

SUPPLEMENT, DATED SEPTEMBER 14, 2020  
TO BASE OFFERING MEMORANDUM, DATED APRIL 23, 2020



BBVA Bancomer, S.A.,  
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer,  
acting directly or through its Texas Agency

**U.S.\$10,000,000,000 Medium-Term Note Program**

BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, or Mexico (the “**Bank**”), acting through its Texas Agency unless the applicable pricing supplement specifies that the Bank is acting directly (the Bank, acting directly or indirectly, the “**Issuer**”), has prepared this supplement (this “**Supplement**”) to supplement and be read in conjunction with the base offering memorandum, dated April 23, 2020 (the “**Offering Memorandum**”), which constitutes listing particulars for the purposes of listing of Notes (as defined in the Offering Memorandum) on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).

The Offering Memorandum does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). The Offering Memorandum and this Supplement have not been reviewed or approved by any regulator which is a competent authority under the Prospectus Regulation. Application has been made to Euronext Dublin for the approval of this document as supplementary listing particulars.

Capitalized terms defined in the Offering Memorandum shall have the same meaning when used in this Supplement. If there is any inconsistency between any statement in this Supplement and any other statement in the Offering Memorandum, the statements in this Supplement will prevail.

The purpose of this Supplement is to:

- Incorporate by reference into the Offering Memorandum the unaudited condensed consolidated interim financial statements as of June 30, 2020 and for six-month periods ended June 30, 2020 and 2019 (our “**Second Quarter Financial Statements**”).
- Incorporate by reference into the Offering Memorandum the information set forth in this Supplement.
- Replace the sentence under sub-section “Significant Change in Financial or Trading Position” of the “General Information” section of the Offering Memorandum with the following statement:

“Except as disclosed in the Offering Memorandum and this Supplement, there has been no significant change in the financial or trading position of the Bank since June 30, 2020.”

The Bank accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Except as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to the information included in the Offering Memorandum has arisen or been noted, as the case may be, since the date of publication of the Offering Memorandum.

We have not and will not register the Notes under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), or any securities laws of any state or any other jurisdiction. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A (“**Rule 144A**”) under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes

may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See “Plan of Distribution” and “Transfer Restrictions” in the Offering Memorandum.

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR THE “CNBV”) AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY PRIVATELY BE OFFERED OR SOLD TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS IN MEXICO SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. THE BANK WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED FOR INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY THE CNBV OF SUCH NOTICE IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, AND DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE SUMMARY OF PRELIMINARY TERMS OF THE OFFERING. THE SUMMARY OF PRELIMINARY TERMS OF THE OFFERING IS SOLELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.**

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## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Supplement relating to our plans, forecasts and expectations regarding future events, strategies and projections are estimates. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial position, (ii) statements of plans, objectives or goals, including those related to our operations, and (iii) statements of assumptions underlying such statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “consider,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “assume,” “foresee,” “seeks,” “predict,” “project,” “potential,” or the negative of these terms, and other similar terms are used in this Supplement to identify such forward-looking statements. Forward-looking statements included in this Supplement are based on our current expectations and projections related to future events and trends that affect or would affect our business.

Forward-looking statements include risks, uncertainties and assumptions, since these refer to future events and, therefore, do not represent any guarantee of future results. Therefore, our financial condition, results of operations, strategies, competitive position and market environment may significantly differ from our estimates as a result of a number of factors, including, but not limited to:

- possible disruptions to our and our clients’ commercial activities due to natural and man-made disasters, including health epidemics (such as the current COVID-19 pandemic), weather events, terrorist activities and armed conflicts;
- changes in requirements to make contributions to the Mexican government;
- financing plans and limitations on our access to sources of financing on competitive terms;
- changes in general economic, business, social, political, public health or other conditions in Mexico, the United States or elsewhere;
- the ability or willingness of our customers to meet their payment obligations;
- the monetary, foreign exchange and interest rate policies of *Banco de México*, the Mexican Central Bank;
- material changes to, or withdrawals from, or renegotiations of free trade agreements to which Mexico is a party, including the United States, Mexico, Canada Agreement (“USMCA”), which replaces the North American Free Trade Agreement, the further implementation of the USMCA which entered into force on July 1, 2020 and other changes in international trade barriers and tariffs;
- competition in the banking and financial services industry in Mexico;
- profitability of our businesses;
- changes in exchange rates, market interest rates or the rate of inflation;
- credit and other risks of lending, such as increases in default of borrowers;
- limitations on our access to sources of financing on competitive terms;
- failure to meet capital, reserves or other requirements;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- limitations on our ability to freely determine interest rates;
- changes in reserves or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserves or capital requirements are to be calculated;
- our inability to hedge against market risks, including but not limited, to interest rate and exchange rate movements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- inability to timely and duly enforce our claims on collateral provided by borrowers;

- changes in our or Mexico's domestic and international credit ratings;
- changes in regulations relating to our operations, to the products we offer or otherwise;
- changes in capital markets in general that may affect policies or attitudes towards investing in Mexico or securities issued by companies in Mexico;
- any failure or weakness in our operating controls or procedures or our risk management policies;
- changes in consumer spending and saving habits;
- a deterioration of labor relations with our employees;
- our ability to implement new technologies and to safeguard against cyber-attacks and other breaches of our information technology systems;
- interruptions or failures in our technology systems;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) or the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) with respect to our business and the Mexican banking industry generally;
- any adverse administrative or legal proceedings against us;
- any failure to detect money laundering or other illegal or improper activities;
- the impact of acquisitions and divestitures;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under "Risk Factors" in the Offering Memorandum.

Therefore, our actual performance may be adversely affected and may significantly differ from the expectations set forth in these forward-looking statements, which do not represent a guarantee of our future performance. Accordingly, you should not place undue reliance on the estimates and forward-looking statements included in this Supplement to make an investment decision.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations and estimates reflected in, or suggested by, forward-looking statements included in this Supplement to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Forward-looking statements included herein are made only as of the date of this Supplement. Except as required by law, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events or circumstances.

## RECENT DEVELOPMENTS

In late 2019, an outbreak of the COVID-19 virus originated in China and since then it has spread globally, disrupted markets and economies worldwide and resulted in severe uncertainty about the economies affected by the outbreak. The Bank has been, and will continue to be, affected by the COVID-19 outbreak both directly and indirectly, through an impact on its customers, counterparties, employees and other stakeholders, both in Mexico and elsewhere, as a result of, among others, public health measures, such as closings of “non-essential” businesses and restrictions on travel and gatherings. The exact ramifications of this outbreak are highly uncertain and, as of the date of this Supplement, it is difficult to predict the spread or duration of the pandemic or its full effect on the Mexican and global economies.

The COVID-19 outbreak and the preventive measures implemented in Mexico and elsewhere to contain its spread could have an adverse effect on our borrowers, which could in turn increase our delinquency rates and past due loan ratios.

The National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the “CNBV”), in order to mitigate the economic effects of the COVID-19 outbreak, announced certain special temporary measures applicable to banking institutions, including, among others, (i) temporary accounting principles not requiring the creation of loan-loss provisions in respect of mortgages, automobile loans, personal loans, payroll loans, credit cards and loans to small and medium-sized companies the payment of which is deferred for up to six months, (ii) a recommendation to banks not to pay dividends, pay bonuses or repurchase outstanding shares, (iii) the use by banks of the capital conservation buffer without any sanctions being triggered, (iv) the use of non-qualifying assets to calculate the liquidity ratios applicable to banks, and (v) extensions of the deadlines for public issuers to report their financial condition.

*Banco de México*, the Mexican Central Bank, has also announced certain special temporary measures applicable to banking institutions, including, among others (i) more flexibility for granting of loans to financial institutions in order to continue their operations, (ii) minimum payment calculations for credit card payments, and (iii) credit support to micro-, small- and medium-sized companies through additional loans to be granted by financial institutions.

Further restrictions on the business community and on the general population may also be introduced by Mexican federal, state and municipal governments and we cannot predict the duration of any such restrictive measures. There can also be no assurance that the adverse impact of the COVID-19 outbreak will not lead to a tightening of liquidity conditions or funding uncertainty.

### **Special Accounting Standards and Borrowers Relief Program**

On March 26, 2020, through official communication number P285/2020, the CNBV authorized financial institutions to (i) apply Special Accounting Standards (“SAS”), relating to the treatment of mortgages, automobile loans, personal loans, payroll loans, credit cards and loans to small and medium-sized companies the payment of which is deferred for up to six months, and (ii) establish general guidelines relating to the process of restructuring or renewal, as applicable, of the loans referred to in clause (i), in order to further strengthen banking institutions in Mexico, facilitate their operations in a volatile environment, maintain the flow of credit in the economy and assist debtors.

On April 15, 2020, through official communication number P293/2020, the CNBV clarified some concepts included in official communication number P285/2020 to provide more clarity as to the conditions that will be applicable to the loans, which include, among others, (i) additional considerations applicable to individual or group loans (*microcréditos individuales o grupales*) if the corresponding loans are classified as performing as of March 31, 2020 instead of February 28, 2020, and (ii) special considerations for loans made to borrowers in the primary agricultural sectors.

On June 23, 2020, through official communication number P325/2020, the CNBV communicated (i) that the SAS will also be applicable to loans classified as performing as of March 31, 2020, and (ii) the extension of the term to conclude the process of restructuring or renewal of the loans to July 31, 2020 instead of within 120 days from February 28, 2020.

The program is in effect for clients of Mexican financial institutions who adhere to the program and whose loans are classified as performing as of February 28, 2020, and pursuant to the extension, as of March 31, 2020.

In general terms, the program consists of granting borrowers a partial or total deferral of payments of principal and/or interest on their loans for up to six months and, as a result, the SAS allow financial institutions:

- to allow borrowers to partially or fully defer principal and/or interest payments on their loans for a period of six months; *provided* that the deferral will be for up to 18 months for loans made to the primary agricultural sectors, such as livestock, forestry and fishing and to the industrial, commercial and service sectors integrated into the primary agricultural sectors; and
- to freeze the balances of existing loans that were in good standing as of February 28, 2020 or, pursuant to the extension, as of March 31, 2020, without incurring interest, in each case without considering such loans to be non-performing.

Financial institutions that take advantage of these temporary SAS would not be required to constitute reserves for such loans.

Borrowers who elected to use the benefits of the program, were required to adhere within 120 days from February 28, 2020 or, pursuant to the extension, July 31, 2020.

The SAS applicable to us, by type of loan, are the following:

1. Loans with one-time payment of principal at maturity and periodic payments of interest, as well as loans with one-time payment of principal and interest at maturity, which are restructured or renewed, will not be considered as non-performing loans so long as (i) such loans were classified as performing loans as of February 28, 2020 or, pursuant to the extension, as of March 31, 2020, (ii) the borrower adhered to the program within 120 days from February 28, 2020 or, pursuant to the extension, July 31, 2020, and (iii) the renewal or deferral period does not exceed six months from the original maturity date.
2. Loans with periodic payments of principal and interest, which are restructured or renewed, may be deemed as current loans, so long as (i) such loans were classified as performing loans as of February 28, 2020 or, pursuant to the extension, as of March 31, 2020, (ii) the borrower adhered to the program within 120 days from February 28, 2020 or, pursuant to the extension, July 31, 2020, and (iii) the renewal or deferral period does not exceed six months from the original maturity date.
3. Revolving loans, which are restructured or renewed, are considered current so long as (i) such loans were classified as performing loans as of February 28, 2020 or, pursuant to the extension, as of March 31, 2020, (ii) the borrower adhered to the program within 120 days from February 28, 2020 or, pursuant to the extension, July 31, 2020, and (iii) the renewal or deferral period does not exceed six months from the original maturity date.

