dollars	$ 1,553	58
		Interest rates	9,384	16
		Indexes	4,383	419
				$ 493

			2018	
		Underlying	Nominal amount	Fair value
Purchases	OTC options	U.S. dollars	$ 1,778	23
		Indexes	48,485	527
				$ 550

			2018	
		Underlying	Nominal amount	Fair value
Sales	OTC options	U.S. dollars	$ 1,271	87
		Interest rates	31,989	174
		Indexes	8,814	325
				$ 586

e.2 Embedded swaps (Underlying)

Trading:

		2019			
Underlying	**Currency**	**Notional amount**	**Market value receivable**	**Market value payable**	**Fair value**
Currency	Peso	$ 484	472	475	(3)
	U.S Dollar	240	257	254	3
			729	729	–
Interest rate	Peso	$ 13,255	875	939	(64)
	U.S Dollar	1,132	6	–	6
			881	939	(58)
			$ 1,610	1,668	(58)

		2018			
Underlying	**Currency**	**Notional amount**	**Market value receivable**	**Market value payable**	**Fair value**
Currency	Peso	$ 3,305	3,125	3,145	(20)
	U.S Dollar	3,509	3,546	3,516	30
	Euro	315	331	330	1
			7,002	6,991	11
Interest rate	Peso	$ 30,856	3,226	2,659	567
	U.S Dollar	371	25	21	4
			3,251	2,680	571
			$ 10,253	9,671	582

e.3 Embedded forwards (Underlying)

As of December 31, 2019 and 2018, the Institution does not have embedded forwards.

According to the structured banking bonds issuance programs, as of December 31, 2019, the Institution has recorded options and embedded swaps with nominal value of $23,689 and $15,111, respectively (options and embedded swaps for $33,902 and $38,356, respectively, as of December 31, 2018), with underlying interest rates for swaps and currencies, indexes and interest rates for options.

As of December 31, 2019, the Institution has entered into the following hedge contracts:

Type of hedge relationship: Cash Flow Hedges

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of the period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM)[(1) and (2)]	Variable flows from DRM	15 IRS FIXED/TIIE	Jun-20	$ (32)	6 months	$ 174	$ (69)	Interest margin from cash and cash equivalents	Restricted cash	$ –
Expenses and investment hedge in USD and EUR[(2)]	fluctuation of exchange rate in estimated expense cash flows	19 FWD SALE USD/MXN 9 FWD SALE EUR/MXN	Jun-20	$ (129)	6 months	$ (172)	$ (257)	Expenses	Property, plant and equipment, advertising, computing	$ –
Cash flow hedge UMS USD and EUR	Change from fixed currency to domestic fixed currency	13 CCS FIXED/USD FIXED	Jan-25	$ 188	62 months	$ –	$ –	Interest margin from investments in securities	Restricted cash	$ –

(1) As of December 31, 2019, $9 was recognized, net of deferred taxes, from amortization of early maturity of DRM coverage swaps.

(2) As of December 31, 2019, the remaining balance of maturities of hedging forwards amounts to $132.

* As of the date of these financial statements, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

Type of hedge relationship: *Fair Value*

Description of hedge item	Nature of hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 19	Gain/Loss of hedge item as of December 19	Item in balance sheet were primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXN fixed-rate loans to change to floating-rate (2)	Fixed-rate risk on USD and MXN fixed-rate loans	2 IRS pays fixed interest in USD and receives variable, 2 IRS pays fixed interest in MXN and receives variable	2040	$ (874)	$ (119)	$ 117	Performing loan portfolio	$ –
Hedge of Mexican sovereign bonds in EUR/USD/GBP(2)	Fixed-rate on UMS bonds in EUR/USD/GBP	70 CCS V/F	2025	$ (4,229)	$ 159	$ (159)	Investments in securities	$ –
Hedge of issuance of subordinated notes in USD(2)	Fixed-rate on V/F notes in USD	34 IRS F/V	2029	$ 1,106	$ (655)	$ 655	Outstanding subordinated obligations	$ –
Hedge of issuance of subordinated notes in USD (2) and (3)	Fixed rate on V/F notes	19 CCS F/V	2024	$ 7,305	$ (215)	$ 215	Outstanding subordinated obligations	$ –
Hedge of corporate bonds and M Bonds (2)	Fixed rate on USD, EUR, UDI	33 CCS V/F	2025	$ (322)	$ (246)	$ 251	Investments in securities	$ –
Hedge of corporate bonds (2)	Fixed rate on USD bonds	36 IRS V/F (34 MXN and 3 USD)	2027	$ 102	$ 30	$ (35)	Investments in securities	$ –
Asset Hedge Grupo Carso	Fixed rate on EUR loans	3 CCS	2023	$ 349	$ (292)	$ 292	Performing loan portfolio	$ –
Securitization Certificates	Fixed and floating rate in MXN	3 IRS F-V	2027	$ 291	$ 291	$ (291)	Issuance of obligations	$ –

(2) As of December 31, 2019, the balance of interest from open positions on hedging derivatives amounts to $522.

(3) As of December 31, 2019, there is an effect for the exchange rate component amounting to $5,957.

* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

** IRS - Interest rate swaps. CCS - Cross currency swaps.

As of December 31, 2018, the Institution has entered into the following hedge contracts:

Type of hedge relationship: *Cash Flow Hedges*

Description of hedge item	Hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Periods in which flows affect results	Amount recognized in comprehensive income of period	Amount reclassified from equity to income statement	Item in consolidated income statement where hedge is applied	Item in consolidated balance sheet where primary position is recognized	Ineffectiveness recognized
Partial hedge of Monetary Regulation Deposit (DRM) [(1) and (2)]	Variable flows from DRM	15 IRS FIXED/TIIE	Jun-20	$ (206)	18 months	$ 68	$ (10)	Interest margin from cash and cash equivalents	Restricted cash	$ –
Expenses and investment hedge in EUR[(2)] and USD	Fluctuation of exchange rate in estimated expense cash flows	19 FWD SALE USD/MXN 9 FWD SALE EUR/MXN	Sep-19	$ 43	8 months	$ (343)	$ 6	Expenses	Property, plant and equipment, advertising, computing	$ –

(1) As of December 31, 2018, amortization or early expiration of DRM hedging swaps amounting to $36, net of deferred tax, is recognized in earnings.

(2) As of December 31, 2018, the balance of interest from open positions on hedging derivatives amounts to $(140).

* As of the date of these financial statements, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

Type of hedge relationship: *Fair Value*

Description of hedge item	Nature of hedge risk	Hedge instrument	Maximum maturity date of hedge	Hedge instrument fair value	Gain/Loss of hedge instrument as of December 19	Gain/Loss of hedge item as of December 19	Item in balance sheet were primary position is recorded	Ineffectiveness recognized
Hedge of USD and MXN fixed-rate loans to change to floating-rate (2)	Fixed-rate risk on USD and MXN fixed-rate loans	2 IRS 2 IRS pays fixed interest in USD and receives variable, 2 IRS pays fixed interest in MXN and receives variable	2040	$ 998	$ 522	$ (501)	Performing loan portfolio	$ –
Hedge of Mexican sovereign bonds in EUR/USD/GBP (2)	Fixed rate on UMS bonds in EUR/USD/GBP	70 CCS V/F	2025	$ (5,392)	$ (120)	$ (139)	Investments in securities	$ –
Hedge of issuance of subordinated notes in USD(2)	Fixed rate on V/F notes in USD	33 IRS F/V	2028	$ (676)	$ 1,719	$ (1,727)	Outstanding subordinated obligations	$ –
Hedge of issuance of subordinated notes in USD(2) and (3)	Fixed rate on V/F notes	27 CCS F/V	2024	$ 1,832	$ 479	$ (479)	Outstanding subordinated obligations	$ –
Hedge of corporate bonds (2) and (3)	Fixed rate on USD, EUR, UDI	41 CCS V/F	2025	$ (342)	$ (121)	$ 111	Investments in securities	$ –
Hedge of corporate bonds (2)	Fixed rate on USD bonds	25 IRS V/F (22 MXN and 3 USD)	2025	$ 350	$ 49	$ (52)	Investments in securities	$ 1
Asset Hedge Grupo Carso	Fixed rate on EUR loans	3 CCS	2023	$ 266	$ 95	$ (94)	Investments in securities	$ –

(2) As of December 31, 2018, the balance of interest from hedging derivatives open position amounts to $1,051.

(3) As of December 31, 2018, there is an effect for the exchange rate component amounting to $10,526.

* Fair value of cross currency swaps (CCS) does not include an exchange rate component, as this is not part of the hedging relationship.

IRS - Interest rate swaps. CCS - Cross currency swaps.

(9) Loan portfolio-

Loans classified by type of loan as of December 31, 2019 and 2018, are as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2019	2018	2019	2018	2019	2018
Commercial loans						
Denominated in MXN:						
Commercial	$ 338,378	328,385	9,279	7,735	347,657	336,120
Rediscounted portfolio	9,856	11,534	53	24	9,909	11,558
Leases	1,783	1,805	83	13	1,866	1,818
Denominated in UDI´s:						
Commercial	3	4	1	1	4	5
Denominated in foreign currency (MXN equivalent):						
Commercial	154,985	154,347	54	242	155,039	154,589
Rediscounted portfolio	776	916	48	-	824	916
Leases	1,841	1,441	-	-	1,841	1,441
Commercial or business activity	507,622	498,432	9,518	8,015	517,140	506,447
Denominated in MXN:						
Loans to financial entities	32,783	29,503	-	-	32,783	29,503
Loans to government entities	134,470	116,854	-	-	134,470	116,854
Denominated in foreign currency (MXN equivalent):						
Loans to financial entities	379	1,395	-	-	379	1,395
Loans to government entities	9,255	12,324	-	-	9,255	12,324
Total commercial loans	684,509	658,508	9,518	8,015	694,027	666,523
Consumer loans						
Denominated in MXN:						
Credit cards	112,643	107,093	4,478	4,402	117,121	111,495
Other consumer loans	187,520	166,141	5,863	4,632	193,383	170,773
Denominated in foreign currency (MXN equivalent):						
Other consumer loans	139	-	-	-	139	-
Total consumer loans	300,302	273,234	10,341	9,034	310,643	282,268
Mortgage loans						
Denominated in MXN:						
Residential and non-residential	218,178	193,120	6,748	5,266	224,926	198,386
Low income	9,190	10,752	562	622	9,752	11,374
Denominated in (MXN equivalent):						
Residential and non-residential	3,830	4,686	285	336	4,115	5,022
Denominated in foreign currency (MXN equivalent):						
Residential and non-residential	15	19	-	1	15	20
Total mortgage loans	231,213	208,577	7,595	6,225	238,808	214,802
Total loan portfolio	$1,216,024	1,140,319	27,454	23,274	1,243,478	1,163,593

As of December 31, 2019 and 2018, the mortgage loan portfolio includes restricted securitized performing loans of $2,623 and $3,222, respectively, and non-performing loans of $52 and $63, respectively.

Commercial loans are described below; the distressed and non-distressed performing and non-performing portfolios as of December 31, 2019 and 2018, are also identified. This portfolio does not include guarantees and interest collected in advance, which are shown as part of the commercial portfolio on the consolidated balance sheet.

	2019				
	Distressed		Non-distressed		
	Current	Past due[(1)]	Current	Past due	Total
Commercial or business	$ -	7,477	478,205	452	486,134
Financial entities	-	-	34,321	-	34,321
Government entities	-	-	143,725	-	143,725
SME credit cards	270	2,279	28,246	783	31,578
Corporate credit cards	3	22	282	-	307
Total	$ 273	9,778	684,779	1,235	696,065

	2018				
	Distressed		Non-distressed		
	Current	Past due [(1)]	Current	Past due	Total
Commercial or business	$ -	6,155	468,275	370	474,800
Financial entities	-	-	30,807	-	30,807
Government entities	-	-	129,154	-	129,154
SME credit cards	5	1,478	30,200	1,289	32,972
Corporate credit cards	-	13	291	5	309
Total	$ 5	7,646	658,727	1,664	668,042

(1) It includes loans written-off from the consolidated balance sheet.

Restructured and renewed portfolio as of December 31, 2019 and 2018 were as follows:

	Restructured and renewed in 2019		Restructured and renewed in previous years		As of December 31, 2019
	Current	Past due	Current	Past due	Total
Commercial	$ 29,049	375	42,536	673	72,633
Financial entities	-	-	23	-	23
Government entities	8,744	-	21,254	-	29,998
Consumer loans	85	1,377	47	856	2,365
Mortgage loans	272	674	9,942	5,461	16,349
Total	$ 38,150	2,426	73,802	6,990	121,368

	Restructured and renewed in 2018		Restructured and renewed in previous years		As of December 31, 2018
	Current	Past due	Current	Past due	Total
Commercial	$ 38,511	333	26,767	618	66,229
Financial entities	-	-	32	-	32
Government entities	17,760	-	8,694	-	26,454
Consumer loans	32	1,430	61	837	2,360
Mortgage loans	290	1,487	11,139	4,805	17,721
Total	$ 56,593	3,250	46,693	6,260	112,796

As of December 31, 2019 and 2018, the Institution holds collateral consisting of real property with value of $8,532 and $8,742, respectively and it holds collateral consisting of securities with a value of $313 and $1,386, respectively, related to restructured commercial loans.