In connection with the foregoing, we have implemented several support programs by type of loan, as follows:

- Commercial loans (including loans to SMEs) are granted a grace period of between four and six months for payments of principal and/or interest. Generally, deferred payments are payable at the end of the deferral period or at the maturity date, which can be deferred for the grace period.
- Mortgage loan payments due within a period of up to four months starting from the date the program was implemented are deferred until original maturity.
- Payroll, auto and personal loan payments due within a period of up to four months (or eight bi-weekly payments) starting from the date the program was implemented, are deferred and the original term is extended.

- Credit card (CC) payments are deferred for up to four months starting from the date the program was implemented.

As of June 30, 2020, our total loan portfolio subject to the program amounted to Ps.324,306 million. We cannot assure you if this loan portfolio will continue to perform at historical levels or if it will experience deterioration in the context of the pandemic, particularly once the loan deferral measures end. The following table shows the number of loans subject to the program and the deferred amounts and total balance (in millions of Ps.) by type of loan as of June 30, 2020:

<b>Portfolio</b>	<b># Supported Contracts</b>	<b>Deferred Balance</b>	<b>Total Balance</b>
Commercial activity	9,098	8,035	83,097
SME*	37,697	5,184	51,904
Mortgages	120,079	3,292	104,158
Auto	121,706	1,889	18,190
Payroll	281,017	2,391	22,240
Personal	139,053	1,449	12,461
CC	783,763	4,203	32,256
<b>Total</b>	<b>1,492,413</b>	<b>26,443</b>	<b>324,306</b>

\*Under Grouping Criteria of CNBV

## **Dividends**

On March 31, 2020, the CNBV issued a recommendation to Mexican banks asking those institutions to, among other things, refrain from making any distributions to their shareholders in respect of earnings for the fiscal years ended in 2019 and 2020.

The purpose of this recommendation is to enhance the financial position of financial institutions against potential losses due to the COVID-19 pandemic and to ensure that the system has more resources to support the local economy. More specifically, the recommendation establishes that financial institutions shall refrain from: (i) paying dividends to their shareholders, as well as from implementing any other mechanism that results in a transfer of economic benefits to the shareholders or assuming the irrevocable commitment to pay them any such benefits with respect to fiscal years ended in 2019 and 2020, including the distribution of reserves, and (ii) repurchasing stock or implementing any other mechanism the intention of which is to compensate shareholders. For financial institutions that are part of a larger financial group, the recommendation to refrain from paying dividends or implementing other similar mechanisms also applies to such institution's controlling entity as well as its affiliates and other entities of the group. According to the CNBV, these measures are consistent with those taken by other central banks and regulators around the world, such as the European Central Bank and regulators in Argentina, Austria, Belgium, Canada, Denmark, Italy, Japan, Russia, Sweden and the United Kingdom.

## **Capital Conservation Buffer and Liquidity Coverage Ratio**

On April 8, 2020, the CNBV issued a number of temporary regulatory flexibility measures aimed at ensuring that financial institutions are able to continue supplying credit to their customers and mitigating the impact of the COVID-19 pandemic on the local credit markets. The temporary measures will be effective from April 1, 2020 to March 31, 2021 and will allow financial institutions such as us to use their capital conservation buffer without triggering any regulatory corrective measures.

Moreover, on April 8, 2020, the Banking Liquidity Regulatory Committee, comprised of the Mexican Central Bank, the Mexican Ministry of Finance and the CNBV, issued a series of exceptions to the "Liquidity Requirements" regulation (*Disposiciones de Carácter General sobre los Requerimientos de Liquidez para las Instituciones de Banca Múltiple*) in order to avoid amplifying constraints in the market conditions described above. In general terms, these exceptions permit (i) assets that were eligible as liquid assets as of February 28, 2020 to continue to be considered as such, even if they would otherwise no longer be eligible as a result of the volatility in financial markets in recent weeks and (ii) the liquidity reserves calculation for potential margin calls and valuation changes of portfolios of derivatives to exclude data for March 2020.



In addition, no corrective actions will be taken for financial institutions whose Liquidity Coverage Ratio (*Coeficiente de Cobertura de Liquidez*) falls below 100%. These temporary measures will be in place for six months starting on February 28, 2020 and were extended by another six months.

### Additional Reserves

Following the measures published by the CNBV on April 8, 2020, by means of which, the CNBV postponed the entry into effect of regulations related to international standards and prudential financial precepts, on March 13, 2020, amendments to the General Rules applicable to Financial Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) were published in the Official Federal Gazette (*Diario Oficial de la Federación*), which will be in effect starting January 1, 2021. Such amendments include the implementation of amendments to IFRS 9, which would otherwise have been applicable on January 1, 2020.

Starting March 2020, we have reflected additional reserves in our financial statements in order to cover risks that are not foreseen in the different loan portfolio rating methodologies. This approach will continue until the amendments to the General Rules applicable to Financial Institutions are in effect.

### Board of Directors

On March 19, 2020, Mr. Alberto Bailleres González resigned his position as a member of our board of directors, effective on July 29, 2020, pursuant to a resolution of our general shareholders meeting. As a result, Mr. Alejandro Ramírez Magaña, formerly the alternate member for Mr. Alberto Bailleres González, was appointed as alternate member for Ms. Cristina de Parias Halcón.

The following table sets forth our current directors and their alternates:

Name and position	Principal activity	Years on our board of directors	Age
<i>Chairman</i>			
Jaime Serra Puche*	Chairman of GFBB	12	69
<i>Vice Chairman</i>			
Eduardo Osuna Osuna	Chief Executive Officer; General Director of the Bank	4	50
Onur Genç	CEO BBVA, S.A.	1	45
Carlos Torres Vila	Chairman of BBVA, S.A.	3	54
Vicente Maria Rodero	Independent Council	7	62
Carlos Vicente Salazar Lomelín*	Chairman of Corporate Coordinating Counsel	14	68
Ricardo Guajardo Touché*	Independent Council	28	71
Jorge Saenz-Azcunaga Carranza	Country Monitoring BBVA, S.A.	3	49
Cristina de Parias Halcón	Independent Council	<1	54
<i>Alternates</i>			
Andrés Alejandro Aymes Blanchet*	Aymes and Associated	19	79
Armando Garza Sada	CEO of Alfa and Nemark Group	1	62
Juan Asúa Madariaga	Senior Advisor Chairman BBVA, S.A.	<1	57
Fernando Gerardo Chico Pardo	Chairman and General Director of Promecap, S.C.	9	68
Eduardo Javier Garza Fernández	Chairman of Frisa Group	1	71
Alejandro Ramírez Magaña	CEO of Cinépolis de México, S.A. de C.V.	6	50
Arturo Manuel Fernández Pérez*	The Dean of the Instituto Tecnológico Autónomo de México (ITAM)	25	66
José Francisco Gil Díaz*	Chairman of Avanzia Group	9	76
Enrique de Jesus Zambrano Benitez	CEO of Grupo Proeza	<1	64

### Tax Settlement

The Bank reached a final settlement with the *Servicio de Administración Tributaria* (the Mexican Tax Administration Service) providing for the payment of Ps.3,200 million, as a final resolution of various open tax proceedings through several fiscal years, initiated by the Bank based on its interpretation of the relevant tax law. The Bank agreed to settle these matters notwithstanding the fact that it and its external legal advisors believed the Bank had valid arguments to achieve a favorable result in the relevant courts. Of the total amount settled, approximately Ps.2,200 million was paid in March 2020 and Ps.1,000 million balance was paid on September 9, 2020. The amount

settled and other items that remain open are not expected to have a material adverse effect on the Bank's financial condition or results of operations or on its historical financial statements.

## CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2020. The following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Second Quarter Financial Statements and the notes thereto included elsewhere in this Supplement.

	<b>As of June 30, 2020<sup>(1)</sup></b>	
	<b>Actual</b>	
	<b>(millions of Ps.)</b>	<b>(millions of U.S.\$)</b>
<b>Indebtedness</b>		
Debt securities issued.....	89,927	3,895
Subordinated bonds issued.....	98,793	4,279
Total indebtedness.....	188,720	8,174
<b>Stockholders’ equity</b>		
Subscribed capital <sup>(2)</sup> .....	40,003	1,733
Retained earnings.....	160,008	6,930
Total subscribed capital and retained earnings		
.....	200,011	8,663
Total capitalization.....	388,731	16,837

(1) Except as disclosed in this Supplement, there has been no material change in capitalization since June 30, 2020.

(2) As of June 30, 2020, our authorized capital stock consisted of 9,107,142,859 Series “F” shares and 8,749,999,999 Series “B” shares. Of these shares, 7,737,078,937 Series “F” shares and 7,433,664,076 Series “B” shares were issued and outstanding.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

*The interim unaudited selected consolidated financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Second Quarter Financial Statements, our Financial Statements and other financial information included elsewhere in this Supplement and the Offering Memorandum.*

### Unaudited Financial Information

The *interim unaudited* selected unaudited condensed consolidated interim financial information for the six months ended June 30, 2020 and 2019 presented below has been derived from and should be read in conjunction with our Second Quarter Financial Statements included elsewhere in this Supplement. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

	For the Six months ended June 30,					
	2019		2020		2020 <sup>(1)</sup>	
	(millions of Ps.)				(millions of U.S.\$)	
<b>Income Statement Data:</b>						
Interest income .....	Ps.	99,226	Ps.	93,617	U.S.	\$ 4,055
Interest expense .....		(35,251)		(32,889)		(1,424)
Financial margin .....		63,975		60,728		2,631
Allowance for loan losses .....		(16,903)		(23,846)		(1,033)
Financial margin adjusted						
for credit risks .....		47,072		36,882		1,598
Commissions and fees collected .....		22,358		20,816		902
Commissions and fees paid .....		(8,405)		(8,009)		(347)
Result from intermediation .....		3,184		4,795		208
Other operating income .....		(134)		(347)		(15)
Administrative and promotion expenses		(30,970)		(32,430)		(1,405)
Result from operations .....		33,105		21,707		941
Equity in results of unconsolidated subsidiaries						
and associated companies .....		23		4		-
Result before income taxes .....		33,128		21,711		941
Current income taxes .....		(11,335)		(5,138)		(223)
Deferred income taxes .....		2,162		(657)		(28)
Result before non-controlling interest .....		23,955		15,916		690
Non-controlling interest .....		4		1		-
Net result .....	Ps.	23,959	Ps.	15,917	U.S.	\$ 690

	As of December 31,		As of June 30,	
	2019		2020	
	(millions of Ps., except for percentages)		(millions of U.S.\$ except for percentages)	
<b>Balance Sheet Data:</b>				
Cash and cash equivalents .....		148,372		181,520
Margin Accounts .....		18,329		25,838
Investment in securities .....		463,468		513,803
Total loans .....		1,243,478		1,304,262
Allowance for loan losses .....		(35,411)		(41,843)
Deferred taxes, net .....		20,992		19,964
Other assets .....		271,360		459,706
Total assets .....	Ps.	2,130,588	Ps.	2,463,250
Total funding .....		1,384,699		1,513,805
Deposits (excluding debt securities issued) .....		1,181,768		1,304,727
Bank bonds .....		85,852		89,927
Subordinated debt .....		95,061		98,793
Interbank loans and loans from other entities		22,018		20,358
Other liabilities .....		531,023		728,649
Total liabilities .....		1,915,722		2,242,454
Total stockholders' equity .....	Ps.	214,866	Ps.	220,796
<b>Profitability and Efficiency:</b>				
Return on average total assets <sup>(2)</sup> .....		2.35%		1.40%

	As of December 31, 2019	As of June 30, 2020	2020 <sup>(1)</sup>
	(millions of Ps., except for percentages)		(millions of U.S.\$ except for percentages)
Return on average stockholders' equity <sup>(2)</sup> .....	24.08%	14.60%	-
Net interest margin <sup>(3)</sup> .....	6.17%	5.30%	
Efficiency ratio <sup>(4)</sup> .....	38.38%	41.60%	
<b>Capitalization:</b>			
Stockholders' equity as a percentage of total assets .....	10.08%	8.96%	
Tier 1 Capital as a percentage of risk-weighted assets .....	12.5%	12.4%	
Total capital as a percentage of risk-weighted assets .....	15.6%	16.0%	
<b>Credit Quality Data:</b>			
Total performing loans .....	1,216,024	1,279,245	55,404
Total non-performing loans .....	27,454	25,017	1,083
Total loans .....	1,243,478	1,304,262	56,488
Loans graded "C," "D" and "E" <sup>(5)</sup> .....	87,251	84,115	3,643
Allowance for loan losses .....	(35,411)	(41,843)	(1,812)
<b>Loan Recovery and Write-offs:</b>			
Non-performing loans – average balance .....	25,364	24,809	1,075
Non-performing loans written-off .....	30,155	16,693	723
Recoveries in respect of non-performing loans ...	(1,439)	(582)	(25)
Recovered amounts as a percentage of average non-performing loans .....	5.67%	2.35%	

- (1) Translated at the rate of Ps.23.0893 per U.S.\$1.00, the fixed exchange rate published by *Banco de México* in the Federal Official Gazette on June 30, 2020.
- (2) See "Selected Statistical Information—Return on Average Total Assets and Average Stockholders' Equity."
- (3) Represents net income divided by average total assets. Average total assets is determined on an annualized basis, based on the beginning and end of the period.
- (4) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the sum of net interest income and non-interest income (commissions and fees, *plus* trading income *plus* other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
- (5) See "Selected Statistical Information—Grading of Loan Portfolio."

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The financial information presented in this section should be read in conjunction with our Second Quarter Financial Statements included elsewhere in this Supplement and the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Offering Memorandum. Our Second Quarter Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from U.S. GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS," respectively, in the Offering Memorandum. No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for this Supplement or the Offering Memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Certain Financial and Other Information" in the Offering Memorandum.*

### Results of Operations

The interim unaudited financial information presented in this section for the six months ended June 30, 2020 and 2019 should be read in conjunction with our Second Quarter Financial Statements and the notes thereto included elsewhere in this Supplement. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

#### Net Interest Income

The following table sets forth the components of our net interest income:

	For the Six Months Ended June 30,	
	2020	2019
	(millions of Ps.)	
<b>Interest Income:</b>		
Interest and fees on loans .....	71,809	75,615
Interest on securities .....	16,722	17,652
Interest on cash and due from banks .....	1,765	2,763
Interest on repurchase agreements .....	1,872	1,529
Interest on margin accounts .....	144	128
Fees charged on initial loan .....	1,004	1,012
Other .....	301	527
<b>Total interest income .....</b>	<b>93,617</b>	<b>99,226</b>
<b>Interest Expense:</b>		
Interest on demand deposits .....	5,892	5,659
Interest on time deposits .....	7,824	8,412
Bank bonds .....	1,417	3,272
Interest on interbank loans and loans from other entities .....	733	846
Interest on subordinated debentures .....	3,037	3,152
Interest on repurchase agreements .....	11,605	12,601
Other .....	2,381	1,309
<b>Total interest expense .....</b>	<b>32,889</b>	<b>35,251</b>
<b>Financial margin .....</b>	<b>60,728</b>	<b>63,975</b>

Financial margin for the six months ended June 30, 2020 totaled Ps.60,728 million, a decrease of 5.1% compared to Ps.63,975 million for the six months ended June 30, 2019. This result was primarily due to: (i) a change in the mix of the portfolio towards wholesale, (ii) the reduction of 325 basis points in the Mexican reference rate during the last 12 months, and (iii) the application of the customer support programs that allows the deferral in the payment of principal and/or interest of all the lending portfolio to help our customers face the current complex macroeconomic environment.

#### Interest Income

Interest income was Ps.93,617 million for the six months ended June 30, 2020, as compared to Ps.99,226 million for the six months ended June 30, 2019, a decrease of Ps.5,609 million, or 5.7%. This decrease was primarily

the result of: (i) the change in the mix of the portfolio towards wholesale, (ii) a 325 basis points cut in the Mexican reference rate in the last 12 months, and (iii) the application of the customer support programs.

Interest and fees on loans was Ps.71,809 million for the six months ended June 30, 2020, compared to Ps.75,615 million for the six months ended June 30, 2019, a decrease of Ps.3,806 million, or 5.0%. This decrease was primarily attributable to lower volumes in our credit activities during the quarter due to the general lock-down in Mexico as a result of the COVID-19 pandemic.

Interest on investment securities was Ps.16,722 million for the six months ended June 30, 2020, compared to Ps.17,652 million for the six months ended June 30, 2019, a decrease of Ps.930 million, or 5.3%, resulting from lower prevailing interest rates during the period.

Interest on repurchase agreements was Ps.1,872 million for the six months ended June 30, 2020, compared to Ps.1,529 million for the six months ended June 30, 2019, an increase of Ps.343 million, or 22.4%, due to a higher volume of fixed rate bonds, in an environment of lower interest rates.

### ***Interest Expense***

Interest expense was Ps.32,889 million for the six months ended June 30, 2020, compared to Ps.35,251 million for the six months ended June 30, 2019, a decrease of Ps.2,362 million, or 6.7%, mainly attributable to a decrease in interest expenses related to bank bonds driven by the reduction in the Mexican reference rate.

Interest on demand deposits, time deposits and bank bonds was Ps.15,133 million for the six months ended June 30, 2020, compared to Ps.17,343 million for the six months ended June 30, 2019, a decrease of Ps.2,210 million, or 12.7%. The decline was primarily attributable to lower interest rates during the period.

### ***Allowance for Loan Losses***

Allowance for loan losses charged against earnings was Ps.23,846 million for the six months ended June 30, 2020, compared to Ps.16,903 million for the six months ended June 30, 2019, an increase of Ps.6,943 million, or 41.1%. This increase resulted primarily from the creation of additional reserves created in a prudent manner during the first months of the year. These additional reserves were created to address the economic environment of global uncertainty derived from the COVID-19 pandemic with effects on the national economy and, consequently, on the corporate and individuals loan portfolio. As of June 30, 2020, the Bank had additional reserves of Ps.7,610 million. For further information see note 12 to our Second Quarter Financial Statements.

### ***Non-Interest Income***

The following table sets forth the components of our non-interest income:

	For the Six Months Ended June 30,	
	2020	2019
	(millions of Ps.)	
<b>Commissions and Fees:</b>		
Account management.....	1,135	1,470
Cash management and fund transfers.....	1,655	1,633
Credit card.....	5,566	6,233
ATMs.....	553	555
Trust.....	219	220
Mutual fund management <sup>(1)</sup> .....	2,078	1,761
Insurance <sup>(1)</sup> .....	877	941
Other.....	724	1,140
<b>Total Commissions and fees.....</b>	<b>12,807</b>	<b>13,953</b>
<b>Trading Income:</b>		
<b>Valuation Result:</b>		
Derivatives.....	3,897	(5,239)
Foreign Currency.....	(9,036)	1,116
Securities investments.....	(497)	(681)
<b>Total valuation result.....</b>	<b>(5,636)</b>	<b>(4,804)</b>
<b>Purchase-sale result:</b>		
Derivatives.....	7,155	2,632
Foreign Currency.....	3,120	2,816
Securities investments.....	156	2,540
<b>Total purchase-sale result.....</b>	<b>10,431</b>	<b>7,988</b>

	For the Six Months Ended June 30,	
	2020	2019
	(millions of Ps.)	
Result from intermediation.....	4,795	3,184
Other operating income .....	(347)	(134)
Total non-interest income .....	17,255	17,003

(1) These are services provided through GFBB affiliates.

Non-interest income, including total commissions and fees, trading income and other operating income, was Ps.17,255 million for the six months ended June 30, 2020 compared to Ps.17,003 million for the six months ended June 30, 2019, an increase of Ps.252 million, or 1.5%. This increase was due in part to trading income that benefitted from a favorable result from the trading of derivatives.

Total commissions and fees were Ps.12,807 million for the six months ended June 30, 2020, compared to Ps.13,953 million for the six months ended June 30, 2019, a decrease of Ps.1,146 million, or 8.2%. This decrease was due, in part, to lower commissions charged resulting from the closure of economic activities towards the end of March and until June 2020, to avoid the spread of the COVID-19 pandemic. Additionally, during the first six months of 2020 there was an increase in the use of digital channels, which have lower costs for our individual customers.

Account management fees were Ps.1,135 million for the six months ended June 30, 2020, compared to Ps.1,470 million for the six months ended June 30, 2019, a decrease of Ps.335 million, or 22.8%. This decrease was due to the closure of non-essential economic activities, as well as the impact of not charging the fee related to late payments, mostly impacted by the application of the credit support programs. Account management represented 8.9% of our total commissions and fees for the six months ended June 30, 2020.

Cash management and fund transfers was Ps.1,655 million for the six months ended June 30, 2020, compared to Ps.1,633 million for the six months ended June 30, 2019, an increase of Ps.22 million, or 1.3%, primarily a result of higher transaction volume of our wholesale customers.

Credit card fees were Ps.5,566 million for the six months ended June 30, 2020, compared to Ps.6,233 million for the six months ended June 30, 2019, a decrease of Ps.667 million, or 10.7%. This decrease was due to lower transaction volumes in the use of POS terminals. Credit card fees represented 43.5% of our total commissions and fees for the six months ended June 30, 2020, as compared to 44.7% for the comparable period in 2019.

Financial intermediation income was Ps.4,795 million for the six months ended June 30, 2020, compared to Ps.3,184 million for the six months ended June 30, 2019, an increase of Ps.1,611 million, or 50.6%, resulting principally from a positive result in the trading of derivatives.

The loss registered in other operating income for the six months ended June 30, 2020 was Ps.347 million, as compared to the loss of Ps.134 million in the six months ended June 30, 2019, an increase of Ps.213 million, and was mainly affected by fiscal contingencies.

### ***Administrative and Promotional Expenses***

The following table sets forth the components of our administrative and promotional expenses:

	For the Six Months Ended June 30,	
	2020	2019
	(millions of Ps.)	
Salaries and employee benefits.....	267	315
Administrative expenses.....	20,780	19,949
Rent, depreciation and amortization .....	5,970	5,805
Taxes other than income taxes.....	2,307	2,226
Contribution to IPAB .....	3,106	2,675
Total administrative and promotional expenses.....	32,430	30,970

Administrative and promotional expenses for the six months ended June 30, 2020 were Ps.32,430 million, a 4.7% or Ps.1,460 million increase compared to Ps.30,970 million for the six months ended June 30, 2019, primarily as the result of an increase in infrastructure and extraordinary expenses related to the COVID-19 pandemic, including the purchase of hygienic supplies for our employees to promote safety at our branches in the context of the COVID-19 pandemic.