As of December 31, 2019 and 2018, the aging of non-performing portfolio is as follows:

	2019				
	Period				
	1 to 180 days	181 to 365 days	366 days to 2 years	Collateral	Total
Commercial or business activity	$ 2,821	4,037	4,155	(1,495)	9,518
Consumer loans	9,737	604	-	-	10,341
Mortgage loans	1,914	2,070	3,611	-	7,595
Total	$ 14,472	6,711	7,766	(1,495)	27,454

	2018				
	Period				
	1 to 180 days	181 to 365 days	366 to 2 years	Collateral	Total
Commercial or business activity	$ 4,029	3,293	1,987	(1,294)	8,015
Consumer loans	8,454	580	-	-	9,034
Mortgage loans	1,881	1,889	2,455	-	6,225
Total	$ 14,364	5,762	4,442	(1,294)	23,274

As of December 31, 2019 and 2018, unaccrued commissions for initial loan origination by type of loan and average amortization period are comprised as shown below:

	2019			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	$ 828	323	140	1,291
Consumer loans	985	342	-	1,327
Mortgage loans	2	18	376	396
Total	$ 1,815	683	516	3,014

	2018			
	By amortization period			
	1 to 5 years	6 to 15 years	More than 15 years	Total
Commercial or business activity	$ 968	416	148	1,532
Consumer loans	486	635	-	1,121
Mortgage loans	-	13	201	214
Total	$ 1,454	1,064	349	2,867

As of December 31, 2019 and 2018, the balances of the non-performing loan portfolio fully reserved and eliminated from the balance sheet are as follows:

	2019	2018
Commercial or business activity	$ 13,306	9,552
Consumer loans:		
Credit cards	3,279	3,027
Other consumer loans	3,058	2,639
	6,337	5,666
Mortgage loans	4,523	5,241
Total	$ 24,166	20,459

As of December 31, 2019 and 2018, the balances of the portfolio sold, excluding securitization transactions, are as follows:

Portfolio	2019	2018
Commercial or business activity	$ 512	1,059
Consumer loans	17,962	21,878
Mortgage loans	1,287	2,234
Total	$ 19,761	25,171

As of December 31, 2019 and 2018, the amount of lines of credit and letters of credit recorded in memorandum accounts amount to $632,810 and $588,114, respectively.

As of December 31, 2019 and 2018, revenues from interest income and commissions recorded in net interest income, segmented by type of loan, are composed as follows:

	2019			2018
Type of loan	Interest	Commission	Total	Total
Commercial loans				
Denominated in MXN:				
Commercial	$ 34,922	1,145	36,067	36,352
Rediscounted portfolio	1,313	-	1,313	1,338
Leases	195	-	195	195
Denominated in foreign currency (MXN equivalent):				
Commercial	11,851	-	11,851	7,860
Rediscounted portfolio	181	-	181	170
Leases	88	-	88	63
Commercial or business activity	48,550	1,145	49,695	45,978
Loans to financial entities	2,245	9	2,254	2,258
Loans to government entities	10,988	88	11,076	10,469
Total commercial loans	61,783	1,242	63,025	58,705
Consumer loans				
Credit cards	30,928	41	30,969	29,985
Other consumer loans	38,298	782	39,080	34,156
Total Consumer loans	69,226	823	70,049	64,141
Mortgage loans	22,876	41	22,917	20,908
Total, see note 28	$ 153,885	2,106	155,991	143,754

As of December 31, 2019 and 2018, loans classified by economic sector are as described in the next page.

	2019		2018	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	$ 517,134	41.59%	$ 506,440	43.53%
Credit cards and consumer	310,643	24.98%	282,268	24.26%
Mortgage	238,808	19.21%	214,802	18.46%
Loans to government entities	143,725	11.56%	129,178	11.10%
Financial	32,004	2.57%	29,254	2.51%
Foreign (non-Mexican entities)	1,158	0.09%	1,644	0.14%
Other past-due loans	6	-	7	-
Total	$ 1,243,478	100.00%	$ 1,163,593	100.00%

Related-party loans-

As of December 31, 2019 and 2018, loans granted to related parties in accordance with the provisions of Article 73 of the Banking Law, amounted to $33,747 and $44,061, respectively, including $16,453 and $19,471 in letters of credit, respectively, which are recorded in the memorandum accounts.

Loan support program-

Position in special Cetes and special "C" Cetes which the Institution keeps under the financial statement caption of "Securities held to maturity":

As of December 31, 2019, the remnant of the special Cetes and special "C" Cetes is composed as follows:

	Special CETES			Special CETES "C"		
Originating trust	No. of securities	Amount	Maturity date	No. of securities	Amount	Maturity date
422-9	128,738,261	$ 15,683	07/07/2022	-	$ -	-
423-9	10,656,993	1,298	01/07/2027	468,306	18	01/07/2027
431-2	964,363	108	04/08/2022	1,800	-	04/08/2022
Total		$ 17,089			$ 18	

Loan granting policies and procedures – The Institution's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Banking Law, loan origination rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function, the general process from origination to recovery is defined specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk which form part of the credit manuals are presented below.

Common risk

- Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit

– Make known the maximum legal credit rules issued by the authorities.
– Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

Risk diversification

As of December 31, 2019 and 2018, the Institution maintains the following credit risk operations in compliance with the general risk diversification rules established in the accounting Criteria and applicable to asset and liability transactions, as follows:

- loans granted to a debtor or groups of related persons representing a common risk for an individual amount of $23,422 and $24,616, respectively, which represents 11.26% and 12.76%, respectively, of the Institution's basic capital; and
- the maximum amount of financing with the three largest debtors amounts to $43,981 and $41,925, respectively, and represent 21.15% and 21.74%, respectively, of the Institution's basic capital.

Potential risk:

- Loan applications must be approved in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small- and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

(10) Restructured loans denominated in UDIs-

As of December 31, 2019 and 2018, restructured loans denominated in UDIs amounted to $598 and $982, respectively.

(11) Allowance for loan losses-

Loan ratings of the Institution, which includes the amounts for irrevocable loans and letters of credit recognized in memorandum accounts, made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3, is composed as shown in the next page.

	2019				
		Allowances			
Risk category	**Total loans**	**Commercial**	**Consumer**	**Mortgage**	**Total allowances**
A1	$ 985,252	1,626	1,382	232	3,240
A2	77,285	381	1,010	56	1,447
B1	72,169	169	2,226	15	2,410
B2	59,461	168	2,282	85	2,535
B3	36,046	461	1,190	68	1,719
C1	28,749	224	1,455	320	1,999
C2	21,602	74	2,985	373	3,432
D	15,137	2,085	1,574	1,154	4,813
E	21,763	3,923	8,047	1,846	13,816
Total	$ 1,317,464	9,111	22,151	4,149	35,411

	2018				
		Allowances			
Risk category	**Total loans**	**Commercial**	**Consumer**	**Mortgage**	**Total allowances**
A1	$ 910,306	1,420	1,191	422	3,033
A2	100,371	647	1,019	62	1,728
B1	77,602	358	1,991	48	2,397
B2	47,943	157	1,966	75	2,198
B3	32,125	415	1,240	63	1,718
C1	21,892	111	1,512	253	1,876
C2	20,018	110	2,898	665	3,673
D	14,795	1,681	1,854	1,439	4,974
E	16,257	3,064	6,775	375	10,214
Total	$ 1,241,309	7,963	20,446	3,402	31,811

The total loan portfolio balance used for calculation of the allowance for loan losses includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the allowance for loan losses as of December 31, 2019 and 2018 is determined based on the balance of the portfolio at that date.

The allowance for loan losses as of December 31, 2019 and 2018 covers 100% of non-performing interest.

The amount of the allowance for loan losses as of December 31, 2019 and 2018 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on said dates.

As of December 31, 2019 and 2018, the allowance for loan losses represents 128.98% and 136.68%, respectively, of the non-performing loans balance.

As of December 31, 2019 and 2018, allowance for loan losses by type of portfolio is comprised as follows:

	2019	**2018**
Commercial loans:		
Commercial or business activity	$ 8,181	7,181
Financial entities	395	401
Government entities	535	381
	9,111	7,963
Consumer loans	22,151	20,446
Mortgage loans	4,149	3,402
Total loan allowance	$ 35,411	31,811

Changes in the allowance for loan losses - There is an analysis below of the allowance for loan losses for years ended on December 31, 2019 and 2018:

		2019	2018
Balance at the beginning of the year	$	31,811	31,596
Allowance for loan losses charged to the year earnings(1)		37,180	33,837
Applications, write-offs and others		(33,552)	(33,620)
Exchange rate fluctuations		(35)	(2)
Other expenses (2)		7	-
Balance at the end of the year	$	35,411	31,811

(1) Recoveries of loan portfolio previously written-off as of December 31, 2019 and 2018, amounted to $1,467 and $1,538, respectively, and are presented under the "allowance for loan losses" caption in the consolidated income statement, therefore, the net allowance for loan losses variation on annual earnings for the year ended on December 31, 2019 and 2018, is $35,713 and $32,299, respectively.

(2) Allowances for loan losses of securitized portfolio in trust extinguished during the year, and which were recognized by the Institution at the time it repurchased the portfolio.

(12) Securitization operations-

Mortgage loan portfolio securitizations-

The Institution has issued securitization certificates ("CB"), which have generally been formalized through contracts mentioned below:

Irrevocable Trusts created between BBVA Bancomer - Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates (Trust number 711, 752, 847 and 881).

– **Transfer contract**

This contract is entered into by and between BBVA Bancomer, S.A., (Transferor), Banco Invex, S.A. (Transferee) and Monex Casa de Bolsa, S.A. de C.V. (Common Representative) for the purpose of assigning, on the part of the Transferor, mortgage performing loan portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust (the Stock Market Certificates), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason noncompliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the Stock Market Certificates (SMCs), less the respective issuance costs.

– **Irrevocable Trust Contract for the Issuance of securitized debt instruments**

This contract is entered into by and between BBVA Bancomer, S.A., (Trustor and First Beneficiary), Banco Invex, S.A. (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of Securitized debt Certificates, which will have such mortgage loans as a source of payment and the placement of the Securitized debt Certificates among small investors; while the Trustee will have all those rights and obligations considered necessary to achieve such purpose. The same agreement provided that the initial value of collateral with respect to the loan backing the certificate, which amount is recorded for accounting purposes under the caption "Benefits receivable on securitization transactions" for the Institution.

– **Loan Servicing Contract**

This contract is entered into by and between BBVA Bancomer, S.A., (Administrator), Trustee and Common Representative. Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "foreclosed assets" that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management fee to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

During 2019, Irrevocable Trusts 711 and 752 with Banco Invex, S.A., were extinguished early, so the loan portfolio of both Trusts was incorporated into the Institution's loan portfolio.

Irrevocable Trust Number 989 created between BBVA Bancomer - CI Banco (formerly the Bank New York Mellon) for the Issuance of Securitization certificates

On June 17, 2013, the Commission through document 153/6937/2013 authorized the registration of BBVA Bancomer with the National Securities Registry of the Program for the issuance of Securitization Certificates for up to the amount up to of $20,000 or the equivalent in UDIs for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of $4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– **Assignment Contract**

On that same date, BBVA Bancomer, in its capacity as trustor and final trust beneficiary and CI Banco, S.A., Institución de Banca Múltiple (Trustee), in its capacity as trustee and through their Common Representative, executed irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitized certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV"), and which will be underwritten by mortgage loans.

– **Irrevocable Trust Contract for the Issuance of Securitized Debt Certificates**

This contract was executed by BBVA Bancomer; (Trustor and final Trust Beneficiary) (Trustee), and Monex Casa de Bolsa, S.A. de C.V. (Common Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– **Loan Servicing Contract**

This contract was executed between BBVA Bancomer (Administrator), Trustee and Joint Representative. Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration fee to the Administrator.

The specific characteristics of each trust are detailed in the next page.

	Trusts				
	711[1]	**752[1]**	**847**	**881**	**989**
Execution date of trust agreement	19-Dec-07	13-Mar-08	08-Dec-08	03-Aug-09	21-Jun-13
Number of assigned loans	2,943	1,587	18,766	15,101	10,830
Amount of assigned portfolio	$ 2,644	1,155	5,823	6,545	4,413
Securitized debt certificates issued	25,404,498	11,143,185	55,090,141	59,101,116	41,920,673
Face valor per securitized debt certificate	$ 100 pesos	100 pesos	100 pesos	100 pesos	100 pesos
Amount of issuance of securitized debt certificates	$ 2,540	1,114	5,509	5,910	4,192
Series A1	$ -	-	-	562	-
Series A2	$ -	-	-	1,732	-
Series A3	$ -	-	-	3,616	-
Annual gross interest rate	9.05%	8.85%	9.91%	-	6.38%
Series A1	-	-	-	6.14%	-
Series A2	-	-	-	8.04%	-
Series A3	-	-	-	10.48%	-
Term of securitized debt certificates (years)	20.5	20.42	22	20.08	20
Value of certificates (*certificate*)	$ 103	40	314	635	221
Loan to value %	3.9%	3.5%	5.4%	9.7%	5.0%
Total cash flow received after assignment	$ 2,507	1,091	5,475	5,733	4,129

As of December 31, 2019 and 2018, amounts reported under the caption "Benefits receivable on securitization transactions" of $25 and $87, respectively, represent the principal amount of outstanding trust certificates from securitizations that are not consolidated.

The summarized financial information of securitization trusts as of December 31, 2019 and 2018, are shown below:

	847		711(*)	752(*)
No. of Trust	**2019**	**2018**	**2018**	**2018**
Assets	$ 685	897	306	164
Liabilities	631	826	282	150
Stockholders' equity	54	71	24	14
Net result	$ 13	13	2	(1)

(*) Extinguished trusts during the month of May and October of 2019, respectively. The assets incorporated into the Institution amounted to $360, resulting in a net loss of $12.

(13) Other accounts receivable, net-

Other accounts receivable as of December 31, 2019 and 2018 are as follows:

	2019	2018
Debtors from settlement transactions pending [a]	$ 61,044	51,685
Loans to officers and employees [b]	14,455	12,879
Sundry debtors	7,363	4,458
Collateral provided through OTC derivatives [c]	9,737	6,315
Other	1,795	1,726
	94,394	77,063
Allowance for uncollectible accounts	(340)	(285)
	$ 94,054	76,778

[a][b][c] Described in the next page.

(a) Receivables from transactions pending settlement as of December 31, 2019 and 2018, are as shown in next page.