Salaries and employee benefits expenses were Ps.267 million for the six months ended June 30, 2020, compared to Ps.315 million for the six months ended June 30, 2019, a decrease of Ps.48 million, or 15.2%. This decrease was mainly attributable to lower financial cost related to medical service of retirees.

Administrative expenses were Ps.20,780 million for the six months ended June 30, 2020, compared to Ps.19,949 million for the six months ended June 30, 2019, an increase of Ps.831 million, or 4.2%. This increase was primarily due to an increase in our infrastructure and extraordinary expenses related to the purchase of hygienic supplies for our employees to promote safety in the branches and corporate buildings in the context of the COVID-19 pandemic.

Rent, depreciation and amortization expenses were Ps.5,970 million for the six months ended June 30, 2020, compared to Ps.5,805 million for the six months ended June 30, 2019, an increase of Ps.165 million, or 2.8%, primarily because of the depreciation and amortization of property, furniture and equipment and intangible assets.

Tax expense (other than income taxes) was Ps.2,307 million for the six months ended June 30, 2020 compared to Ps.2,226 million for the six months ended June 30, 2019, an increase of Ps.81 million, or 3.6%, primarily due to a higher flow of payments made by our subsidiaries.

Expenses related to contributions to the IPAB were Ps.3,106 million for the six months ended June 30, 2020, compared to Ps.2,675 million for the six months ended June 30, 2019, an increase of Ps.431 million, or 16.1%. This increase was attributable to a 11.9% increase in the volume of bank deposits in the six months ended June 30, 2020 as compared to the six months ended June 30, 2019.

### ***Net Income Tax***

Income tax, net, for the six months ended June 30, 2020 was Ps.5,795 million, a 36.8% or Ps.3,379 million decrease compared to Ps.9,173 million for the six months ended June 30, 2019. This decrease is due to a positive deferred tax related to higher allowances for loan losses during the period.

### ***Net Income***

As a result of the factors described above, net income was Ps.15,917 million for the six months ended June 30, 2020, as compared to Ps.23,959 million for the six months ended June 30, 2019, a decrease of Ps.8,042 million, or 33.6%.

### **Financial Position**

The following discussion compares our consolidated financial position as of June 30, 2020, and the year ended December 31, 2019. Unless otherwise specified, the information is presented in nominal pesos.

#### ***Assets***

As of June 30, 2020, we had total assets of Ps.2,463,250 million, compared to Ps.2,130,588 million as of December 31, 2019, representing an increase of 15.6%. This increase was attributable to a 5.2% increase in total performing loans, driven by higher commercial loans, as well as a 10.9% increase in securities during the first six months of 2020.

#### ***Total Current Loans***

As of June 30, 2020, we had total current loans of Ps.1,279,245 million, compared to Ps.1,216,024 million as of December 31, 2019, an increase of Ps.63,221 million, or 5.2%. This increase was attributable mainly to an increase in our commercial loan portfolio of Ps.64,589 million, or 9.4%. As of June 30, 2020, current commercial loans represented 58.5% of total current loans, current consumer loans represented 22.5% of total current loans, and current residential mortgage loans represented 18.9% of total current loans.

#### ***Total Past-due Loans***

As of June 30, 2020, we had total past-due loans of Ps.25,017 million compared to Ps.27,454 million as of December 31, 2019, a decrease of Ps.2,437 million, or 8.9%. This decrease was mainly attributable to write-offs made in accordance with our accounting policy in compliance with the accounting criteria of the CNBV. As of June 30, 2020, past-due consumer loans represented 0.6% of the total balance of our loan portfolio, past-due mortgage loans

represented 0.5% of the total balance of our loan portfolio and past-due commercial loans represented 0.8% of the total balance of our loan portfolio.

### ***Liabilities***

As of June 30, 2020, we had total liabilities of Ps.2,242,454 million, compared to Ps.1,915,722 million as of December 31, 2019, an increase of 17.1%. This increase was mainly attributable to an increase of 9.7% in bank deposits, specifically demand deposits, which increased by Ps.93,952 million, or 10.2%, and time deposits by the general public, which increased by Ps.18,419 million, or 7.8%.

### ***Deposits (Including Debt Securities Issued)***

As of June 30, 2020, we had total deposits (including debt securities issued and deposits in global accounts without movements) of Ps.1,394,654 million, compared to Ps.1,267,620 million as of December 31, 2019, an increase of Ps.127,034 million, or 10.0%. This increase was primarily attributable to a 10.2% growth in demand deposits and an increase of 11.3% in total time deposits compared to December 31, 2019.

### ***Bank and Other Borrowings***

As of June 30, 2020, we had bank and other borrowings of Ps.20,358 million, compared to Ps.22,018 million as of December 31, 2019, a decrease of Ps.1,660 million, or 7.5%. This decrease was the result of lower demand for interbank loans and short-term loans from other entities.

### ***Subordinated Bonds Issued***

As of June 30, 2020, we had Ps.98,793 million of subordinated bonds issued and outstanding, which represented 4.4% of our total liabilities as of that date, compared to Ps.95,061 million as of December 31, 2019, an increase of Ps.3,732 million, or 3.9%. This increase was due to the depreciation of the Mexican peso against the U.S. dollar.

### ***Stockholders' Equity***

As of June 30, 2020, our stockholders' equity was Ps.220,796 million, an increase of Ps.5,930 million, or 2.8%, from to Ps.214,866 million as of December 31, 2019. This increase was primarily due to the accumulation of net income from previous periods because no dividends were paid during the second quarter of 2020 following the CNBV recommendation.

As reported to the CNBV, our average liquidity coverage ratio (*Coeficiente de Cobertura de Liquidez*) for the six months ended June 30, 2020 was 159.07% compared to 138.12% the six months ended June 30, 2019.

### ***Dividends***

During the second quarter of 2020, we made no dividend payments. In line with what banking regulators in other jurisdictions have implemented, on March 31, 2020, the CNBV issued a communication to Mexican banks recommending not to distribute any dividends to shareholders in 2020. Prior to such notice, on March 24, 2020, we paid dividends of Ps.10,275 million. We expect to comply with the recommendation of the CNBV for 2020. For further information regarding our dividends, see "Dividends" in the Offering Memorandum.

### ***Foreign Currency Position***

As of June 30, 2020, our foreign currency-denominated assets, including derivative transactions, totaled U.S. \$16.5 billion (Ps.380,613 million), representing 15.4% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled U.S. \$16.3 billion (Ps.377,009 million), representing 15.3% of our total liabilities. As part of our asset liability management strategy, we monitor closely our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

### ***Risk-Based Capital***

As of June 30, 2020, our Capital Ratios were (i) 16.01% in the case of Total Net Capital, (ii) 12.42% in the case of Fundamental Capital and (iii) 12.42% in the case of Tier 1 Capital. For additional information on our Capital

Ratios, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital” in the Offering Memorandum. The table below presents our risk-weighted assets and Capital Ratios as of June 30, 2020 and 2019, calculated, as required by regulations, on an unconsolidated basis.

	As of June 30,	
	2020	2019
	(millions of Ps., except for percentages)	
Tier 1 .....	212,394	196,216
Tier 2 .....	61,423	38,254
Total capital.....	273,817	234,470
Risk-weighted assets:		
Credit risk .....	1,147,182	1,133,868
Market risk.....	444,232	432,406
Operational risk.....	118,627	88,104
Total risk-weighted assets.....	1,710,042	1,654,378
Capital ratios (credit, market and operational risk):		
Tier 1 capital to risk-weighted assets.....	12.42%	11.86%
Tier 2 capital to risk-weighted assets.....	3.59%	2.31%
Total capital to risk-weighted assets.....	16.01%	14.17%

Source: *Banco de México*

### Off-Balance Sheet Arrangements

Off-balance sheet loan commitments to customers totaled Ps.644,124 million as of June 30, 2020, compared to Ps.632,810 million as of December 31, 2019.

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

Unaudited condensed consolidated  
interim financial information

June 30, 2020, December 31 and June 30, 2019

(With the Review Report of Independent Auditors)

## Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

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

### *Introduction*

We have reviewed the accompanying condensed consolidated interim financial information as of June 30, 2020 ("the interim financial information") of BBVA Bancomer, S. A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries, which comprises:

- the condensed consolidated interim balance sheet as at June 30, 2020;
- the condensed consolidated interim statements of income for the six-month and three-month periods ended June 30, 2020;
- the condensed consolidated interim statement of changes in stockholders' equity for the six-month period ended June 30, 2020;
- the condensed consolidated interim statement of cash flows for the six-month period ended June 30, 2020; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation of this condensed consolidated interim financial information in accordance with the Accounting Criteria established by the National Banking and Securities Commission (the "Commission") included in the current *General Provisions applicable to Credit Institutions in Mexico (the "Provisions")*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

(Continued)



### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2020, is not prepared, in all material respects, in accordance with the accounting criteria established by the Commission.

KPMG CÁRDENAS DOSAL, S. C.

### **RÚBRICA**

Hermes Castañón Guzmán  
August 21, 2020

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

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

**Condensed consolidated interim balance sheets**

June 30, 2020 and December 31, 2019

(Millions of Mexican pesos)

<b>Assets</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>Liabilities and stockholders' equity</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents (note 5)	\$ 181,520	148,372	Deposits funding (note 14):		
Margin accounts (note 6)	25,838	18,329	Demand deposits	\$ 1,017,143	923,191
Investment securities (note 7):			Time deposits:		
Trading	263,438	281,900	General public	254,682	236,263
Available-for-sale	169,268	147,741	Money market	28,121	17,807
Held-to-maturity	81,097	33,827	Debt securities issued	89,927	85,852
	513,803	463,468	Global deposit account without movements	4,781	4,507
Debtors on repurchase/resale agreements (note 8)	7,366	8,044		1,394,654	1,267,620
Derivatives (note 9):			Banks and other borrowings (note 15):		
Trading	266,614	109,377	Call money	-	7,414
Hedging	23,525	10,932	Short-term	9,604	7,040
	290,139	120,309	Long-term	10,754	7,564
Valuation adjustments related to financial assets hedged	2,401	1,310		20,358	22,018
Current loan portfolio (note 10):			Creditors on repurchase/resale agreements (note 8)	220,121	226,861
Commercial loans:			Securities lending	2	1
Business and commercial activities	570,758	507,622	Sold/ pledged collaterals (note 8):		
Financial institutions	28,600	33,162	Securities lending	55,877	47,577
Government entities	149,740	143,725	Derivatives (note 9):		
	749,098	684,509	Trading	285,789	127,913
Consumer loans	287,781	300,302	Hedging	17,143	8,388
Residential mortgages:				302,932	136,301
Medium class and residential	233,339	222,023	Valuation adjustments related to financial liabilities hedged	10,770	3,042
Low income housing loans	9,027	9,190	Other accounts payable:		
	242,366	231,213	Income tax payable	-	3,765
Total current loan portfolio	1,279,245	1,216,024	Employee statutory profit sharing (ESPS) payable	2	2
Past due loan portfolio (note 10):			Creditors on settlement of transactions	77,516	67,358
Commercial loans:			Creditors on cash received as collateral	26,875	10,318
Business and commercial	10,243	9,518	Sundry creditors and other accounts payable	27,142	28,044
Consumer loans	8,317	10,341		131,535	109,487
Residential mortgages:			Subordinated bonds issued (note 16)	98,793	95,061
Medium class and residential	5,992	7,033	Deferred credits and advance payments	7,412	7,754
Low income housing loans	465	562	Total liabilities	2,242,454	1,915,722
	6,457	7,595	Stockholders' equity (note 19):		
Total past due loan portfolio	25,017	27,454	Paid-in capital:		
Loan portfolio	1,304,262	1,243,478	Capital stock	24,143	24,143
Less:			Additional paid-in capital	15,860	15,860
Allowance for loan losses (note 12)	(41,843)	(35,411)		40,003	40,003
Total loan portfolio, net	1,262,419	1,208,067	Earned capital:		
Benefits receivable on securitizations transactions	-	25	Statutory reserves	6,901	6,901
Other accounts receivable, net	106,741	94,054	Retained earnings	160,008	121,029
Foreclosed assets, net	1,334	1,438	Unrealized valuation of available-for-sale securities	457	(84)
Property, furniture and equipment, net	36,833	38,459	Unrealized valuation of cash flow hedge derivatives	389	(113)
Permanent investments (note 13)	819	815	Cumulative translation effect	440	440
Deferred income tax and ESPS, net	19,964	20,992	Remeasurements of employees benefit	(3,356)	(2,602)
Other assets:			Net income	15,917	49,254
Deferred charges, prepayments and intangibles	14,073	6,906		180,756	174,825
			Total controlling interest	220,759	214,828
			Non-controlling interest	37	38
			Total stockholders' equity	220,796	214,866
Total assets	\$ 2,463,250	2,130,588	Total liabilities and stockholders' equity	\$ 2,463,250	2,130,588