	2019	2018
Currency(a1)	$ 27,055	35,209
Investments in securities	32,681	15,102
Derivatives	1,263	956
Other	45	418
	$ 61,044	51,685

(a1) As of December 31, 2019 and 2018, the balance of foreign currency is presented net of $25,508 and $41,920, respectively, from currency purchases, whose balances are settled net.

(b) Corresponds to officials and employees employed by BBVA Bancomer Operadora and BBVA Bancomer Servicios Administrativos who provide administrative services to the Institution (see note 1).

(c) Receivables from collateral granted on OTC derivatives as of December 31, 2019 and 2018 is comprised as follows:

	2019			2018
	Acquisition cost	Accrued interest	Carrying amount	Carrying amount
Collateral granted por derivatives:				
Actinver Casa Bolsa, S. A. de C. V.	$ -	-	-	5
Banco Ve por más, S. A. IBM	33	-	33	-
Banca Mifel, S. A. IBM	-	-	-	25
Banco Actinver S. A. IBM	3	-	3	-
Banco Intercam, S. A. IBM	7	-	7	-
Banco Nacional de Comercio Exterior, S. N. C.	91	1	92	-
Banco Invex, S. A. IBM	-	-	-	90
Banco Regional de Monterrey, S. A. IBM	-	-	-	225
Banco Santander, S. A. IBM	213	1	214	-
Banco JP Morgan, S. A. IBM	725	1	726	-
Banco Monex, S. A. IBM	30	-	30	66
Banco Base, S. A. IBM	-	-	-	18
Banco Nacional de México	542	3	545	394
Banco Nacional de Obras y Servicios Públicos, S. N. C.	-	-	-	1,868
Banco Scotiabank Inverlat, S. A. IBM	65	-	65	82
Bank of Nova Scotia	-	-	-	9
Barclays Bank PLC	170	-	170	146
BBVA Colombia S. A.	23	-	23	86
BNP Paribas NY Branch	1,161	2	1,163	600
BBVA SERVEX	5,461	-	5,461	-
Nacional Financiera, S. C. N.	-	-	-	4
JP Morgan Chase Bank	-	-	-	1,742
Standard Chartered Bank	12	-	12	-
Morgan Stanley	41	-	41	-
Royal Bank of Scotland	13	-	13	14
Societe Generale	1,137	2	1,139	941
	$ 9,727	10	9,737	6,315

(14) Foreclosed assets, net -

Foreclosed assets account balance as of December 31, 2019 and 2018, are as follows:

	2019	2018
Buildings	$ 3,234	3,567
Land	1,471	1,622
Securities and rights	22	23
	4,727	5,212
Allowance for impairment of foreclosed assets	(3,289)	(3,453)
Total	$ 1,438	1,759

The changes in the reserve for impairment decreases in value of foreclosed assets are summarized in next page, for the years ended December 31, 2019 and 2018.

	2019	2018
Initial balance	$ 3,453	3,315
Reserves created against "Other operating expenses"	465	707
Reserve applications for foreclosure sales and others	(629)	(569)
Ending balance	$ 3,289	3,453

Fully reserved foreclosed assets as of December 31, 2019 and 2018 are as follows:

	2019	2018
Buildings – Foreclosed value	$ 1,548	1,432
Land – Foreclosed value	1,315	1,434
Securities and rights – Foreclosed value	22	20
Total	$ 2,885	2,886

(15) Property, plant and equipment, net-

Property, plant and equipment as of December 31, 2019 and 2018 are as follows:

	2019	2018
Furniture and equipment	$ 16,779	15,145
Office buildings	19,463	19,570
Installation costs	18,361	17,896
Land	5,572	5,614
	60,175	58,225
Less- Accumulated depreciation and amortization	(21,716)	(18,056)
Total	$ 38,459	40,169

For the year ended December 31, 2019, the amount of depreciation and amortization recognized in the results for the year were $3,227 and $1,059, respectively, compared to $3,164 and $949, respectively, for 2018.

(16) Equity investments-

As of December 31, 2019 and 2018, investments in associates were valued based on equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

	Participation			
Entity	**2019**	**2018**	**2019**	**2018**
Fideicomiso No.1729 INVEX - Disposal of Portfolio	32.25%	32.25%	$ 252	-
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	46.14%	228	191
Compañía Mexicana de Procesamiento, S. A. de C. V.[(1)]	50.00%	50.00%	181	167
Fideicomiso FIMPE	28.50%	28.50%	50	76
Other investments recognized at cost	Various	Various	104	100
Total			$ 815	$ 534

Investment in shares of associated companies was determined in some cases, based on the non-audited financial information, which is adjusted should there were differences, once it is available.

For years ended on December 31, 2019 and 2018, dividends received from associated companies and other permanent investments amounted to $109 and $102, respectively, which is recognized in the consolidated income statement under the “Other operating income” caption.

For years ended on December 31, 2019 and 2018, participation in results of associated companies amounted to $31 and $36, respectively.

[1]In October 2013, Invex Portfolio Allocation (Trust number 1729) was constituted by the banks that had a distressed factoring portfolio with Corporación GEO, acting as trustee; Banco Invex, S.A., the trustors contributed the collection rights and cash for expenses. On the other hand, Corporación GEO exchanged the collection rights inherent to the trust for certain buildings located in different parts of Mexico.

The value of the Institution’s contribution and changes in provisions related to Trust 1729 as of December 31, 2019 and 2018 is shown below:

Item	2019	2018
Total contributions	$ 1,243	1,243
Associated reserve	(485)	(485)
Net value	758	758
Allowance for impairment	(506)	(758)
Net value	$ 252	-

As a result of successful recoveries by the Trust, the Institution was able to release a portion of its provision related to Trust number 1729 of $252.

(17) Other assets-

The balance of deferred charges, advance payments and intangible assets as of December 31, 2019 and 2018, is comprised as follows:

	2019	2018
Software[1] net	$ 4,352	4,556
Prepaid expenses	2,140	1,715
Other expenses pending amortization	414	387
Total	$ 6,906	6,658

[1] The amortization of software is determined using the straight-line method, as of the month following acquisition, by applying the 20% rate.

As of December 31, 2019 and 2018, the amount of the historical cost and software amortization are detailed below:

	2019	2018
Software investment	$ 18,440	17,240
Cumulative amortization	(14,088)	(12,684)
Total	$ 4,352	4,556

For the year ended December 31, 2019 and 2018, the amount of amortization recognized in the consolidated statement of income is $1,580 and $1,593, respectively.

(18) Deposits funding-

As of December 31, 2019 and 2018, deposits funding is as follows:

	2019	2018
On demand deposits:		
On demand deposits	$ 923,191	864,651
Time deposits:		
PRLV	211,685	200,550
Time deposits	42,385	43,961
Debt securities issued [a]	85,852	88,162
Inactive deposits global account	4,507	3,565
Total	$1,267,620	1,200,889

[a] Debt securities issued are detailed below.

As of December 31, 2019, the average rates in pesos of on-demand deposits (unaudited) based on their short- and long-term enforceability are 1.36% and 6.35% respectively, compared to 1.51% and 5.97%, respectively, unaudited, as of December 31, 2018.

Description of the principal programs

As of December 31, 2019 and 2018, the Institution has placed short-term and long-term debt securities, composed as follows:

	2019			2018		
	Amount	Average term (days)	Average Rate	Amount	Average term (days)	Average Rate
Long term bank bonds	$ 12,342	1,254	7.70%	$ 27,856	1,353	8.26%
Short term bank bonds	12,306	192	7.70%	4,869	221	8.41%
Securitization certificates MXN	25,212	2,111	8.11%	19,437	2,028	8.28%
Securitization certificates UDI's	21,705	5,355	4.03%	21,117	5,355	4.03%
Senior notes	14,287	3,653	4.38%	14,883	3,653	4.38%
Total	$ 85,852			$ 88,162		

Liquidity ratio (unaudited) -The provisions of the "Regime of admission of liabilities and investment for transactions in foreign currency" issued by the Central Bank for financial institutions establishes a mechanism for determining the liquidity coefficient for liabilities denominated in foreign currency.

According to aforementioned regime, as of December 31, 2019, the Institution did not generate an additional liquidity requirement. As of December 31, 2018, a requirement for USD $986 million was generated. As of December 31, 2019 and 2018, the investment in liquid assets amounted to USD $2,260 million and USD $1,666 million, having then a surplus of USD $2,260 million and USD $680 million, respectively.

(19) Interbank loans and loans from other entities-

As of December 31, 2019 and 2018, interbank loans and loans from other entities are shown in the next page.

		MXN		Rate in average %		Average term (days)	
		2019	2018	2019	2018	2019	2018
On demand:							
Banks	$	7,414	-	7.25	-	2	-
Loans to other entities:							
Short term:							
Fideicomisos instituidos en Relación Con la Agricultura (FIRA)	$	6,058	7,927	7.69	8.56	213	219

		MXN		Rate in average %		Average term (years)	
		2019	2018	2019	2018	2019	2018
Long term:							
FIRA	$	7,063	7,945	7.57	8.10	5	5
Fondo de Operación y Financiamiento Bancario a la Vivienda (FOVI)		61	85	7.75	9.69	25	25
	$	7,124	8,030				

		US Dollars MXN equivalent		Rate in average %		Average term (days)	
		2019	2018	2019	2018	2019	2018
Loans to other entities:							
Short term:							
FIRA	$	982	1,480	2.78	3.32	211	193
Instituto de Crédito Oficial (ICO)		-	18	-	1.50	-	182
	$	982	1,498				

		US Dollars MXN equivalent		Rate in average %		Average term (years)	
		2019	2018	2019	2018	2019	2018
Long term:							
ICO	$	52	72	1.50	1.50	2	2
FIRA		388	334	3.02	3.58	5	5
	$	440	406				

		Total amounts	
		2019	2018
On demand	$	7,414	-
Short term		7,040	9,425
Long term		7,564	8,436
	$	22,018	17,861

The Institution has a liquidity line of credit with the Central Bank in an amount equivalent to the DRM (see note 4). Such line of credit amounted to $40,230 as of December 31, 2019 and 2018, without considering interest. As of December 31, 2019 and 2018, the Institution did not use such line of credit.

(20) Labor obligations

The Institution has liabilities for labor obligations arising from employee benefits, resulting from post-employment benefits, which consider the payment of premiums for years of service upon retirement, post-retirement obligations for payment of integrated medical services to retirees and their economic dependents, life insurance and sports club benefits. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in Mexican FRS D-3. Plan assets are managed through an irrevocable trust.

Since January 1, 2007, all employees of the Institution (except for the General Director) were transferred to the payroll of BBVA Bancomer Operadora, S.A. de C.V., a subsidiary of the Financial Group; where these employees kept all their benefits acquired and only employees who did not have this benefit were included in a variable compensation scheme. Consequently, the Institution only has as a labor obligation corresponding to retirees and active employees.

Below is the breakdown of the net liabilities for defined benefits as of December 31, 2019 and 2018, and it is included under the "Sundry creditors and other accounts payable" caption.

	2019					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2019, net (liability) from defined benefits are as follows:						
Defined benefit obligations	$ (4,503)	(7,430)	(896)	(16)	(8)	(12,853)
Plan assets	3,715	7,672	1,031	(1)	-	12,417
Net (liability) from defined benefits	$ (788)	242	135	(17)	(8)	(436)
Initial balance	$ 4,042	6,428	736	12	6	11,224
Service cost	-	-	-	-	1	1
Financial cost	397	644	76	1	1	1,119
Actuarial (gains) and losses of the period	581	822	90	3	-	1,496
Paid benefits	(517)	(464)	(6)	-	-	(987)
Defined benefit obligations at end of year	$ 4,503	7,430	896	16	8	12,853

	2019					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31,2019, plan assets ("PA") are as follows:						
PA at the beginning of the year	$ 2,793	5,662	1,414	(1)	-	9,868
Contributions made by the entity	620	-	-	-	-	620
Plan transfers	-	699	(699)	-	-	-
PA expected return	273	568	102	-	-	943
Actuarial gains of the period	546	1,207	220	-	-	1,973
Paid benefits	(517)	(464)	(6)	-	-	(987)
PA at the end of the year	$ 3,715	7,672	1,031	(1)	-	12,417
Net assets (liabilities) from defined benefits at the beginning of the year	$ (1,249)	(766)	678	(13)	(6)	(1,356)
Plan contributions	620	-	-	-	-	620
Plan transfers	-	699	(699)	-	-	-
Service cost	-	-	-	-	(1)	(1)
Net interest	(124)	(76)	26	(1)	(1)	(176)
Payments made	-	-	-	1	-	1
Actuarial (losses) gains recognized in OCI during the period	(35)	385	130	(3)	-	477
Net assets (liabilities) for defined benefits	$ (788)	242	135	(16)	(8)	(435)

	2019					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
at the end of the year						
As of December 31, 2019, the income (cost) defined benefit is comprised as follows:						
Service cost:						
Current service	$ -	-	-	-	(1)	(1)
Net interest on net (liabilities) assets for defined benefits:						
Interest cost of defined benefit obligations	(397)	(644)	(76)	(1)	(1)	(1,119)
PA interest income	273	568	102	-	-	943
Reclassification of remeasurement of net (liabilities) assets by defined benefit to be recognized in OCI:						
Gains on defined benefit obligation	(104)	(106)	20	-	-	(190)
PA profits	(37)	(82)	(18)	-	-	(137)
Income (cost) of defined benefits	$ (265)	(264)	28	(1)	(2)	(504)

	2019					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2019, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:						
Reconciliation of actuarial (loss) gains:						
Initial balance - (loss) gain on the obligation	$ (1,371)	(1,159)	265	3	-	(2,262)
(Loss) gain on the obligation	(581)	(822)	(90)	(3)	-	(1,496)
Reclassification of remeasurement on the obligation	104	106	(20)	-	-	190
End balance - (loss) gain on the obligation	(1,848)	(1,875)	155	-	-	(3,568)
Initial balance - (loss) gain on return of assets	(493)	(898)	(242)	-	-	(1,633)
Gain (loss) in return of PA	37	82	18	-	-	137
Reclassification of remeasurement in PA return	546	1,207	220	-	-	1,973
End balance - (loss) gain on the obligation	90	391	(4)	-	-	477
End balance - net (loss) gain recognized in OCI	$ (1,758)	(1,484)	151	-	-	(3,091)