(Continued)



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

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

**Condensed consolidated interim balance sheets, continued**

June 30, 2020 and December 31, 2019

(Millions of Mexican pesos)

<b>Memorandum accounts</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Contingent assets and liabilities	\$ 758	730
Credit commitments (note 10)	<u>644,124</u>	<u>632,810</u>
Assets in trust or under mandate:	<u>\$ 439,485</u>	<u>450,418</u>
Assets in custody or under management	\$ 196,164	208,960
Collaterals received by the Institution (note 8)	124,208	67,693
Sold pledged and collaterals received by the Institution (note 8)	105,378	54,283
Investment banking operations on behalf of third parties, net	1,495,033	1,380,485
Uncollected interest accrued on non-performing loans	7,935	8,432
Other memorandum accounts	<u>3,510,908</u>	<u>3,243,969</u>
Historical stockholders' equity	<u>\$ 4,248</u>	<u>4,248</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

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

**Condensed consolidated interim statements of income**

For the six and three-month periods ended June 30, 2020 and 2019

(Millions of Mexican pesos)

	<b>2020</b>		<b>2019</b>	
	<b><u>From January 1 to June 30</u></b>	<b><u>From April 1 to June 30</u></b>	<b><u>From January 1 to June 30</u></b>	<b><u>From April 1 to June 30</u></b>
Interest income	\$ 93,617	42,944	99,226	50,599
Interest expense	(32,889)	(15,260)	(35,251)	(18,445)
Net interest income	60,728	27,684	63,975	32,154
Allowance for loan losses (note 12)	(23,846)	(7,609)	(16,903)	(9,246)
Net interest income adjusted for allowance for loan losses	36,882	20,075	47,072	22,908
Commissions and fee income	20,816	9,328	22,358	11,464
Commissions and fee expense	(8,009)	(3,449)	(8,405)	(4,395)
Financial intermediation income	4,795	2,468	3,184	1,418
Other operating expense	(347)	(416)	(134)	(33)
Administrative and promotional expenses	(32,430)	(15,849)	(30,970)	(15,607)
Net operating income	21,707	12,157	33,105	15,755
Equity in the income of unconsolidated subsidiaries and associated companies (note 13)	4	(15)	23	19
Income before income tax	21,711	12,142	33,128	15,774
Current income tax	(5,138)	82	(11,335)	(6,554)
Deferred income tax, net	(657)	(2,750)	2,162	2,285
Income before non-controlling interest	15,916	9,474	23,955	11,505
Non-controlling interest	1	(1)	4	-
Net income	\$ 15,917	9,473	23,959	11,505

See accompanying notes to the condensed consolidated interim financial statements.

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

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

**Condensed consolidated interim statements of changes in stockholders' equity**

For the six-month periods ended June 30, 2020 and 2019

(Millions of Mexican pesos)

	<b>Paid-in capital</b>				<b>Earned capital</b>							<b>Total stockholders' equity</b>
	<b>Capital stock</b>	<b>Additional paid-in capital</b>	<b>Statutory reserves</b>	<b>Retained earnings</b>	<b>Unrealized valuation of available-for-sale securities</b>	<b>Unrealized valuation of cash flow hedge derivatives</b>	<b>Cumulative translation effect</b>	<b>Remeasurements of employees' defined benefit plans</b>	<b>Net income</b>	<b>Controlling interest</b>	<b>Non controlling interest</b>	
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 19 (a))	-	-	-	(15,754)	-	-	-	-	-	(15,754)	-	(15,754)
Total	-	-	-	30,306	-	-	-	-	(46,060)	(15,754)	-	(15,754)
Changes related to the recognition of comprehensive income:												
Net income	-	-	-	-	-	-	-	-	23,959	23,959	(4)	23,955
Valuation effects of available-for-sale securities	-	-	-	-	1,380	-	-	-	-	1,380	-	1,380
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(51)	-	-	-	(51)	-	(51)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	209	-	209	-	209
Total	-	-	-	-	1,380	(51)	-	209	23,959	25,497	(4)	25,493
Balances as of June 30, 2019	\$ 24,143	15,860	6,901	136,781	(866)	(157)	440	(3,133)	23,959	203,928	34	203,962
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
Changes resulting from stockholders' resolutions:												
Appropriation of prior year's net income	-	-	-	49,254	-	-	-	-	(49,254)	-	-	-
Dividends declared (note 19 (a))	-	-	-	(10,275)	-	-	-	-	-	(10,275)	-	(10,275)
Total	-	-	-	38,979	-	-	-	-	(49,254)	(10,275)	-	(10,275)
Changes related to the recognition of comprehensive income:												
Net income	-	-	-	-	-	-	-	-	15,917	15,917	(1)	15,916
Valuation effects of available-for-sale securities	-	-	-	-	541	-	-	-	-	541	-	541
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	502	-	-	-	502	-	502
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(754)	-	(754)	-	(754)
Total	-	-	-	-	541	502	-	(754)	15,917	16,206	(1)	16,205
Balances as of June 30, 2020	\$ 24,143	15,860	6,901	160,008	457	389	440	(3,356)	15,917	220,759	37	220,796

See accompanying notes to the condensed consolidated interim financial statements.

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

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

**Condensed consolidated interim statements of cash flows**

For the six-month periods ended June 30, 2020 and 2019

(Millions of Mexican pesos)

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Net income	\$ 15,917	23,959
Items not requiring cash flows:		
Depreciation of property, furniture and equipment	1,533	1,637
Amortization of intangible assets	1,382	1,305
Provisions	(1,800)	(1,023)
Current and deferred income tax	5,795	9,173
Equity in income of unconsolidated subsidiaries and associated companies	(4)	(23)
Non-controlling interest	(1)	(4)
	<u>22,822</u>	<u>35,024</u>
Operating activities:		
Change in margin accounts	(5,689)	(2,529)
Change in investment securities	(42,378)	(22,530)
Change in debtors on repurchase/resale agreements	678	(91)
Change in derivatives (asset)	(157,237)	28,582
Change in loan portfolio, net	(16,978)	(35,920)
Change in benefits receivable on securitization transactions	25	37
Change in foreclosed assets, net	104	271
Change in other operating assets, net	(11,625)	(18,102)
Change in deposit funding	88,600	61,544
Change in bank and other borrowings	(1,978)	(1,792)
Change in creditors on resale/repurchase agreements	(6,740)	8,211
Change in securities lending (liabilities)	1	4
Change in sold/pledged collaterals	8,300	21,350
Change in derivatives (liabilities)	157,876	(23,004)
Change in subordinated bonds issued with liabilities characteristics	(14,346)	-
Change in other operating liabilities	23,192	(33,840)
Change in hedging instruments (from hedged items related to operating activities)	2,645	28
Payments of income tax	(14,527)	(8,900)
Net cash flows provided by operating activities	<u>32,745</u>	<u>8,343</u>
Investment activities:		
Net proceeds (payments) from property, furniture, equipment and intangible assets	(1,226)	(1,526)
Collections by arrangement of subsidiaries and associates	-	1
Collections of cash dividends	1	1
Net cash flows used in investing activities	<u>(1,225)</u>	<u>(1,524)</u>
Net cash flows used in financing activities - Payment of cash dividends	<u>(10,275)</u>	<u>(15,754)</u>
Net increase (decrease) in cash and cash equivalents	21,245	(8,935)
Effects of changes in cash and cash equivalents	11,903	(1,829)
Cash and cash equivalents at the beginning of the period	<u>148,372</u>	<u>232,851</u>
Cash and cash equivalents at the end of the period	<u>\$ 181,520</u>	<u>222,087</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

Notes to condensed consolidated interim financial information

June 30, 2020, December 31 and June 30, 2019

(Millions of Mexican pesos)

**(1) Basis of accounting-**

The accounting criteria used to prepare the accompanying condensed consolidated interim financial information used by BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (the "Institution" or the "Bank") conform with the financial reporting requirements prescribed by the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) (the "Commission"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

**(2) Activity and operating regulatory environment-**

The Institution is a direct subsidiary of Grupo Financiero BBVA Bancomer S. A. de C. V. (the "Financial Group") and indirect subsidiary of Banco Bilbao Vizcaya Argentaria, S. A. ("BBVA"), which is governed among others 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 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 Bank's financial information and ordering any modifications thereto. The main regulatory aspects require that the 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 Bank 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 and administrative proceedings under the contract signed between the parties (note 17).

**(3) Basis of presentation-**

The condensed consolidated interim financial information as of June 30, 2020 and for the six-month period then ended and as of December 31, 2019 and for the six-month period ended as of June 30, 2019, have been prepared in accordance with the Accounting Criteria for Credit Institutions in Mexico issued by the Commission (the Accounting Criteria), which were in effect at the consolidated balance sheet date and should be read in conjunction with the audited consolidated financial statements of the Institution as of December 31, 2019, previously issued on February 27, 2020.

(Continued)

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

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

***Functional and reporting currency-***

The aforementioned condensed consolidated interim financial information 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 condensed consolidated interim financial information, any reference to "pesos" or "\$" means millions of Mexican pesos, and references to "dollars" or "USD" means millions of U.S. dollars.

***Comprehensive income-***

This caption consist of the net result of the year or period plus other items that represent a gain or loss in the same year or period, which, according to the accounting practices followed by the Institution, are presented directly in the stockholders' equity without the requirement to present an 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 employee's defined benefits plans.

***Consolidation of the condensed interim financial information-***

The accompanying condensed consolidated interim financial information 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 June 30, 2020 and December 31, 2019, are as follows:

<b><u>Company</u></b>	<b><u>Participation in Consolidation</u></b>	<b><u>Location</u></b>	<b><u>Activity</u></b>
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.

(Continued)

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

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

<b><u>Company</u></b>	<b><u>Participation in consolidation</u></b>	<b><u>Location</u></b>	<b><u>Activity</u></b>
Financiera Ayudamos, S. A. de C. V., SOFOM, E. R. <sup>(1)</sup>	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 (BMV) 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 and 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 Petróleos Mexicanos (PEMEX) exploration and production.