	2018					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2018, net (liability) from defined benefits are as follows:						
Defined benefit obligations	$ (4,042)	(6,428)	(736)	(12)	(6)	(11,224)
Plan assets	2,793	5,662	1,414	(1)	-	9,868
Net (liability) from defined benefits	$ (1,249)	(766)	678	(13)	(6)	(1,356)
Initial balance	$3,831	6,833	676	14	5	11,359
Service cost	-	-	-	-	1	1
Financial cost	341	624	62	1	-	1,028
Actuarial (gains) and losses of the period	361	(567)	4	(2)	-	(204)
Paid benefits	(491)	(462)	(6)	(1)	-	(960)
Defined benefit obligations at end of year	$ 4,042	6,428	736	12	6	11,224

	2018					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2018, Plan assets ("AP") are as follows:						
PA at the beginning of the year	$ 3,412	4,927	1,491	-	-	9,830
Contributions made by the entity	-	1,524	-	-	-	1,524
PA expected return	304	452	139	-	-	895
Actuarial gains of the period	(432)	(779)	(210)	-	-	(1,421)
Paid benefits	(491)	(462)	(6)	(1)	-	(960)
PA at the end of the year	$ 2,793	5,662	1,414	(1)	-	9,868
Net assets (liabilities) on defined benefits at the beginning of the year	$ (419)	(1,906)	815	(14)	(5)	(1,529)
Plan contributions	-	1,524	-	-	-	1,524
Service cost	-	-	-	-	(1)	(1)
Net interest	(37)	(172)	77	(2)	-	(134)
Payments made	-	-	-	1	-	1
Actuarial (gains) losses of the period recognized in OCI	(793)	(212)	(214)	2	-	(1,217)
Net (liabilities) assets on defined benefits at the end of the year	$ (1,249)	(766)	678	(13)	(6)	(1,356)
As of December 31, 2018, the income (cost) defined benefit is comprised as follows:						
Service cost:						
Current service	$ -	-	-	-	(1)	(1)
Net interest on net (liabilities) assets for defined benefits:						
Interest cost of defined benefit obligations	(341)	(624)	(62)	(1)	-	(1,028)
PA interest income	304	452	139	-	-	895
Reclassification of remeasurement of net assets (liabilities) by defined benefit to be recognized in OCI:						
Gains on defined benefit obligation	(92)	(157)	25	-	-	(224)
PA profits	(6)	(11)	(3)	-	-	(20)
Income (cost) of defined benefits	$ (135)	(340)	99	(1)	(1)	(378)

	2018					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	Total
As of December 31, 2018, remeasurements of net (liabilities) assets for defined benefits recognized in OCI are as follows:						
Reconciliation of actuarial (loss) gains:						
Initial balance - (loss) gain on the obligation	$(1,102)	(1,883)	294	1	-	(2,690)
(loss) gain on the obligation	(361)	567	(4)	2	-	204
Reclassification of remeasurement on the obligation	92	157	(25)	-	-	224
End balance - (loss) gain on the obligation	(1,371)	(1,159)	265	3	-	(2,262)
Initial balance - (loss) gain on return of assets	(67)	(130)	(35)	-	-	(232)
Gain (loss) in return of PA	6	11	3	-	-	20
Reclassification of remeasurement in PA return	(432)	(779)	(210)	-	-	(1,421)
End balance - (loss) gain on the obligation	(493)	(898)	(242)	-	-	(1,633)
End balance - net (loss) gain recognized in OCI	$(1,864)	(2,057)	23	3	-	(3,895)

Since 2010, the club sports plan for retirees was established, which was originated by the right of employees to continue receiving sports services once they retire, in this scheme the Institution covers a part of the fees and the retired the other.

As of December 31, 2019 and 2018, the legal compensation plan and the sports club plan for retirees have no assets for financing the obligations for defined benefits.

As of December 31, 2019 and 2018, plan assets were invested in government securities. Expected income from plan assets to those dates was estimated at $943 and $895, respectively. Real profit (loss) as of the same dates in the amount of $2,916 and $(526) of surplus or shortfall, respectively.

The main actuarial assumptions used in 2019 and 2018 are shown below:

	2019	2018
Nominal discount rate used to estimate the obligations' present value	9.04%	10.45%
Expected return rate for plan assets	9.04%	10.45%
Salary increase rate	4.75%	4.75%
Pension increase rate	2.13%	2.13%
Medical services increase rate	7.00%	7.00%
Nominal increase rate on future salaries	3.75%	3.75%
Long term inflation rate	3.75%	3.75%

(21) Subordinated debt-

Subordinated obligations as of December 31, 2019 and 2018 are comprised as follows:

		2019	2018
USD 1,000 million junior notes, issued in April 2010, at interest rate of 7.25%, payable semiannually from October 22, 2010, due on April 22, 2020; the number of outstanding securities is 1,000,000, with a nominal value of USD 1,000 each	$	14,150	19,651
USD 1,250 million senior notes, issued in March 2011, at interest rate of 6.50%, payable semiannually from September 10, 2011, due on March 10, 2021; the number of outstanding securities is 1,250,000, with a nominal value of USD 1,000 each		14,150	24,564
USD 1,000 million senior notes, issued in July 2012, at interest rate of 6.75% and an extension of the issuance of USD 500 million in September 2012, at interest rate of 6.75%, payable semiannually from March 30, 2013, due on September 30, 2022; the number of outstanding securities is 1,500,000, with a nominal value of USD 1,000 each		28,296	29,477
USD 200 million senior notes, issued in November 2014, at interest rate of 5.35%, payable semiannually from May 12, 2015, due on November 12, 2029; the number of outstanding securities is 200,000, with a nominal value of USD 1,000 each		3,773	3,390
USD 1,000 million senior notes, issued in January 2018, at interest rate of 5.125%, payable semiannually from July 17, 2018, due on January 18, 2033; the number of outstanding securities is 1,000,000, with a nominal value of USD 1,000 each		18,864	19,651
USD 750 million senior notes, issued in September 2019, at interest rate of 5.875% payable semiannually from March 13, 2020, due on September 13, 2034; the number of outstanding securities is 750,000 with a nominal value of USD 1,000 each		14,148	-
Unpaid accrued interest		1,680	1,756
Total	$	95,061	99,029

(22) Related parties -

In compliance with the provisions of Criteria C-3 "Related parties" issued by the Commission, significant related parties balances/transactions are described below:

	2019	2018
Banco Bilbao Vizcaya Argentaria, S. A.:		
Derivative financial instruments [1]	$ (13,945)	11,118
Repurchase/resale agreements payable [1]	(1,865)	-
BBVA Bancomer Operadora, S. A. de C. V.:		
Administrative services fees paid (note 35(b)) [2]	$ 11,679	11,391
Accounts payables [1]	2,965	2,918
BBVA Bancomer Servicios Administrativos, S. A. de C. V.:		
Administrative services fees (note 35(b)) [2]	$ 14,299	12,596
Accounts payables [1]	2,871	3,087
Seguros BBVA Bancomer, S. A de C. V.:		
Commissions and fee income [2]	$ 2,061	1,877
Insurance premiums paid [2]	62	105
Pensiones BBVA Bancomer, S. A.:		
Investment securities [1]	$ 3,640	3,221
BBVA Bancomer Gestión, S. A. de C.V.:		
Commissions and fee income [2]	$ 3,657	3,604
Aplica Tecnología Avanzada, S. A. de C. V.:		
Deposits [1]	$ 726	611
Income:		
Interests [2]	$ 7	15
Fee income on Loan originations [2]	-	58
Administrative services fees [2]	$ 36	42
Expense:		
Processing and systems development [2]	$ 2,490	2,500

[1],[2] See explanation in the next page.

	2019	2018
BBVA Leasing México, S. A. de C. V. (formerly Facileasing, S. A. de C. V.):		
Deposits (1)	$ 537	151
Loan portfolio (1)	4,777	8,581
Income:		
Interest (2)	288	649
Administrative services fees (2)	85	83

(1) Balances of accounts payable/receivable as of December 31, 2019 and 2018, respectively.

(2) It relates to the income or (expense) recorded in the consolidated income statement for years ended on December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, there are other related parties transactions that are regarded as non-significant and have not been disclosed.

(23) Income tax (ISR from its Spanish acronym)-

The current Income Tax Law establishes an income tax rate of 30%.

Main items affecting the Institution taxable income were the annual inflation adjustment, accruals, the market valuation results, the pre-maturity of derivate financial instruments, the differences between the accounting and tax depreciation and amortization and the deductible written-off portfolio.

A reconciliation of the income tax rate and the effective tax rate, as a percentage of the income before income tax, is as follows:

	2019		2018	
	Tax	Rate	Tax	Rate
Statutory rate	$ 20,014	30.00%	$ 18,975	30.00%
Increase (reduction from):				
Non-deductible expenses	372	0.56%	464	0.73%
Effects of annual inflation	(1,897)	(2.84%)	(3,209)	(5.07%)
Reversal on revenues/expenses from previous years	(894)	(1.34%)	928	1.47%
Other	(104)	(0.16%)	66	0.10%
Effective rate	$ 17,491	26.22%	$ 17,224	27.23%

Recoverable Asset Tax (IMPAC, from its Spanish acronym):

As of December 31, 2019 and 2018, the Institution has an IMPAC of $275 and $282, respectively.

Other tax issues:

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

	2019	2018
Net after-tax profit account	$ 129,969	108,365
Capital contributions account	72,868	70,628

The Institution has recognized a deferred income tax resulting from the temporary differences arising from the comparison of accounting and taxable values of the following assets and liabilities:

	2019		**2018**		
	Temporary differences		**Temporary differences**		**Variation**
	Base	**Deferred IT**	**Base**	**Deferred IT**	**2019**
Deferred tax assets:					
Allowance for loan losses (not deducted)	$ 47,923	14,377	34,809	10,443	3,934
Fees and interests charged in advance	8,255	2,476	8,144	2,443	33
Provisions	7,039	2,112	6,147	1,844	268
Other assets	2,990	897	4,195	1,259	(362)
Foreclosed assets	4,478	1,343	4,687	1,406	(63)
Valuation of available-for-sale securities (capital)	120	36	3,208	962	(926)
Valuation of hedging derivates (capital)	161	48	163	49	(1)
Pension reserve	232	70	640	192	(122)
Market valuation (results)	4,523	1,357	-	-	1,357
Total assets	75,721	22,716	61,993	18,598	4,118
Deferred tax liabilities:					
	-	-	5,946	1,784	(1,784)
Market valuation (results)	5,589	1,677	381	114	1,563
Early maturity of derivative financial transactions	157	47	110	33	14
Other liabilities					
	5,746	1,724	6,437	1,931	(207)
Total liabilities					
	$ 69,975	20,992	55,556	16,667	4,325
Net deferred assets					
Variation in results for the year					$ 5,288
Net charge in OCI					$ (963)
					===

In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all 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.

Other considerations:

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

In accordance with the Income Tax Law, companies carrying out transactions with the related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's length transactions.

(24) Stockholders' equity

(a) Structure of the Capital Stock-

The capital stock of the Institution as of December 31, 2019 and 2018, was as shown in the next page.

	Number of shares at Par Value of $0.28 Mexican pesos per share		
	Capital stock	**Capital stock Unsubscribed**	**Paid-in**
Series "F"	9,107,142,859	(1,370,063,922)	7,737,078,937
Series "B"	8,749,999,999	(1,316,335,923)	7,433,664,076
Total	17,857,142,858	(2,686,399,845)	15,170,743,013

	Historical amount		
	Capital stock	**Capital stock Unsubscribed**	**Paid-in**
Series "F"	$ 2,550	(384)	2,166
Series "B"	2,450	(368)	2,082
Subtotal	$ 5,000	(752)	4,248
Reordering of capital updates			10,971
Adjustment to pesos as of December 2007			8,924
			$ 24,143

On February 28, 2019, at a General Ordinary Shareholders' Meeting, it was resolved to authorize the distribution of dividends in an amount of $31,506, from "Retained earnings" account, at a rate of $2.07677896679166 pesos per share, which was paid to shareholders on March 20, June 12, September 11 and December 11, 2019, for $7,877, $7,877, $7,877 and $7,875, respectively.

At a General Ordinary Stockholders' Meeting held on February 28, 2018, it was resolved to authorize the distribution of dividends in an amount of $27,400, of which $26,322 was declared from "Retained Earnings", on the basis of $1.73505015393 pesos per share, which was paid to shareholders as follows: on March 21, 2018, June 20, 2018, September 19, 2018 and December 11, 2018, for $5,331, $7,681, $7,730 and $5,580, respectively.

(b) Comprehensive income-

Comprehensive income for years ended December 31, 2019 and 2018, amounted to $52,149 and $44,772, net of deferred taxes, respectively. Such amount is shown in the consolidated statement of changes in stockholders' equity and represents the result of the total activity of the Institution and its subsidiaries during the year, and includes the items that according to the applicable accounting criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale and result from valuation of cash flow hedging, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits).

(c) Stockholders' equity restrictions-

The Law obliges the Institution to set aside 10% of its profits annually in order to establish capital reserves, up to the amount of paid-in capital. As of December 31, 2019, and 2018, the Institution has reached the required reserve amount with respect to the historical paid-in capital.

In the event of profits distribution not subject to taxes applicable to the Institution, such tax must be paid upon distribution of the dividend. Therefore, the Institution must consider the profits subject to each rate.

(d) Institution's capitalization index (unaudited)-

Capitalization rules establish requirements in relation to specific levels of net capital, as a percentage of the assets subject to market risk, credit and operational risks; however, for purposes of the net capital calculation, deferred taxes shall represent a maximum of 10% of the basic capital.

Under the standard method, transactions are classified in twelve different groups, according to the counterparty, which must be weighted pursuant to the corresponding risk degree.

In addition, under this method, a greater weight is allocated to the past due portfolio (115% and 150%) and the mortgage loans shall have a factor of 50% to 100%, depending on the level of the down payment and the related guarantees, which serve to increase the down payment percentage and to allocate a better weight.

- *Capitalization for operational risk*

  In order to calculate the capital requirement for exposure to operational risk, the Institution must use the following:

  - The Institution is using the Alternative Standard Method, authorized by the Commission on November 27, 2015.

    The capital requirement for the alternative standard method must be implemented within a term of 3 years and it must consider the weight according to the business line. According to modifications to the capitalization rules issued in December 2014, in effect as of October 2015, the following is shown:

- *Capitalization for market risk*

  According to amendments to the capitalization rule in effect as of October 2015, the applicable weights for reports RC-01, RC-02, RC-03 and RC-04 were modified. In addition, in the RC on share positions (RC-05) weights for the general market risk are changing. The portfolio diversification calculation is omitted, using instead 8% of the market specific risk and, finally, the liquidation risk calculation is suppressed.

  A new RC was added to the market requirements, RC-18, which captures the effect of Gamma and Vega on the option positions and is reflected in the total market risk at the end of December 2018. This requirement is additional to requirements generated in the other RCs.

- *Capitalization for credit risk*

  In relation to credit risk, changes to the capitalization rule caused the counterparty risk to be split in counterparty and related party credit risk and credit risk for credit valuation adjustment and with related parties and exposure to non-compliance fund in bank clearing houses.

  The Institution's capitalization index as of December 31, 2019 amounted to 15.61% of total risk (market, credit and operational) and 23.62% of credit risk, which are 3.61% and 11.62% points above the minimum required, including in addition the conservation the equity are 2.5% and 1.5% of supplementary for the risk systematic.

  On November 16, 2018, the Commission authorized the use by the Institution of its internal model for the mortgage loan portfolio to be used as of December 2018.

  The amount of net capital, consisting of basic and supplementary capital, is broken down below (shown figures may differ in their presentation in the Institution's consolidated financial statements).

Basic capital:

Item	Amount
Stockholders' equity, without cumulative effect per conversion	$ 214,386
Subordinated debt instruments under securitization programs	(310)
Deductions of investments in shares of financial entities	(421)
Organization expenses and other intangibles	(5,394)
Deferred taxes for tax losses	(273)
Total	$ 207,988

The main components of the obligations are shown below:

Item	Amount	Maturity date	Calculation percentage	Weighted average (basic capital)
Non-convertible Computable in basic capital: Computable capitalization instruments	$28,296	30/09/2022	30%	$ 8,489

Supplementary capital

Item	Amount
Obligations and capitalization instruments	$ 51,872
Allowance for loan losses	123
Total	$ 51,995
Net capital	$ 259,983

Item	Amount	Maturity date	Calculation percentage	Weighted average (basic capital)
Computable capitalization instruments.........................	$ 14,150	10/03/2021	30%	$ 4,245
Computable capitalization instruments.........................	14,150	22/04/2020	30%	4,245
Computable capitalization instruments.........................	3,773	12/11/2029	100%	3,773
Computable capitalization instruments.........................	18,864	18/01/2033	100%	18,864
Computable capitalization instruments.........................	14,148	13/09/2034	100%	14,148
Total	$ 65,085			$45,275

Assets on risk are comprised as described on the next page.

– *Assets subject to market risk:*

Item	Risk weighted assets	Capital requirement
Transactions in MXN with nominal rate	$ 323,580	25,886
Transactions in MXN with real rate or denominated in UDIS	19,967	1,597
Return rate indexed to the general minimum wage	6,180	494
Transactions in foreign currency with nominal rate	33,398	2,671
Positions in UDIS or with return referred to the NCPI	53	4
Positions in foreign currency with return indexed to the exchange rate	17,962	1,437
Positions in shares or with return indexed to the price of a share or group of shares	17,615	1,409
Transactions indexed to the general minimum wage	328	26
Gamma (RC-18)	47,623	3,810
Vega (RC-18)	69	5
Spread	5,718	457
Total market risk	$ 472,493	37,796

– *Assets subject to credit risk:*

Item	Risk weighted assets	Capital requirement
Weighted at 10%	$ 1,989	159
Weighted at 11.5%	1,725	138
Weighted at 20%	21,450	1,716
Weighted at 23%	9	1
Weighted at 50%	5,659	453
Weighted at 57.5%	463	37
Weighted at 100%	415,548	33,244
Weighted at 115%	3,505	280
Weighted at 150%	1,055	84
Weighted at 1250%	887	71
Credit Cards / E and C / Mortgages Internal methodology	600,491	48,039
CVA	20,399	1,632
ECC	141	11
Counterparty	12,618	1,009
Related	14,921	1,194
Repurchase agreements and Spot	20	2
Total credit risk	$ 1,100,880	88,070
Operational risk	$ 92,544	7,403

Capital management - The Institution has the required staff, processes and systems for the proper identification, measurement, oversight, control and mitigation of the risks to which the Institution is exposed; for further detail, see note 32.

In turn, the periodic processes to guarantee that financial reports are disclosed and reflect the risks to which the Institution is exposed are defined and established.

Stress testing are performed annually; these are required by the Commission to assess capital sufficiency of the Institution in order to continue acting as intermediary in respect of resources and granting loans under different scenarios.

In addition, there is an analysis comprising liquidity crisis scenarios. These stress scenarios estimate the impact on the auto-financing ratio and the capacity of explicit assets available to cover maturities in a horizon of 12 months, which allows to know the Institution survival horizon. Results show a satisfactory resistance of the Institution to liquidity crisis.

On the other hand, the Institution has different management levers to be actioned should it faced different stress scenarios that could impair its solvency position in terms of capital and/or liquidity. Given the strong condition of the Institution, both financial and of its balance structure, such levers allow it to access wholesale markets, both local and international, to obtain financing and capital, have at its disposal high quality assets for its sale and/or securitization, as well as discount securities, either at the market or with the Central Bank.

The foregoing establishes that the Institution has the mechanisms necessary to efficiently face stress scenarios that may impair the situation, both in relation to the capital and liquidity.

For further details, see "Exhibit 1-O", required by the Regulations "Supplementary Information for the fourth quarter of 2019," in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage https://investors.bbva.mx/

(25) Foreign currency position -

Central Bank regulations provides for standards and limits for banks to keep long or lending (short or borrowing) positions in foreign currencies equivalent to a maximum of 15% of the Institution's basic capital. As of December 31, 2019 and 2018, the Institution kept an exchange rate risk position within the mentioned limit.

As of December 31, 2019 and 2018, the exchange rate determined by the Central Bank of Mexico and used by the Institution to value its assets and liabilities in foreign currency (translated to U.S. dollars) was $18.8642 and $19.6512 pesos per U.S. dollar, respectively, and the position in foreign currency was as described below:

	USD in millions	
	2019	**2018**
Assets	14,462	15,486
Liabilities	(14,290)	(14,977)
Net assets position in U.S. dollars	172	509
Net assets position in Mexican pesos (nominal value)	$ 3,245	10,002

As of February 27, 2020, issue date of the audited financial statements, the last known exchange rate established by the Central Bank was USD 1.00 = $19.3973 pesos.

Pursuant to the regulations of the Central Bank, the position reported to that institution as of December 31, 2019 and 2018, was USD$430 million and USD$360 million long, which includes option positions, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank of Mexico regulations, so that the foreign currency position of all currencies is consolidated in US dollars at each monthly closing.

(26) Position in UDIs-

As of December 31, 2019 and 2018, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $6.399018 and $6.226631 per UDI, respectively, as described on the next page.

	UDIS in millions 2019	2018
Assets	7,439	6,819
Liabilities	(5,503)	(7,281)
Net asset (liability) position in UDIs	1,936	(462)
Net asset (liability) position Mexican pesos (nominal value)	$ 12,389	(2,877)

As of February 27, 2020, the issue date of those audited financial statements, the last known UDI exchange rate was $6.459227 per UDI.

(27) Preventive and protective savings mechanism-

The Bank Savings Protection Institute ("IPAB" for its Spanish acronym) was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest for an equivalent of up to 400,000 UDIs.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fees must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2019 and 2018, contributions made by the financial group to IPAB for insurance deposits amounted to $5,430 and $5,217, respectively.

(28) Net interest income-

For the years ended December 31, 2019 and 2018, the main items comprising net interest income were as follows:

	2019 Pesos	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	$ 141,765	12,120	153,885
Interest and return on securities (notes 6 (a), 6 (b) and 6(c))	35,949	51	36,000
Interest on cash and cash equivalents	4,018	1,245	5,263
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b))	2,776	-	2,776
Interest on margin accounts	228	-	228
Interest on subordinated debt	63	-	63
Fee income on loan originations (note 9)	2,094	12	2,106
Other	1,014	223	1,237
Total interest income	187,907	13,651	201,558
Interest expense:			
Interest on deposits	(34,347)	(1,060)	(35,407)
Interest on loans by banks and entities	(1,612)	(5)	(1,617)
Interest on subordinated debt	(3,446)	(3,734)	(7,180)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7(c))	(25,529)	-	(25,529)
Expenses on loan originations	(1,392)	-	(1,392)
Other	(842)	(89)	(931)
Total interest expense	(67,168)	(4,888)	(72,056)
Net interest income	$ 120,739	8,763	129,502

	2018		
	Pesos	US Dollars MXN equivalent	Total
Interest income:			
Interest and returns on loan portfolio (note 9)	$129,714	12,077	141,791
Interest and return on securities (note 6 (a), 6 (b) and 6(c))	35,566	130	35,696
Interest on cash and cash equivalents	3,705	1,207	4,912
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7(c))	1,665	-	1,665
Interest on margin accounts	486	-	486
Interest on subordinated debt	63	-	63
Fee income on loan origination (note 9)	1,952	11	1,963
Other	1,493	563	2,056
Total interest income	174,644	13,988	188,632
Interest expense:			
Interest on deposits	(29,376)	(836)	(30,212)
Interest on loans by banks and entities	(1,670)	(20)	(1,690)
Interest on subordinated debt	(2,373)	(3,759)	(6,132)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7(c))	(25,371)	-	(25,371)
Expenses on loan originations	(1,116)	-	(1,116)
Other	(1,113)	(86)	(1,199)
Total interest expense	(61,019)	(4,701)	(65,720)
Net interest income	$113,625	9,287	122,912

(29) Commissions and fee income-

For the years ended December 31, 2019 and 2018, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	2019	2018
Credit cards and debit cards	$ 26,030	23,598
Bank commissions	9,283	7,298
Investment funds	4,219	3,604
Insurance	1,891	1,747
Other	5,340	7,322
Total	$ 46,763	43,569

During 2019 and 2018, revenues earned by the Institution in trust operations amounted to $472 and $423, respectively.

For the years ended December 31, 2019 and 2018, the main items for which the Institution recorded commission and fee expense in the consolidated statements of income were as follows:

	2019	2018
Credit cards	$ (10,383)	(9,999)
Effective credit card reward points	(3,120)	(2,734)
Promotion fund collateral	(842)	(666)
Cash management and fund transfers	(352)	(393)
Credit placement	(325)	(333)
Appraisals	(297)	(265)
Sale of foreclosed assets	(104)	(135)
Purchase-sale of securities	(239)	(231)
Other	(2,213)	(983)
Total	$ (17,875)	(15,739)

(30) Financial intermediation income-

For the years ended December 31, 2019 and 2018, the main items comprising the net gain on financial assets and liabilities were as follows:

	2019	2018
Valuation:		
Derivatives	$ (13,956)	9,349
Foreign currency	9,013	(2,525)
Investments in securities (note 6)	(1,001)	634
	(5,944)	7,458
Purchase-sale result:		
Derivatives	3,925	(7,030)
Foreign currency	5,691	5,727
Investments in securities	2,731	(2,684)
	12,347	(3,987)
Total	$ 6,403	3,471

(31) Segment information-

The Institution and its subsidiaries participate in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as management of the risks inherent in the different activities, is based on the information produced by the Institution's business units, plus the profits generated and recognized in the legal entities.

Revenues for 2019 and 2018, by economic segment are as follows.

2019

Item	Total	Commercial Bank	Corporate and Government Banking	Market Transactions	Other Segments
Net interest income	$ 129,502	93,850	34,733	524	395
Allowance for loan losses	(35,713)	(32,239)	(3,474)	-	-
Net interest income adjusted for allowance for loan losses	93,789	61,611	31,259	524	395
Commissions and fees, net	28,888	18,714	9,174	139	861
Financial intermediation income	6,403	2,241	822	3,075	265
Other operating income	884	(810)	161	-	1,533
	129,964	81,756	41,416	3,738	3,054
Administrative and promotional expenses	(63,250)				
Net operating revenues	66,714				
Equity in the income of non consolidated subsidiaries and associated companies	31				
Income before income tax	66,745				
Current income tax	(22,779)				
Deferred income tax (net)	5,288				
Income before non-controlling interest	49,254				
Non-controlling interest	-				
Net income	$ 49,254				

2018

Item	Total	Commercial Bank	Corporate and Government Banking	Market Transactions	Other Segments
Net interest income	$ 122,912	94,067	28,380	694	(229)
Allowance for loan losses	(32,299)	(29,262)	(3,037)	-	-
Net interest income adjusted for allowance for loan losses	90,613	64,805	25,343	694	(229)
Commissions and fees, net	27,830	19,062	8,630	276	(138)
Financial intermediation income	3,471	2,264	772	757	(322)
Other operating income	504	(36)	162	-	378
	122,418	86,095	34,907	1,727	(311)
Administrative and promotional expenses	(59,168)				
Net operating revenues	63,250				
Equity in the income of non consolidated subsidiaries and associated companies	36				
Income before income tax	63,286				
Current income tax	(18,734)				
Deferred income tax (net)	1,510				
Income before non-controlling interest	46,062				
Non-controlling interest	(2)				
Net income	$ 46,060				

(32) Risk management and derivatives (Unaudited figures)-

Organizational structure

The Risk Department reports directly to senior management of the Institution, in an effort to promote the independence of the business units and establishing the necessary autonomy to determine the functions and profile of the respective teams.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: one covering the wholesale portfolio, SME and the other the retail portfolio, assuming the admission, follow-up and recovery functions. By the same token, the management of market, structural and liquidity risks is gathered into a single unit, to which is added the management of risks of non-bank businesses and asset handling.