<sup>(1)</sup>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 year ended December 31, 2019 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 June 30, 2020 and December 31 2019, the assets amount to \$112 and \$110, and the stockholders' equity to \$109 and \$105, respectively. For the six months periods ended as of June 30, 2020 and 2019, the net income amount to \$5 and the net loss \$41, respectively.

(Continued)

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

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

**(4) Significant accounting criteria-**

The Accounting Criteria followed by the Institution are considered a financial reporting framework established by the Commission, which require management to make certain estimates and use certain assumptions to determine the valuation of some of the items included in the condensed consolidated interim financial information and make the disclosures required therein.

**(5) Cash and cash equivalents-**

As of June 30, 2020 and December 31, 2019, cash and cash equivalents are comprised as follows:

		<b>June 30, 2020</b>	<b>December 31, 2019</b>
Cash in hand	\$	34,485	52,786
Banks		103,687	43,783
Restricted cash:			
Foreign currency purchases <sup>(2)</sup>		99,269	66,623
Foreign currency sales <sup>(2)</sup>		(88,090)	(56,413)
Deposits at Central Bank <sup>(1)</sup>		31,282	40,304
Other restricted deposits		-	348
Other cash and cash equivalents		<u>887</u>	<u>941</u>
Total	\$	181,520 =====	148,372 =====

(1) and (2) See explanations in the next page.

Banks include deposits in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of \$23.0893 and \$18.8642 pesos per one U.S. dollar, as of June 30, 2020 and December 31, 2019, respectively, and are comprised as follows:

	<b>Mexican pesos</b>		<b>U.S. Dollars valued in Mexican pesos</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Deposits with foreign banks	\$ 332	1,699	77,097	40,868	77,429	42,567
Central Bank	<u>24,264</u>	<u>102</u>	<u>1,994</u>	<u>1,114</u>	<u>26,258</u>	<u>1,216</u>
	\$ <u>24,596</u>	<u>1,801</u>	<u>79,091</u>	<u>41,982</u>	<u>103,687</u>	<u>43,783</u>
	=====	=====	=====	=====	=====	=====

(Continued)



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

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos, except otherwise noted)

- (1) As of June 30, 2020 and December 31, 2019, the deposits with Central Bank includes the Monetary Regulation Deposits ("DRM" from its Spanish acronym), which amount to \$31,282 and \$40,304, 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 June 30, 2020 and December 31, 2019, the Institution holds BREMS R in the amount of \$32,748 and \$32,688, 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 7(b) and 7(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 June 30, 2020 and December 31, 2019, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 to 96 hours are as shown as follows:

	<b>Balance in foreign currency (millions)</b>		<b>Mexican peso equivalent</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Foreign currency purchases to be received at 24, 48, 72 and 96 hours:				
USD	3,831	3,313	\$ 88,455	62,499
EUR	417	195	<u>10,814</u>	<u>4,124</u>
	=====	=====		
Total			\$ 99,269	66,623
			=====	=====
Foreign currency sales to be settled at 24, 48, 72 and 96 hours:				
USD	(3,788)	(2,985)	\$ (87,473)	(56,313)
EUR	(23)	(4)	(616)	(75)
GBP		(1)	-	(25)
JPY	(4)	-	<u>(1)</u>	<u>-</u>
	=====	=====		
Total			\$ (88,090)	(56,413)
			=====	=====

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 condensed consolidated interim balance sheet under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions", accordingly.

(Continued)

**BBVA Bancomer, S. A.,**  
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer  
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Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

**(6) Margin accounts-**

As of June 30, 2020 and December 31, 2019, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of \$25,838 and \$18,329, respectively.

**(7) Investment securities-**

At June 30, 2020 and December 31, 2019, investment securities were as are shown as follows:

a. Trading Securities

<u>Instrument</u>	<u>June 30, 2020</u>			
	<u>Acquisition cost</u>	<u>Accrued interests</u>	<u>Increase (decrease) valuation</u>	<u>Carrying amount</u>
Unrestricted securities:				
Equity shares, net	\$ 298	-	(3)	295
American Depositary Receipts (ADRS)	1,866	-	(209)	1,657
Banks bonds	6	-	-	6
Sovereign debt eurobonds	2,759	39	9	2,807
Fixed rate government bonds	6,261	125	114	6,500
Promissory notes with returns settle at maturity (PRLV)	25	-	-	25
Federal Mexican Treasury Securities (CETES)	2,773	-	21	2,794
Federal Government Development Bonds (BONDES)	5,637	6	(5)	5,638
Corporate Eurobonds	879	9	50	938
Securitization certificates	8,125	90	59	8,274
Federal Mexican Government Development Bonds in UDIS (UDIBONOS)	567	1	19	587
Mexican Bank Saving Protection Bonds (BPA's)	11,798	240	102	12,140
Treasury notes	<u>580</u>	<u>3</u>	<u>8</u>	<u>591</u>
Total unrestricted securities	41,574	513	165	42,252
Restricted securities:				
Collaterals granted (a.1.)	218,296	2,237	2,022	222,555
Value date purchases (a.2.)	18,447	82	14	18,543
Value date sales (a.3.)	<u>(19,775)</u>	<u>(124)</u>	<u>(13)</u>	<u>(19,912)</u>
Total	\$ 258,542	2,708	2,188	263,438
	=====	=====	=====	=====

(Continued)

**BBVA Bancomer, S. A.,**  
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer  
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Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

<u><b>Instrument</b></u>	<u><b>December 31, 2019</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Unrestricted securities:				
Equity shares, net	\$ 5,548	-	32	5,580
ADRS	1,399	-	(130)	1,269
Bank bonds	1	-	-	1
Sovereign debt Eurobonds	1,984	30	67	2,081
Fixed-rate government bonds	3,307	20	(1)	3,326
PRLV	71	-	-	71
CETES	5,087	-	(1)	5,086
BONDESD	1,884	2	-	1,886
Corporate commercial paper	129	-	-	129
Corporate eurobonds	766	8	9	783
Securitization certificates	2,745	31	(104)	2,672
Exchangeable securitization certificates (CBICS)	757	15	(1)	771
UDIBONOS	910	6	2	918
BPA's	6,795	159	-	6,954
Treasury notes	<u>283</u>	<u>2</u>	<u>-</u>	<u>285</u>
Total unrestricted securities	31,666	273	(127)	31,812
Restricted securities:				
Collaterals granted (a.1.)	252,410	273	1,767	254,450
Value date purchases (a.2.)	26,151	23	(13)	26,161
Value date sales (a.3.)	<u>(30,495)</u>	<u>(40)</u>	<u>12</u>	<u>(30,523)</u>
Total	\$ 279,732 =====	529 ===	1,639 =====	281,900 =====

(Continued)

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During the six-month periods ended June 30, 2020 and 2019, the Institution recognized in the condensed consolidated interim statement of income, gains on valuation from unrestricted securities in a net amount of \$2,276 and \$20, respectively.

Also, as of June 30, 2020 and December 31, 2019, the residual terms of these unrestricted investments are as follows:

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>				<u><b>Total acquisition cost</b></u>
	<u><b>Less than 1 month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without a fixed term</b></u>	
Equity shares	\$ -	-	-	298	298
ADRS	-	-	-	1,866	1,866
Banks bonds	-	-	6	-	6
Sovereign debt					
Eurobonds	-	-	2,759	-	2,759
Fixed-rate bonds	-	-	6,261	-	6,261
PRLV	-	-	25	-	25
CETES	41	10	2,722	-	2,773
BONDESD	36	75	5,526	-	5,637
Corporate Eurobonds	-	-	879	-	879
Securitization certificates	1,222	71	6,832	-	8,125
UDIBONOS	-	-	567	-	567
BPA's	-	-	11,798	-	11,798
Treasury notes	-	-	580	-	580
Total	\$ 1,299	156	37,955	2,164	41,574
	=====	===	=====	=====	=====

(Continued)

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<u><b>Instrument</b></u>	<b>December 31, 2019</b>				
	<u><b>Less than 1 month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without a fixed term</b></u>	<u><b>Total acquisition cost</b></u>
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
BONDES	-	-	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
BPA's	2	-	6,793	-	6,795
Treasury notes	-	-	283	-	283
Total	\$ 2,315	512	21,892	6,947	31,666
	=====	====	=====	=====	=====

(Continued)

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a.1. Granted collateral as of June 30, 2020 and December 31, 2019, are comprised as follows:

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Collaterals under securities lending:				
BPA's	\$ 37,753	799	292	38,844
UDIBONOS	9,348	13	94	9,455
CETES	<u>12,151</u>	<u>-</u>	<u>122</u>	<u>12,273</u>
Total collateral under securities lending	<u>59,252</u>	<u>812</u>	<u>508</u>	<u>60,572</u>
Collateral under repurchase/resale agreements:				
Securitization				
banking certificates	160	-	1	161
BONDESD	25,559	46	(10)	25,595
Fixed-rate government				
Bonds	29,349	389	590	30,328
BPA's	42,545	531	141	43,217
CETES	35,584	-	295	35,879
UDIBONOS	270	1	-	271
CBICS	23,190	439	471	24,100
Eurobonds	499	1	-	500
Securitization certificates	<u>1,888</u>	<u>18</u>	<u>26</u>	<u>1,932</u>
Total collateral under repurchase/resale agreements	<u>159,044</u>	<u>1,425</u>	<u>1,514</u>	<u>161,983</u>
Total restricted securities under granted collaterals	\$ 218,296 =====	2,237 =====	2,022 =====	222,555 =====

(Continued)

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(Millions of Mexican pesos)

<b>Instrument</b>	<b>December 31, 2019</b>			
	<b>Acquisition cost</b>	<b>Accrued interests</b>	<b>Increase (decrease) valuation</b>	<b>Carrying amount</b>
Collaterals under securities lending:				
BPA's	\$ 11,767	31	2	11,800
Bonds	16,928	37	(35)	16,930
UDIBONOS	<u>21,583</u>	<u>-</u>	<u>(2)</u>	<u>21,581</u>
Total collateral under securities lending	<u>50,278</u>	<u>68</u>	<u>(35)</u>	<u>50,311</u>
Collateral under repurchase/resale agreements:				
Securitization banking certificates	3,777	-	(1)	3,776
Corporate commercial paper	497	-	-	497
Bank bonds	210	-	-	210
BONDES	9,774	9	97	9,880
Fixed-rate government bonds	63,569	43	953	64,565
BPA's	64,045	86	594	64,725
CETES	42,289	67	178	42,534
UDIBONOS	1,866	-	(3)	1,863
CBICS	<u>16,105</u>	<u>-</u>	<u>(16)</u>	<u>16,089</u>
Total collateral under repurchase/resale agreements	<u>202,132</u>	<u>205</u>	<u>1,802</u>	<u>204,139</u>
Total restricted securities under granted collaterals	\$ 252,410 =====	273 ===	1,767 ====	254,450 =====

a.2. Value date purchases as of June 30, 2020 and December 31, 2019 are comprised as follows:

<b>Instrument</b>	<b>June 30, 2020</b>			
	<b>Acquisition cost</b>	<b>Accrued interests</b>	<b>Increase (decrease) valuation</b>	<b>Carrying amount</b>
Equity shares, net	\$ 6	-	-	6
ADRs	190	-	-	190
Fixed-rate government bonds	13,156	69	11	13,236
BONDES	1,645	3	1	1,649
CETES	1,546	-	-	1,546
UDIBONOS	731	2	1	734
Securitization certificates	1,051	6	1	1,058
Sovereign debt Eurobonds	<u>122</u>	<u>2</u>	<u>-</u>	<u>124</u>
Total	\$ 18,447 =====	82 ==	14 ==	18,543 =====

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(Millions of Mexican pesos)

<b>December 31, 2019</b>				
<b><u>Instrument</u></b>	<b><u>Acquisition cost</u></b>	<b><u>Accrued interests</u></b>	<b><u>Increase (decrease) valuation</u></b>	<b><u>Carrying amount</u></b>
Equity shares, net	\$ 251	-	(4)	247
ADRS	155	-	(1)	154
Fixed-rate government bonds	7,049	-	(2)	7,047
BPA's	3,730	-	-	3,730
CETES	7,850	-	-	7,850
BONDES	3,573	22	-	3,595
UDIBONOS	3,504	-	(6)	3,498
Securitization certificates	1	-	-	1
Corporate Eurobonds	<u>38</u>	<u>1</u>	<u>-</u>	<u>39</u>
Total	\$ 26,151	23	(13)	26,161
	=====	==	==	=====

a.3. Value date sales at June 30, 2020 and December 31, 2019 are comprised as follows:

<b>June 30, 2020</b>				
<b><u>Instrument</u></b>	<b><u>Acquisition cost</u></b>	<b><u>Accrued interests</u></b>	<b><u>Increase (decrease) valuation</u></b>	<b><u>Carrying amount</u></b>
Equity shares, net	\$ (5)	-	-	(5)
ADR's	(321)	-	(2)	(323)
Sovereign debt Eurobonds	(284)	(2)	(1)	(287)
CETES	(2,246)	-	-	(2,246)
Fixed-rate government bonds	(15,776)	(119)	(10)	(15,905)
Udibonos	(1,140)	(3)	-	(1,143)
Securitization certificates	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Total	\$ (19,775)	(124)	(13)	(19,912)
	=====	===	===	=====

<b>December 31, 2019</b>				
Equity shares, net	\$ (102)	-	-	(102)
ADR's	(41)	-	-	(41)
Sovereign debt Eurobonds	(2)	-	-	(2)
CETES	(15,744)	-	1	(15,743)
Fixed-rate government bonds	(11,643)	(40)	5	(11,678)
UDIBONOS	<u>(2,963)</u>	<u>-</u>	<u>6</u>	<u>(2,957)</u>
Total	\$ (30,495)	(40)	12	(30,523)
	=====	==	==	=====

For the six-month periods ended June 30, 2020 and 2019, the Institution recognized in the condensed consolidated interim statement of income, losses on valuation from restricted securities coming from collaterals granted for a net amount of \$2,290 and \$1,810, respectively.

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For the six-month periods ended June 30, 2020 and 2019, the returns associated with all of the securities to be traded recognized in the condensed consolidated interim statement of income, amount to \$10,747 and \$14,123, respectively.

b. Available for sale

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Unrestricted securities:				
Equity shares, net	\$ 535	-	212	747
Sovereign debt				
Eurobonds	17,625	157	(214)	17,568
Corporate Eurobonds	6,295	86	29	6,410
Development bank				
Eurobonds	392	3	9	404
BONDES	39,434	544	2,586	42,564
Securitization				
certificates	4,561	39	161	4,761
CEDES	87	77	1	165
BREMS R <sup>(1)</sup>	32,646	98	4	32,748
UDIBONOS	<u>391</u>	<u>-</u>	<u>15</u>	<u>406</u>
Total unrestricted	101,966	1,004	2,803	105,773
Restricted (b.1)	<u>61,291</u>	<u>508</u>	<u>1,696</u>	<u>63,495</u>
	\$ 163,257	1,512	4,499 <sup>(a)</sup>	169,268
	=====	=====	=====	=====

<sup>(a)</sup>As of June 30, 2020, the result of the valuation of available for sale securities is presented in the OCI net of the negative valuation effect of \$3,846, of the derivatives covered by the aforementioned securities position.

<sup>(1)</sup> See explanation in the next page.

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<u><b>Instrument</b></u>	<u><b>December 31, 2019</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Unrestricted securities:				
Equity shares, net	\$ 535	-	183	718
Sovereign debt				
Eurobonds	19,601	388	1,113	21,102
Corporate Eurobonds	5,239	91	(15)	5,315
Development bank				
Eurobonds	320	2	14	336
BONDES	48,545	450	(115)	48,880
BPA's	9,932	281	22	10,235
Securitization certificates	5,185	62	(76)	5,171
CEDES UDIS	86	74	(5)	155
BREMS R <sup>(1)</sup>	27,643	29	-	27,672
UDIBONOS	<u>404</u>	<u>-</u>	<u>(20)</u>	<u>384</u>
Total unrestricted	117,490	1,377	1,101	119,968
Restricted (b.1.)	<u>27,951</u>	<u>12</u>	<u>(190)</u>	<u>27,773</u>
	\$ 145,441	1,389	911 <sup>(2)</sup>	147,741
	=====	===	====	=====

<sup>(1)</sup> BREMS R are part of the monetary regulation deposit (DRM) (note 5).

<sup>(2)</sup>As of December 31, 2019, the result of the valuation of available-for-sale securities is presented in the OCI net of the negative valuation effect of \$1,031, of the derivatives covered by the aforementioned securities position.

As June 30, 2020 and December 31, 2019, the remaining scheduled maturities of the unrestricted available for sale securities are as follows:

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>				<u><b>Total acquisition cost</b></u>
	<u><b>Less than a month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without fixed term</b></u>	
Equity shares, net	\$ -	-	-	535	535
Sovereign Debt Eurobonds	-	-	17,625	-	17,625
Corporate Eurobonds	-	-	6,295	-	6,295
Development bank Eurobonds	-	-	392	-	392
BONDES	-	-	39,434	-	39,434
Securitization certificates	-	-	4,561	-	4,561
CEDES	-	-	87	-	87
BREMS R	-	-	32,646	-	32,646
UDIBONOS	<u>-</u>	<u>-</u>	<u>391</u>	<u>-</u>	<u>391</u>
Total	\$ -	-	101,431	535	101,966
	====	===	=====	===	=====

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<u><b>Instrument</b></u>	<u><b>December 31, 2019</b></u>				<u><b>Total acquisition cost</b></u>
	<u><b>Less than a month</b></u>	<u><b>Between 1 and 3 months</b></u>	<u><b>More than 3 months</b></u>	<u><b>Without fixed term</b></u>	
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
BPA's	-	-	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
	===	===	=====	===	=====

b.1. Collaterals granted (restricted securities) of investments available-for-sale as of June 30, 2020 and December 31, 2019, are as follows:

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Sovereign debt				
Eurobonds-Collateral receivable from securities lending	\$ <u>68</u>	<u>-</u>	<u>2</u>	<u>70</u>
Fixed-rate bonds	33,661	138	1,245	35,044
Sovereign debt				
Eurobonds	16,090	135	442	16,667
BPAS	<u>9,972</u>	<u>234</u>	<u>6</u>	<u>10,212</u>
Collateral receivable from repurchase agreements	59,723	507	1,693	61,923
Treasury bills	<u>1,500</u>	<u>1</u>	<u>1</u>	<u>1,502</u>
Total restricted	\$ 61,291	508	1,696	63,495
	=====	=====	=====	=====

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<u><b>Instrument</b></u>	<u><b>December 31, 2019</b></u>			
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>
Fixed-rate bonds	\$ 21,722	4	(195)	21,531
BREMS R <sup>(1)</sup>	<u>5,012</u>	<u>4</u>	<u>-</u>	<u>5,016</u>
Collateral receivable from repurchase agreements	26,734	8	(195)	26,547
Treasury bills	<u>1,217</u>	<u>4</u>	<u>5</u>	<u>1,226</u>
Total restricted	\$ 27,951	12	(190)	27,773
	=====	==	=====	=====

For the six-month periods ended June 30, 2020 and 2019, the returns associated with all of the securities available for sale of the Institution recognized in the condensed consolidated interim statement of income, amount to \$4,258 and \$2,151, respectively.

<sup>(1)</sup>BREMS R that are part of the Deposit of Monetary Regulation (note 5).

c. Held to maturity:

<u><b>Instrument</b></u>	<u><b>June 30, 2020</b></u>		
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Carrying amount</b></u>
Mortgage Debtor Support Program-Special CETES (note 10)	\$ 17,679	2	17,681
Fixed-rate bonds	<u>62,467</u>	<u>587</u>	<u>63,054</u>
	80,146	589	80,735
Value date purchases			
Fixed-rate bonds	<u>361</u>	<u>1</u>	<u>362</u>
	\$ 80,507	590	81,097
	=====	===	=====

<u><b>Instrument</b></u>	<u><b>December 31, 2019</b></u>		
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Carrying amount</b></u>
Mortgage Debtor Support Program-Special CETES	\$ 17,107	-	17,107
Fixed-rate bonds	<u>16,657</u>	<u>63</u>	<u>16,720</u>
	\$ 33,764	63	33,827
	=====	==	=====

For the six-month periods ended June 30, 2020 and 2019, the yields related to the overall held to maturity portfolio recognized in the condensed consolidated interim statement of income, amount to \$1,643 and \$1,102, respectively.

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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 will help to mitigate the credit risk, in order to have a reasonable level of collateral; if the received or 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 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.

At June 30, 2020 and December 31, 2019, there are no investments in debt securities of one issuer other than government bonds exceeding 5% of the net capital of the Institution.

**(8) Repurchase/resale transactions and securities lending-**

a. Debtors on repurchase/resale agreements receivables

As of June 30, 2020 and December 31, 2019, debtors on agreements repurchase/resale transactions are comprised as follows:

		2020			2019		
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>	
<u>Instrument</u>		<u>Receivable</u>			<u>Receivable</u>		
		<u>under</u>			<u>under</u>		
		<u>repurchase</u>	<u>Sold/pledged</u>	<u>Debit</u>	<u>repurchase</u>	<u>Sold/pledged</u>	<u>Debit</u>
		<u>agreement</u>	<u>Collateral</u>	<u>difference</u>	<u>agreement</u>	<u>Collateral</u>	<u>difference</u>
BONDES	\$	1,473	849	624	4,600	2,611	1,989
Fixed-rate bonds		20,046	19,367	679	100	100	-
BPA's		18,091	15,962	2,129	10,032	4,000	6,032
CETES		<u>17,041</u>	<u>13,107</u>	<u>3,934</u>	<u>23</u>	<u>-</u>	<u>23</u>
Total	\$	56,651	49,285	7,366	14,755	6,711	8,044
		=====	=====	=====	=====	=====	=====

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b. Creditors on repurchase / resale agreements

As of June 30, 2020 and December 31, 2019, creditors on repurchase/resale agreements are comprised as follows:

<b><u>Instrument</u></b>		<b><u>2020</u></b>	<b><u>2019</u></b>
BONDES	\$	25,284	9,798
Fixed-rate bonds		64,010	83,230
BPA's		52,560	64,031
Securitization certificates		2,390	4,682
Bank bonds		500	210
CETES		35,140	42,343
CBICS		23,803	15,199
BREMS		16,163	5,004
UDIBONOS		271	1,867
Commercial Paper		-	497
Total	\$	220,121	226,861
		=====	=====