As support for the above-mentioned units, the Technology and Methodologies unit has been created, with technical expertise which will help to meet the specialized needs of the risks areas, while a Follow-Up and Reporting Unit has been established for the integration, follow-up and generation of the necessary reports for all the internal or external areas which have to participate in best risk management; this unit also plays an important role in the information disclosure processes and their strict adherence to national and international regulations.

Furthermore, the Internal Controllership unit has been established to guarantee the correct implementation and development of the Internal Control System of the Institution, while also including the Technical Unit.

Compliance in the area of Comprehensive Risk Management is based on the recognition of fundamental principles for the efficient and effective management of risks, evaluating them on quantifiable and non-quantifiable bases, with the aim of satisfying the basic processes of identification, measurement, monitoring, limiting, control and dissemination.

In conformity with the Commission’s regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management.

Qualitative information:

- *Participation of the governing bodies:*

  The Institution's risk management model is characterized by the direct influence of its governing bodies with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

  The Board of Directors establishes the general risk strategy. In accordance with this strategy, the Board of Directors' Risk Committee Representative proposes policies and specific risk limits for each risk type for the Board's approval, while also providing follow-up on compliance. In this way, the strategy approved by the Board of Directors includes the Institution's risk appetite, fundamental metrics and the basic structure of limits, risk types and asset classes, together with risk management control model bases.

  The Board of Directors' Risk Committee Representative is responsible for performing a risk analysis and providing periodic risk follow-up within the sphere of governing bodies attributes, while controlling and providing detailed follow-up on the risks affecting the Institution taken as a whole, which allows the integration of the risk management strategy and application of approved policies to be effectively monitored.

- *Policies and procedures:*

  Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies. Business risk and reputation risk manuals, which provide for the methodologies associated to the calculation and follow up thereof.

  Defined and delimited third-party responsibilities, risk training programs and communication of policies and procedures.

- *Tactic decision making*

  Independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

  The Institution's different risk units participate in the preparation of the Risk Appetite that the Institution is willing to assume to attain its business objectives and which must be submitted for the approval of the Board of Directors, as regards general issues, and to the Risk Committee in the case of specific exposures and sub-limits.

  The Institution has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

- *Tools and analyses*

  Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Institution's risk management.

  Follow-up on the analysis of risks incurred by the Institution's different business units. This follow-up considers risk metrics, the risk appetite, the main risk concentrations, compliance with regulatory limits, the credit stress analysis, calculation of the regulatory capital requirement, structural risks, market risks, the liquidity risk, operational risk, legal risk and reputational risk.

  The methodologies and parameters for measuring risks are periodically calibrated and submitted for the approval of the competent entities.

  Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

Install monitoring and operational and legal risk control methodologies in conformity with international standards.

- *Information*

  Information is the cornerstone of risk management and is utilized for preventive management based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (customers, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and governing bodies, thereby ensuring its coherence and compliance with applicable regulatory requirements.

- *Technological platform*

  Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

- *Audit and Comptroller's Office*

  Involvement of internal audit in relation to compliance with the “Provisions in matters of risk management” and implementation of compliance plans by risk type and area.

  Recommendations included in the audit reports are subject to regular follow up by the Audit Committee.

  Carrying out of audits of compliance with the legal referred provisions by a firm of independent experts on risk measure models, systems, methodologies, assumptions, parameters and procedures to determine whether they comply with or not their functionality in view of the characteristics of the Institution’s operations, instruments, portfolios and risk exposures.

  The Institution considers that to date, it fully complies with the “Provisions on matters of risk management”. Likewise, the Institution continues with measurement and limitation improvement projects, automation of processes and methodological refinements.

  On the other hand, the Comptroller’s Office is responsible for guaranteeing the proper functioning of the internal control programs and the timely update and dissemination of internal regulations, which further, among other aspects, compliance with the provisions in matters of comprehensive risk management.

  The Internal Validation Units is part of the Comptroller’s Office, which is responsible for reviewing the proper design, documentation and functioning of the internal models used in the measurement and management of the different types of discretionary and non-discretionary risks faced by the Institution’s activity.

Methodological framework - Risk valuation, measurement and description techniques:

For risk purposes, the Institution's consolidated balance sheet is broken-down as follows:

- *Market risk:* Operation and investment portfolios - Investment in securities for trading purposes, repurchase agreements and transactions with derivative financial instruments.

  Structural balance - Available for sale, remaining transactions, including securities held to maturity and derivative financial instruments for structural risk management of interest rates and exchange rates.

- *Credit risk:*

  Commercial loans - Traditional wholesale credit loans, as well as exposures for investments in issuances as counterparty in derivative financial instruments.

  Consumer - Credit cards and non-revolving consumer loans.

  Mortgage - Mortgage loans.

  For the purpose of calculating capital and reserves, advanced internal models are used in the credit card and enterprises and large enterprises (companies); such models are approved by the Commission.

  Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	**Segment**
>60 million MXN	Enterprises
>=50 million and <60 million USD	Large Enterprises (Corporate)

  Non-revolving consumer loans, mortgage loans and the commercial loans with a sales volume of less than $60 using standard models to assess capital and reserves.

- *Liquidity risk:* Banking business, with positions on and off-balance, including loans, traditional deposits, investments in securities, derivatives, wholesale financing, etc.

  Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same Institution or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

Market Risk

The purpose of market risk management is as follows:

- The proper identification of the risks to which the Institution is exposed, by maintaining positions in financial instruments for operational or investment purposes.
- Measurement of exposures through the application of proven and reliable processes and methodologies.
- Continuous risk monitoring.
- Efficient limitation of exposures.
- Effective control over positions.
- Inform decision-making bodies of the risks assumed/profitability obtained within the portfolios controlled.

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement, which is explained in the following page.

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.
2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved.
3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

   In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time, in the positions that are within Global Markets, considering a horizon of 500 business days.

When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the trading portfolios and the structural balance sheet. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

	4Q 2019	3Q 2019	4Q 2018
VaR of trading securities:			
VaR 1 day	$ 119	108	90
VaR 10 days	379	334	293
	$ 498	442	383

	VaR 1 day	VaR 10 days
Value at risk, trading securities		
Interest rates	$ 113	$ 362
Equity securities	$ 34	$ 105
Foreign currency	$ 16	$ 58
Interest rate Vega	$ 16	$ 50

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month backtesting is performed to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

Structural balance sheet

The market risk of the structural balance sheet or structural risk is defined as the potential change produced in the net interest income and/or in the net worth of an entity due to changes in interest rates and/or exchange rates.

In relation to the structural balance of interest rates and exchange rates, sensitivity of economic value and net interest income are calculated by virtue of movements parallel to an increase or drop in interest rates (+/- 100 basis points), as well as the estimate of expected losses in simulation scenarios of nonparallel movements in risk factors (interest rate and exchange rate), according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the structural balance sheet according to the financial characteristics of each heading.

The methodology behind the economic value consists of estimating the fair value of the positions on the structural balance sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the net interest income metrics is based on the projection of the interest income and expenses from the structural balance sheet, month-to-month in a 12-month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the structural balance sheet are as follows:

- *Prepayment rates:* Supposes an advance payment of certain headings of the structural balance sheet, such as mortgage loans and commercial portfolio, among others.
- Evolution of products which do not have a maturity date: for demand deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecasted.

The assumptions behind the characterization of the headings on the structural balance sheet are modeled based on historical observations, of the same headings of the structural balance sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the structural balance sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and delegated Risk Committee of the Board.

Estimated Economic Value Sensitivity

Portfolio	**(100) bp**	**+100 bp**	**Red flag use**
Mexican pesos	$ (4,906)	4,656	86.0%
Foreign currency	3,639	(3,341)	60.7%
Total	$ (1,267)	1,315	57.3%

Net interest income sensitivity projected to 12 Months

Portfolio	**(100) bp**	**+100 bp**	**Red flag use**
Mexican pesos	$ 3,090	(3,081)	56.3%
Foreign currency	1,193	(1,183)	29.0%
Total	$ 4,283	(4,264)	46.6%

In terms of consumption, the use of alerts in the quarter shows the following exposure (percentage of the use of alerts, average of monthly closings):

Portfolio	**SVE Red flag use**	**SMF Red flag use**
Mexican pesos	76.4%	58.0%
Foreign currency	62.4%	31.8%
Total	52.4%	48.5%

In terms of annual consumption for 2019, exposures are as follows (percentage of use of alerts, average of monthly closings):

Portfolio	**SVE Red flag use**	**SMF Red flag use**
Mexican pesos	66.1%	61.6%
Foreign currency	71.9%	29.4%
Total	50.1%	50.4%

- *Credit risk*

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (“EL”) and Unexpected Loss (“UL”).

The EL of a portfolio represents the average credit balance, which was not paid, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting loans over time. The calculation of the Global EL of each portfolio first requires the determination of the EL for each borrower; for this reason, the model focuses initially on an individual situation.

- Expected Loss = Probability of Default x Loss Given Default x Exposure at Default
- Exposure refers to the maximum amount of the balance at the time of the default; the elements which enable this factor to be determined are the size of the line, disposition of the line and type of product.
- Probability of Default is the likelihood that a customer may default on his obligations. The elements which enable the determination of this factor are risk classification by client, migration of credit quality and situation of non-performing portfolio.
- Loss Given Default is that net economic loss from the recovery of financing; the elements which enable this factor to be determined are recovery expenses (foreclosure and sale) and the type of collateral.

Portfolio *	**Percentage**
Commercial	0.5%
Consumer	4.6%
Mortgage	0.5%

Portfolio *	**PDs**	**Severity**
Commercial	1.2%	35.5%
Consumer	5.9%	80.4%
Mortgage	2.5%	20.7%

*The parameters are weighted on the current portion of each of the portfolios and are calculated based on internal models of the Institution.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. As the credit losses may vary significantly over time, it may be inferred that creating a fund with an amount equal to the average loss will have covered the loan loss in the long term; however, in the short-term the fluctuations and, therefore, the risk, remain in effect and generate uncertainty. Therefore, it should also be covered with a second fund that can be used as collateral to be paid when the latter exceed the average losses.

From the Institution’s standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business.

The second fund created to cover unexpected losses should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Institution in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as economic capital, so as to give it a risk connotation.

The level of solvency desired by the Institution has to be established in the calculation of the UL, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the Institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards. These models, apart from supporting the credit decision, are linked with the probability of default established above.

Every month an estimate is made of Expected Loss, Economic Capital and Regulatory Capital based on Internal Models.

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

Internal approval model

The Institution applies internal methodologies to standardized portfolios; i.e., it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises.

Authorizations of new parameters took place on June 17, 2019 for credit cards, on April 19, 2018 for enterprises and on July 19, 2019 for large enterprises.

Exposure at Default

The exposure at default (EAD) is defined as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

EAD = Disposed Balance + CCF1*Undisposed Balance + CCF2 *Limits

Probability of Default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Institution, a transaction/customer will be considered as “bad” or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment.
- The amount should go through a materiality filter so that the transaction/customer may be considered in arrears.

The materiality filter is the only difference as regards the default definition established by Article 2 Bis 68 of the National Banking and Securities Commission provisions.

Loss Given Default

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure to Default, it is known as Loss Given Default.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the LGD is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure at default.

$$\text{Loss Given Default} = \text{LGD} = (\Sigma \text{ entries in arrears} - \Sigma \text{ recoveries})/\text{EAD}$$

- Coverage and/or mitigation policies by each type of risk

  The establishment of personal guarantees or security interests in personal or real property, apart from improving the credit structure of the operation, allows the estimate of the Loss Given Default to be mitigated in order to reduce the credit reserves derived from the regulatory portfolio classification.

  The Institution performs revaluations of the loans, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

  The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission according to the integral method to recognize credit risk coverage, established in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the CUB.

  The integral approach used for the hedge recognition is governed by the following points:

  Amount of adjusted collateral: The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA_i = \frac{C_i}{C_i} \bullet (1 - H^i_C - H^i_{FX}) \bullet \frac{(t - 0.25)_i}{T - 0.25}$$

  __Covered and uncovered exposure__: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CAi) according to the prioritization determined, until there is no eligible collateral to be included in the process.

  __Internal ratings process__: For the Enterprises and Large Enterprises internal model (E&LE), the Institution considers groups III and IV and certain cases from group V of the rules for the capitalization requirements of full-service banks and national credit institutions and development banks of the Commission. Group IV excludes customers with investment projects, as well as small and medium mortgage promoters, and small and medium companies (SMEPymes) according to the sales volume (customers with transactions valued at less than $60 million). Large promoters are considered from group III.

Description of portfolios with certified internal models:

A Description of the wholesale portfolio, which has been rated according to internal models, is provided below.

Closing E&LE December 2019

Risk category	Available	Balance	Exposure at default	Weighted median severity	Risk weighting	Exposure non-financial security interest	Exposure financial security interest
A1	$ 67,690	680,988	414,587	39.45%	0.42%	$ 20,612	212,397
A2	2,816	36,262	10,613	38.49%	2.92%	603	3,717
B1	159	10,469	2,438	40.04%	4.29%	265	3,580
B2	392	7,864	849	40.04%	5.43%	27	6,579
B3	86	15,390	2,540	38.46%	9.03%	383	712
C1	1	3,424	1,709	37.48%	18.02%	504	180
C2	1	605	77	25.15%	12.00%	-	-
D	1	6,190	1,476	41.79%	94.26%	164	3,912
E	7	6,818	4,392	68.62%	97.76%	246	81
Total	$ 71,153	768,010	438,681	39.55%*	1.88%*	$ 22,804	231,158
	======	======	======	======	======	======	======

* Average weighted percentage

For the credit card internal model, the Institution considers group VI (Consumer and mortgage loans) in accordance with the capitalization rules of the Regulation. Such group matches the loans made to customers -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card portfolio is detailed below:

Closing CC December 2019

Risk category	Available	Balance	Exposure to default	Weighted median severity	Risk weighting
A1	$ 57,037	52,190	75,126	75.90%	1.60%
A2	16,238	16,027	20,958	77.50%	3.90%
B1	9,493	9,674	12,273	77.40%	5.90%
B2	8,686	9,010	11,172	77.70%	7.60%
B3	8,037	8,092	10,284	78.10%	9.00%
C1	8,269	7,742	10,641	77.70%	11.20%
C2	10,115	10,196	13,252	76.30%	24.20%
D	2,113	1,806	2,739	77.10%	43.10%
E	2,739	2,389	3,317	82.60%	73.10%
Total	$ 122,727	117,126	159,762	76.8%*	7.8%*
	===========	=========	===========		

* *Average weighted percentage*

- *Analysis of estimated losses according to certified internal models*

The backtest exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

The result obtained for certified portfolios during the third quarter of 2019 is detailed in the next page.

		Backtesting 3Q 19		
Loan Portfolio	**EL MI Sep18*** **	**Clean-up Oct18-Sep19**	**DIFF $ (OL*- EL **)**	**% USE EL Sep18**
CREDIT CARD	$ 10,164	12,638	2,474	124%
E&LE	3,606	561	(3,045)	16%
Mortgage	3,555	2,041	(1,514)	57%
Total	$ 17,325	15,240	(2,085)	88%

* OL = Observed Loss
** EL = Expected Loss
*** IM = Internal Model

The loss use is 98%, which is acceptable.

Internal ratings systems and the relationship between internal and external credit risk ratings.

The Institution utilizes two credit risk models, which are clearly differentiated by the portfolio to which they are applied and the information systems supporting the rating tools used for contracts and customers (scoring and rating, respectively). The rating institutions utilized to assign ratings to loan portfolio transactions are Standard & Poor's, Moody's and Fitch.

Scoring (retail portfolios) and rating (wholesale portfolios) tools are utilized to ensure that the decisions made by the Institution's entities maintain the portfolio's profitability and the required quality level.

- Rating

The rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the group. The rating is a tool for customer classification, geared towards company banking and corporate banking.

The rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the financial statements (Balance Sheet and profit and loss account) and from a series of qualitative variables (sector, market position, etc.).

Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted. The rating is part of the information used in the process to make decisions on a transaction and it is the indispensable support to set price policies considering the risk-profitability binomial.

- Scoring

The scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the Institution. There are two types of Scoring:

- Origination scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.
- Behavioral scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

- Profitability measurement

  Aside from calculating capital requirements derived from its credit risk, the Institution also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock. In the case of loans granted to enterprises, large enterprises, IFI, states and sovereign entities, profitability and added economic benefit indicators are calculated during the customer evaluation process.

  The Institution utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures profitability in relation to economic capital (RAROEC).

Liquidity Risk

a) Concentration limits regarding the different groups of collateral received and the principal sources of financing.

Apart from the regulatory liquidity ratios, the liquidity risk control scheme of the Institution is based on the establishment of limits in three fundamental areas: a) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); b) financing structure diversification through a maximum amount of Short-Term (FCP); and c) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of financing concentration or foreign exchange liquidity or long-term financing diversification, among others.

December 2019 Liquidity risk exposure: average monthly closing.

Absolute margin in relation to the limit (positive without excess, negative with excess)

LtSCD	10%
FCP 12m	$192,498
CB 30d	53%

* Annual perspective

b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity.

The Institution’s exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including the Institution or any of its associates), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banco de México, operating rules of the payment systems and risk diversification in the performance of liability operation specified by the Regulations, among others.

In the case of the investment regime for liability operations in foreign currency, in addition to the Shortfall regulatory limit, there is also a red flag system in place that is stricter than the regulatory limit for imposed by Banco de México.

The Institution’s gaps at different terms are detailed in the next page.

Mexican pesos in millions	**On demand**	**30 days**	**6 months**	**1 year**	**More than 1 year**	**No maturity date**	**Total**
Cash and cash equivalents	$107,564	–	–	–	$ 40,304	–	$ 147,868
Loan portfolio	–	90,486	192,239	90,152	840,523	–	1,213,400
Securities portfolio	–	1,090	102,904	35,245	326,517	–	465,756
Total assets	$107,564	91,576	295,143	125,397	1,207,344	–	1,827,024
Deposits funding	–	171,413	69,703	2,519	106	923,110	1,166,851
Debt and subordinated debt	–	5,182	28,364	30,966	134,091	–	198,603
Creditors on repurchase/resale agreements	–	233,310	742	–	–	–	234,052
Other, net	–	–	–	–	–	227,518	227,518
Total liabilities	–	409,905	98,809	33,485	134,197	1,150,628	1,827,024
Off-balance	–	(3,663)	140	(11,127)	(1,165)	–	(15,815)
Liquidity gaps	107,564	(321,292)	196,474	80,785	1,071,982	(1,150,628)	(15,815)
Cumulative gaps	107,564	(214,428)	(17,954)	62,831	1,134,813	(15,815)	–

* *Figures in the preceding table only consider the Institution individually, not on a consolidated basis.*

Embedded derivatives

Pursuant to the Institution's programs for issuance of structured bank bonds, the Institution hold foreign currency, indexes and interest rates options, equivalent to a nominal of $23,689. Likewise, the entity has interest rates and foreign currency swaps with a nominal of $14,039 and forwards of $0.

Qualitative information

I. Liquidity risk is handled in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The handling of liquidity risk in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- Setting of general policies, fundamental metrics and limits. The risk liquidity policies are approved by the Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.
- Risk identification, measurement and control. Risks identifies, measures and establishes measurements to control liquidity risk to which the Institution is subject through the setting, follow-up and reporting of a limits scheme.
- Management of investing and deposits activity. This is performed by the business areas in accordance with the risks policy.
- Liquidity management and financing. This is performed by Finance, specifically in the Financial Management area.
- Generation of follow-up information. As much as possible, the Systems and Finance areas of the Institution supply the relevant information for purposes of liquidity risk. At the same time, Risks promotes the ongoing improvement of information quality to ensure a correct decision making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, internal audit and the areas which handle risk, even more frequently in times of crisis.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board, and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

a) *Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized.*

Every year the Institution prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

b) *Liquidity risk mitigation techniques used*

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section, at all times considers the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale customers. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

In the event of liquidity risk limit or alert triggering, there are specific action and communication procedures within the Institution established with a clear definition of roles for the different areas and decision-making bodies, differentiating the communication level based on whether a limit or alert was triggered. Likewise, there is a Liquidity Contingency Plan, which in the event of activation has a stock of actions classified by their typology based on whether they are related or not to the Mexican central bank, the wholesale market or the commercial activity.

c) *Use of stress tests*

Liquidity risk stress tests are carried out in different stress scenarios, evaluating in each one the buffer coverage state of available liquidity with the liquidity needs of the scenario in question under different temporary horizons and delimiting the survival horizon under different situations. The results of these tests are integral part of the Liquidity Contingency Plan, as they are part of its activation program.

Description of contingent financing plans.

The Liquidity Contingency Plan or Contingency Financing Plan is set up as a fundamental element of liquidity risk management in moments of liquidity stress.

It contains clear procedures to make decision making easier, as well as to enable a fast adoption of contingent measures and effective communication, specifying functions and responsibilities in these situations, as well as the authority to activate it. It is defined based on four principles: coordination among the involved units, efficient level of information, confidentiality of performances and information and enforceability. It is sanctioned by the Institution's Board of Directors, with the prior favorable opinion of its delegated Risk Committee; the proposal of the Liquidity Contingency Plan to the Board of Directors and its subsequent amendments are made by the Institution's Chief Executive Officer. Its activation would be carried out by the Asset/Liability Committee, under a traffic light approach for the plan indicators, which allows to distinguish severity of the situation.

Also, the Institution has a Contingency Plan or Recovery Plan that provides for potential actions to be performed with the purpose of restoring its financial situation in different adverse scenarios that could affect solvency and/or liquidity. This plan describes the bank situation detailing key business lines, recovery indicators, corporate governance for its preparation, as well as in the case of occurrence of adverse scenarios and the process to implement recovery measures. Similarly, this plan is approved by the Institution's Board of Directors.

- *Liquidity Coverage Ratio (LCR)*

The Liquidity Coverage Ratio quantifies the potential capacity of the Institution to face liquidity needs at 30 days, with available liquid assets, under a stress scenario.

According to the information disclosure requirements set forth in Exhibit 5 of the General Regulations on Liquidity Requirements for Banking Entities, below, there is a Liquidity Coverage Ratio Disclosure Form for the fourth quarter of 2019.

Liquidity Coverage Ratio	**Unweighted amount**	**Weighted amount**
Computable liquid assets		
Total computable liquid assets	$ –	279,603
Cash outflows		
Stable financing	$ 516,704	25,835
Less stable financing	110,608	11,061
Unsecured retail financing	627,312	36,896
Operational deposits	227,949	54,416
Non-operational deposits	201,361	85,860
Unsecured debt	8,132	8,132
Unsecured wholesale financing	437,442	148,408
Secured wholesale financing	–	1,270
Outflows related to derivate financial instruments	28,532	18,927
Facilities and liquidity	551,023	33,617
Additional requirements	579,555	52,544
Other contractual financing obligations	$ 81,764	10,343
Total cash outflows	$ –	249,459
Cash inflows		
Cash inflows from secured transactions	$ 29,602	–
Cash inflows from unsecured transactions	88,259	52,185
Other cash inflows	5,239	5,239
Total cash inflows	$ 123,100	57,424
Total computable liquid assets	-	279,603
Total net cash outflows	-	192,036
Liquidity Coverage Ratio	-	145.67%

a) Calendar days provided for in the quarter that is disclosed. The reported quarter includes 92 calendar days.

b) Main causes of the results of Liquidity Coverage Ratio and the evolution of their main components.

During the quarter, the Liquidity Coverage Ratio improved due to an increase new customers, mainly retailers, improving the composition with a more stable category of customers, even while loan origination activity slowed.

Deposits Funding growth allowed to keep more liquid assets, which are mostly of high quality (government debt and deposits in central banks).

Item	**4Q-19**	**3Q-19**	**2Q-19**	**1Q-19**	**4Q-18**
Liquid assets	$ 279,603	$ 284,890	$ 268,077	$ 278,872	$ 291,655
Outflows	192,036	206,162	194,064	187,443	199,809
LCR	145.59%	138.18%	138.13%	148.77%	145.96%

c) Changes in the main components by quarter:

Item	**4Q-19**	**3Q-19**	**Variation**
Liquid assets	$ 279,603	$ 284,890	$ (5,287)
Outflows	249,459	266,355	(16,896)
Inflows	57,424	60,193	(2,769)
Net outflows	192,036	206,162	(14,126)
LCR	145.67%	138.25%	7.42%

d) Evolution of the composition of Eligible and Computable Liquid Assets:

Computable Liquid assets

	4Q-19	**3Q-19**	**Variation**
N1 Cash	$ 133,273	$ 144,223	$ (10,950)
N1 Securities	134,310	127,386	6,924
N2 A	8,413	9,948	(1,535)
N2 B	3,606	3,333	273
Total	$ 279,602	$ 284,890	$ (5,288)
	=======	=======	=======

* Weighted amounts based on the LCR discount factor

e) Concentration of financing sources

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of both retail and wholesale customers. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets. The following table shows the Institution’s funding structure.

Sources of financing (December 2019)	**% of total liabilities**
Deposits funding	73%
Collateralized financing	14%
Securities	5%
Subordinate obligations	6%
Money market	1%
Interbank	1%
Total	100%
	====

f) Exposures in financial derivatives and possible margin calls

Exposure, according to current local exposure guidelines in derivatives for the Liquidity Coverage Coefficient referenced to the net disbursements expected for the next 30 days, plus a contingent disbursement for transactions involving derivative financial instruments (LBA: lookback approach), is detailed below:

Description		4Q-19
Net outlay of derivatives to 30 days plus contingent outlay (LBA)	$	16,914
		=====

g) Mismatch of foreign currencies

Liquidity risk associated to transactions in foreign currency is covered according to the provisions on the liquidity coefficient in foreign currency, established by the Mexican central bank. Also, risk associated to exchange rate is duly funded and managed within the regulatory limits.

h) Degree of centralization of liquidity management and interaction among the Institution's units

The responsibility for handling liquidity is concentrated in the Financial Management unit, which reports directly to the General Director of Finance and is independent from the business units. It maintains a direct interaction with the business areas, defining strategies for how to use and attract liquidity. The strategies are applied within the risk limits approved by the Board of Directors and the Board's delegated Risk Committee, and are agreed upon in the Assets and Liabilities Committee, the executive body responsible for handling capital and the structural risks of the balance sheet with regard to interest rates, exchange rates and liquidity.

i) Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile.

The Institution considers that all relevant flows are covered in the LCR metric, for which reason there are no additional flows to be considered.

Operational Risk

The measurement and control of operational risk is the responsibility of a separate operational risk unit which manages market risk and credit risk, as well as audit units and compliance.

Aware of the importance of considering all aspects associated with operating risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms, without overlooking the objectivity of the systems utilized for this purpose.

Operational risk is defined as such credit or market risk not subject to characterization which is originated in the probability of human errors, inadequate or defective internal processes, failures in the systems, as well as external events that could represent a loss for the Institution, which are grouped in the following risk classes: process errors, internal and external fraud, technological failures, human resources, commercial practices, disasters and losses caused by suppliers. This definition includes legal risk and excludes both the strategic and/or business risk, and the reputational risk.

The Internal Comptroller's Office is responsible for the operational risk measurement and control; such office is independent from the market risk and credit risk units, as well as from the audit and regulatory compliance units.

The Institution has established robust internal processes for detection and grouping of the operational risk events that allow us to be timely aware of their materialization. Losses arising from the operational risk recorded in 2019 were of $1,147 million, mainly due to fraud or operational errors.

The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Institution's processes through a continuous improvement circuit.

- Identification. Consists of determining which risk factors (circumstances which can become operational risk events) reside in the processes of each business/support unit. This is the most important part of the cycle because it determines the existence of all other parts.
- Quantification. The cost that can be generated by a risk factor is quantified by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.
- Mitigation. After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or modifying the processes which reduce the frequency or impact of an event. Mitigation decisions are made by the Operational Risk Committee created by each business/support unit.
- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operational risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operational risk indicators, while also analyzing the evolution of operational risk losses recorded in a database.

In the specific case of technological risks, aside from the general operational risk methodology, a technological Risk Committee has also been created to ensure that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security, business continuity, data processing efficiency and technological evolution standards. Likewise, this Committee ensures the adequate management of the technological infrastructure of the Institution.

Operational risk management is integrated into the Institution's comprehensive risk management structure, based on an internal control structured methodology. This methodology allows risk identification in the organization areas, the generation of analyses prioritizing the risks according to an estimated residual (after incorporating the effect of controls), linkage of risks to the processes and establishment of a target level for each risk which, in comparison to their residual risk, identifies weaknesses that must be managed until their mitigation.

The framework of operational risk management defined by the Institution includes a governance structure based on three lines of defense with: clear demarcation of the responsibilities, policies and procedures common to the entire Institution, systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital.

- Framework of operational risk management: Three lines of defense

- Business units

  They manage the operational risk of their respective areas, coordinated by the GRO Business in the areas, and by the process owners and controls.

- Internal Controllership, GRO Paris and Internal Control Specialists

  The Internal Controllership function and GRO Country (Operational Risk Management Country) are responsible for designing, maintaining and updating the framework of operational risk and Internal Control in the Institution and confirming that it is correctly applied in the field of the business and support areas. They define procedures, systems and tools.

- Reporting to Senior Management.

  The Internal Control Specialists assess the effectiveness of the documented controls and assure the permanent updating of the internal control system, in adherence to the Internal Control objectives and guidelines defined by the Controllership and authorized by the Board of Directors at the behest of the Audit Committee.

- Internal Audit.

  The Internal Audit area is responsible for verifying compliance of the Institution's operational risk management, evaluating the performance of the first and second defense line, through independent revisions and tests to controls, processes and systems.

Operational risk management at the Institution is designed at the internal Comptroller's Office, aligned with the Institution's corporate criteria. Business or support areas have, in turn, Internal Control officers (ICOs) who functionally report the Comptroller's Office, and who are responsible for implementing the model daily at the business areas. Thus, the Institution has a vision in the front of the process, where they identify and characterize operational risk and make decisions on mitigation.

To carry out this task, the Institution has tools in place to cover the qualitative and quantitative aspects of operational risk:

Operational Risk Management Tool - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Operational Risk Management Committees of the business and support units, and on the delegated Risk Committees of the Board of Directors held during the year.

Indicators fixed in the principal operational risks and their controls: The indicators help measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the Internal Control Specialists.

SIRO Tool - Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

Capitalization for operational risk

Based on the changes to the Regulations published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Institution requested and obtained authorization from the Commission, to use the Alternative Standard method to calculate the capital requirement for operational risk.

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for operational risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor "m", which will be 0.035.

The factors to be used by business line are as follows:

Business lines	% Applicable to each business line
Corporate finance	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, which must be grouped into three periods of 12 months to determine the annual net revenues.

Monthly average of the losses arising from the operational risk recorded in the fourth quarter of 2019 were of $91.75, mainly due to fraud or operational errors.

(33) Financial indicators (unaudited)-

As of December 31, 2019 and 2018, according to article 182 of the Regulations, the Institution's financial indicators are as follows:

	2019	2018
Delinquency ratio	2.2%	2.0%
Hedge ratio of portfolio of non-performing loans	128.98%	136.68%
Operating efficiency	3.09%	2.91%
ROE	24.08%	24.90%
ROA	2.35%	2.27%
Capitalization ratio credit, market and operational risk	15.61%	15.27%
Basic capital 1 on credit, market and operational risk	12.48%	12.44%
Liquidity	61.65%	70.99%
Net adjusted interest margin (MIN) /Average Productive Assets	4.83%	4.81%

(34) Ratings-

As of December 31, 2019, the ratings assigned to the Institution are shown as follows.

	Global Scale ME		Domestic Scale		
Ratings Agency	**Long Term**	**Short Term**	**Long Term**	**Short term**	**Perspective**
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Negative
Moody's	A3	P-2	Aaa.mx	MX-1	Negative
Fitch	BBB+	F2	AAA (mex)	F1+ (mex)	Stable

(35) Commitments and contingent liabilities-

(a) Leases-

The Institution rents buildings and premises occupied by some retail branches, according to lease agreements with different terms. For years ended as of December 31, 2019 and 2018, the total expense for leases amounted to $5,708 and $5,286, respectively and is included in the caption "Administrative and promotional expenses" in the consolidated statement of income.

(b) Administrative services-

The Institution has entered into a contract for the provision of services with BBVA Bancomer Servicios Administrativos, S.A. of C.V. and BBVA Bancomer Operadora S.A. de C.V., for the provision of administrative and promotional services. The total of payments made for this concept was $25,978 and $23,987, in 2019 and 2018, respectively, and are included in the caption "Administrative and promotional expenses" in the consolidated statement of income (note 22).

(c) Contingencies-

As of December 31, 2019 and 2018, there are claims against the Institution in ordinary course civil and commercial actions, as well as assessments by the tax authorities; however, in opinion of its lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly the Institution's financial condition. For such purposes, as of December 31, 2019 and 2018, the Institution has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of $630 and $466, respectively.

The legal contingencies movement for the 2019 and 2018, financial years is as follows:

Initial balance 2019	Reserve	Application	Ending balance 2019
$466	360	(196)	630

Initial balance 2018	Reserve	Application	Ending balance 2018
$393	326	(253)	466

As of December 31, 2019 and 2018, there are claims against the Institution in labor actions; however, in the opinion of its external lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not significantly adversely affect the Institution's financial condition. For such purposes, as of December 31, 2019 and 2018, the Institution has weighted the impacts of each claim and has recorded a reserve for these labor matters of $683 and $719, respectively.

The movement of the clams against the Institution in labor actions for the 2019 and 2018, is shown as follows:

Initial balance 2019	Reserve	Application	Ending balance 2019
$719	128	(164)	683

Initial balance 2018	Reserve	Application	Ending balance 2018
$428	383	(92)	719

For the type of contingencies referred to in the previous descriptions and to depend on the third-party performance, it is impractical to quantify the inputs or out puts of resources, as well as the eventuality obtaining reimbursements.

(36) Regulatory pronouncements recently issued-

a) Accounting Criteria

On January 4, 2018, the Commission announced, through the Official Gazette of the Federation (DOF for its Spanish acronym), in the Sole Transitory article of the amendment resolution, the incorporation to the accounting criterion A-2 "Application of Particular Rules" of Annex 5 of the Regulations and the Mexican FRSs mentioned below issued by the CINIF, and that its application and entry into force for credit institutions. It was planned from the January 1, 2019, however, on November 4, 2019, the Commission announced, through the DOF, the amendment to the Sole Transitory article contained in the aforementioned amendment resolution where the term for application and entry is extended in force of the mentioned Mexican FRSs are effective for annual periods beginning on or after the January 1, 2021.

Mexican FRS B-17 "Fair value measurement" - Defines fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. It is mentioned that fair value is a determination based on the market and not on a specific value of an asset or a liability and that when determining fair value, the entity must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date, including assumptions about the risk. As a result, the entity's intention to hold an asset or liquidate, or otherwise satisfy a liability, is not relevant in the determination of fair value.

In the event that the characteristics contained in this Mexican FRS cause changes in the valuation or disclosure of any element of the financial statements, the Institution must comply with the regulatory provisions of each Mexican FRS in particular that corresponds prospectively.

Mexican FRS C-3 "Accounts receivable" - The main characteristics issued for this Mexican FRS, are shown below:

- It cancels Bulletin C-3 "Accounts receivable".

- Specifies that accounts receivable that are based on a contract represent a financial instrument, while some of the other accounts receivable generated by a legal or fiscal provision may have certain characteristics of a financial instrument, such as generating interest, but they are not financial instruments in themselves.

- It establishes that the allowance for collectability for trade accounts receivable is recognized from the moment in which the income accrues, based on the expected credit losses.

- It establishes that, since the initial recognition, the value of money over time should be considered, so if the effect of the present value of the account receivable is important in consideration of its term, it should be adjusted based on said present value. The effect of the present value is material when the collection of the account receivable is agreed, totally or partially, for a term greater than one year, since in these cases there is a financing operation.

The accounting changes that arise should be recognized retrospectively, however the valuation effects can be recognized prospectively.

Mexican FRS C-9 "Provisions, contingencies and commitments" - It cancels Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments", its scope is reduced by relocating the topic related to the accounting treatment of financial liabilities in the Mexican FRS C-19 "Financial instruments payable" and the definition of liability is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable". The application for the first time of this Mexican FRS will not generate accounting changes in the financial statements.

Mexican FRS C-16 "Impairment of financial instruments receivable" - It states that in order to determine the recognition of the expected loss of financial instruments receivable, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows should be considered.

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that a part of the future cash flows of the financial instruments receivable will not be recovered. The accounting changes that arise should be recognized retrospectively.

Mexican FRS C-19 "Financial instruments payable" -

The main characteristics issued for this Mexican FRS are the following:

- It establishes the possibility of valuing certain financial liabilities at their fair value, once certain conditions are met, subsequent to their initial recognition.

- Value long-term liabilities at present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to settle the same, the costs and commissions paid in this process will affect the amount of the liability and be amortized over a modified effective interest rate, instead of affecting directly the net profit or loss.
- It incorporates the provisions of IFRIC 19 “ Extinction of Financial Liabilities”, a topic that was not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the statement of comprehensive income.
- Introduces the concepts of amortized cost to value the financial liabilities and the effective interest method, based on the effective interest rate.

The accounting changes that arise should be recognized retrospectively.

Mexican FRS C-20 “Financial instruments to collect principal and interest” - The main characteristics issued for this Mexican FRS, are shown as follows:

The classification of the financial instruments in assets is modified, since the concept of intention of acquisition and possession of these is discarded to determine their classification, instead the concept of business model of the administration is adopted.

- This classification groups financial instruments whose objective is to collect the contractual cash flows and obtain a gain for the contractual interest they generate, having a loan characteristic.
- They include financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

The accounting changes that arise should be recognized retrospectively.

Mexican FRS D-1 “Revenue from contracts with customers” - The main characteristics issued for this Mexican FRS are shown as follows:

- The transfer of control, basis for the opportunity of revenue recognition.
- The identification of the obligations to fulfill in a contract.
- The allocation of the transaction price between the obligations to be fulfilled based on the independent sale prices.
- The introduction of the concept of conditioned account receivable.
- The recognition of collection rights.
- The valuation of income.

The initial application date is the beginning of the period in which the Institution applied this rule for the first time.

Mexican FRS D-2 “Costs from contracts with customers” - The main change in this standard is the separation of the regulations regarding the recognition of revenues from contracts with customers of the regulations corresponding to the recognition of costs for contracts with customers.

The initial application date is the beginning of the period in which the Institution applies this rule for the first time.

Mexican FRS D-5 “Leases” – As ordered by the Commission, it comes into force for the years that start on January 1, 2021. It supersedes Bulletin D-5 “Leases”. The application for the first time of this Mexican FRS generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are shown in the next page.

- Eliminates the classification of leases as operational or capital leases for a lessee, and the latter must recognize a lease liability to the present value of the payments and an asset for the right of use for that same amount, of all the leases with a duration greater than 12 months, unless the underlying asset is of low value.
- An expense is recognized for depreciation or amortization of assets for right of use and an interest expense on lease liabilities.
- It modifies the presentation of the related cash flows since the cash flow outflows of the operating activities are reduced, with an increase in the outflows of cash flows from the financing activities.
- Modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset back.
- The accounting recognition by the lessor does not change in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

b) Improvements to 2020 Mexican FRS

In December 2019, the CINIF issued the document called “Improvements to Mexican FRS 2020”, which contains specific amendments to some existing Mexican FRSs. The main improvements that generate accounting changes are as follows.

Mexican FRS D-3 “Benefits to employees”- It provides for the basis for recognizing uncertain tax treatments in Employee statutory profit sharing (ESPS) both current and deferred, as well as related disclosure requirements. This improvement becomes effective for the years that start on January 1, 2020, allowing early application for 2019. Accounting changes that arise must be recognized retrospectively or partially retrospectively.

Mexican FRS D-4 “Income Tax”- It provides for the basis for recognizing uncertain tax treatments in income taxes both current and deferred as well as related disclosure requirements. It also includes rules for the recognition of income taxes generated on distribution of dividends. These improvements become effective for the years that start on January 1, 2020, allowing early application for 2019. Accounting changes that arise must be recognized retrospectively or partially retrospectively.

Mexican FRS D-5 “Leases”- 1) It incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liabilities of a lessee. 2) restricts the use of the practical solution to avoid that important and identifiable non-lease components are included in the measurement of the right-of-use assets and the lease liabilities. These improvements become effective for the years that start on January 1, 2020, allowing early application for 2019. Accounting changes that arise must be recognized retrospectively or partially retrospectively.

The Management of the Institution is conducting a process to determine the effects of adopting the accounting criteria and the new Mexican FRSs and the improvements to the Mexican FRS in financial statements.

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