For the six-month periods ended June 30, 2020 and 2019, interest (premiums) receivable recorded by the Institution was \$1,872 and \$1,632, respectively, which is presented in the condensed consolidated interim income statements under the caption "Interest income". Also, for the six-month periods ended June 30, 2020 and 2019, interest (premiums) charged to the Institution under the caption "Interest expense" was \$10,611 and \$11,331, respectively.

c. Sold/pledged collaterals in repurchase/resale agreements and securities lending transactions as of June 30, 2020 and December 31, 2019 are as follows:

<b><u>Instrument</u></b>	<b><u>2020</u></b>			<b><u>2019</u></b>		
	<b><u>Memorandum accounts</u></b>		<b><u>Liability</u></b>	<b><u>Memorandum accounts</u></b>		<b><u>Liability</u></b>
	<b><u>Received collateral</u></b>	<b><u>Sold/pledged collateral</u></b>	<b><u>Sold/pledged collateral</u></b>	<b><u>Received Collateral</u></b>	<b><u>Sold/pledged Collateral</u></b>	<b><u>Sold/pledged Collateral</u></b>
Securities lending:						
Fixed-rate bonds	\$ 31,486	31,486	31,486	28,811	28,811	28,811
UDIBONOS	7,601	7,601	7,601	6,063	6,063	6,063
CETES	323	323	323	3,462	3,462	3,462
CBICS	16,019	16,019	16,019	8,825	8,825	8,825
Equity shares, net	<u>448</u>	<u>448</u>	<u>448</u>	<u>419</u>	<u>416</u>	<u>416</u>
	<u>55,877</u>	<u>55,877</u>	<u>55,877</u>	<u>47,580</u>	<u>47,577</u>	<u>47,577</u>
Repurchase agreements:						
BONDES	1,472	850	-	4,603	2,614	-
Fixed-rate bonds	20,059	19,532	-	100	100	-
BPA's	18,044	15,961	-	10,025	3,992	-
CETES	<u>17,024</u>	<u>13,158</u>	<u>-</u>	<u>19</u>	<u>-</u>	<u>-</u>
	56,599	49,501	-	14,747	6,706	-
Other collateral received	<u>11,732</u>	<u>-</u>	<u>-</u>	<u>5,366</u>	<u>-</u>	<u>-</u>
Total	\$ 124,208	105,378	55,877	67,693	54,283	47,577
	=====	=====	=====	=====	=====	=====

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Interest expense from sold/pledged collateral in repurchase transactions and securities lending recognized in profit or loss for the six-month period ended June 2020 amounted to \$856 (for the six-month period ended June 30, 2019 amounted to \$1,280).

As of June 30, 2020 and December 31, 2019, the Institution has repurchase agreements for an average period of 2 and 27 days, while transactions involving securities loans are performed over an average period of 8 and 14 days, respectively.

**(9) Derivatives-**

- a. As of June 30, 2020 and December 31, 2019, the Institution carries out transactions with derivative financial instruments as described as follow:

**Trading:**

		<b>June 30, 2020</b>			
		<b>Carrying amount</b>		<b>Balance</b>	
		<b>Assets</b>	<b>Liabilities</b>	<b>Debit</b>	<b>Credit</b>
Futures long position	\$	13,789	13,789	-	-
Futures short position		8,035	8,035	-	-
Forward long position		728,835	703,106	45,147	19,418
Forward short position		654,344	693,006	8,743	47,405
Acquired options		4,358	-	4,358	-
Sold options		-	14,794	-	14,794
Swaps		<u>1,175,108</u>	<u>1,170,914</u>	<u>208,366</u>	<u>204,172</u>
	\$	2,584,469	2,603,644	266,614	285,789
		=====	=====	=====	=====

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

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**Hedging:**

	<b>June 30, 2020</b>					
	<b>Notional amount</b>		<b>Balance</b>		<b>Net Position</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>		
Forward long position	\$ 8,343	7,698	645	-	645	
Forwards short position	275	289	-	14	(14)	
Swaps	<u>117,010</u>	<u>111,259</u>	<u>22,880</u>	<u>17,129</u>	<u>5,751</u>	
	\$ 125,628	119,246	23,525	17,143	6,382	
	=====	=====	=====	=====	=====	

	<b>December 31, 2019</b>					
	<b>Notional amount</b>		<b>Balance</b>		<b>Net Position</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>		
Forward long position	\$ 2,685	2,814	-	129	(129)	
Swaps	<u>102,596</u>	<u>99,923</u>	<u>10,932</u>	<u>8,259</u>	<u>2,673</u>	
	\$ 105,281	102,737	10,932	8,388	2,544	
	=====	=====	=====	=====	=====	

**(10) Loan portfolio-**

Loans classified by type of loan as of June 30, 2020 and December 31, 2019, are as follows:

	<b>Performing portfolio</b>		<b>Non-performing portfolio</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Commercial loans -						
Denominated in Mexican pesos (MXN):						
Commercial	\$ 356,432	338,378	9,938	9,279	366,370	347,657
Rediscounted portfolio	11,398	9,856	85	53	11,483	9,909
Leases	2,499	1,783	28	83	2,527	1,866
Denominated in UDIS's (MXN equivalent):						
Commercial	2	3	1	1	3	4
Denominated in foreign currency (MXN equivalent):						
Commercial	196,141	154,985	117	54	196,258	155,039
Rediscounted portfolio	1,618	776	59	48	1,677	824
Leases	<u>2,668</u>	<u>1,841</u>	<u>15</u>	<u>-</u>	<u>2,683</u>	<u>1,841</u>
Commercial or business activity loans, to the next page	\$ <u>570,758</u>	<u>507,622</u>	<u>10,243</u>	<u>9,518</u>	<u>581,001</u>	<u>517,140</u>

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		<b>Performing portfolio</b>		<b>Non-performing portfolio</b>		<b>Total</b>	
		<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Commercial or business activity loans, from previous page	\$	570,758	507,622	10,243	9,518	581,001	517,140
Denominated in MXN:							
Financial entities		28,203	32,783	-	-	28,203	32,783
Government entities		137,114	134,470	-	-	137,114	134,470
Denominated in foreign currency (MXN equivalent):							
Financial entities		397	379	-	-	397	379
Government entities		<u>12,626</u>	<u>9,255</u>	<u>-</u>	<u>-</u>	<u>12,626</u>	<u>9,255</u>
Total commercial loans		<u>749,098</u>	<u>684,509</u>	<u>10,243</u>	<u>9,518</u>	<u>759,341</u>	<u>694,027</u>
Consumer loans-							
Denominated in MXN:							
Credit card		102,778	112,643	3,521	4,478	106,299	117,121
Other consumer loans		184,879	187,520	4,796	5,863	189,675	193,383
Denominated in foreign currency (MXN equivalent):							
Other consumer loans		<u>124</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>124</u>	<u>139</u>
Total consumer loans		<u>287,781</u>	<u>300,302</u>	<u>8,317</u>	<u>10,341</u>	<u>296,098</u>	<u>310,643</u>
Mortgage loans-							
Denominated in MXN:							
Residential and non –residential		229,740	218,178	5,752	6,748	235,492	224,926
Low income housing loans		9,027	9,190	465	562	9,492	9,752
Denominated in UDI's (equivalent in MXN):							
Residential and non –residential		3,584	3,830	240	285	3,824	4,115
Denominated in foreign currency (equivalent in MXN):							
Residential and non –residential		<u>15</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>
Total mortgage loans		<u>242,366</u>	<u>231,213</u>	<u>6,457</u>	<u>7,595</u>	<u>248,823</u>	<u>238,808</u>
Total loan portfolio	\$	<u>1,279,245</u>	<u>1,216,024</u>	<u>25,017</u>	<u>27,454</u>	<u>1,304,262</u>	<u>1,243,478</u>

At June 30, 2020 and December 31, 2019 mortgage loan portfolio includes restricted securitized performing loans of \$2,401 and \$2,623, respectively; and non-performing loans of \$40 and \$52, respectively.

Commercial loans are described in the next page; the distressed and non-distressed performing and non-performing portfolios at June 30, 2020 and December 31, 2019, are also identified. This portfolio does not include guarantees and interest collected in advance, which are shown as part of the commercial portfolio in the condensed consolidated interim balance sheet.

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<b>June 30, 2020</b>					
	<b><u>Distressed</u></b>		<b><u>Non-distressed</u></b>		<b><u>Total</u></b>
	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	
Commercial or business	\$ -	8,527	542,281	473	551,281
Financial entities	-	-	28,523	-	28,523
Government entities	-	-	149,740	-	149,740
SME credit cards	321	2,135	28,548	822	31,826
Corporate credit cards	<u>1</u>	<u>10</u>	<u>105</u>	<u>-</u>	<u>116</u>
Total	\$ 322	10,672	749,197	1,295	761,486
	===	=====	=====	=====	=====

<b>December 31, 2019</b>					
	<b><u>Distressed</u></b>		<b><u>Non-distressed</u></b>		<b><u>Total</u></b>
	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	
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	<u>3</u>	<u>22</u>	<u>282</u>	<u>-</u>	<u>307</u>
Total	\$ 273	9,778	684,779	1,235	696,065
	===	=====	=====	=====	=====

Restructured and renewed portfolio at June 30, 2020 and prior years and December 31, 2019 were as follows:

<b><u>June 30, 2020</u></b>			<b><u>Prior years</u></b>		
	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Total</u></b>
Commercial	\$ 8,289	313	61,567	814	70,983
Financial entities	-	-	18	-	18
Government entities	-	-	27,421	-	27,421
Consumer loans	14	715	103	1,548	2,380
Mortgage loans	<u>59</u>	<u>370</u>	<u>9,691</u>	<u>5,796</u>	<u>15,916</u>
Total	\$ 8,362	1,398	98,800	8,158	116,718
	=====	=====	=====	=====	=====

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		<b>December 31, 2019</b>		<b>Prior years</b>		
		<b>Current</b>	<b>Past due</b>	<b>Current</b>	<b>Past due</b>	<b>Total</b>
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		<u>272</u>	<u>674</u>	<u>9,942</u>	<u>5,461</u>	<u>16,349</u>
Total	\$	38,150	2,426	73,802	6,990	121,368
		=====	=====	=====	=====	=====

At June 30, 2020 and December 31, 2019, the Institution holds collateral consisting of real property with value of \$8,681 and \$8,532, respectively, and it holds collateral in securities with a value of \$313, for restructured commercial loans in both dates.

As of June 30, 2020 and December 31, 2019, the aging of non-performing portfolio is as follows:

June 30, 2020						
		Period				
		1 to 180 days	181 to 365 days	366 days to 2 years	Collateral	Total
Commercial or business activity	\$	2,518	3,977	5,473	(1,725)	10,243
Consumer loans		7,395	916	6	-	8,317
Mortgage loans		<u>608</u>	<u>1,854</u>	<u>3,995</u>	<u>-</u>	<u>6,457</u>
Total	\$	10,521	6,747	9,474	(1,725)	25,017
		=====	=====	=====	=====	=====
December 31, 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		<u>1,914</u>	<u>2,070</u>	<u>3,611</u>	<u>-</u>	<u>7,595</u>
Total	\$	14,472	6,711	7,766	(1,495)	27,454
		=====	=====	=====	=====	=====

At June 30, 2020 and December 31, 2019, unearned commissions for initial loan origination by type of loan and average amortization period are comprised as shown on the following page.

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		<b>June 30, 2020</b>			
		<b>by amortization period</b>			
		<b>1 to 5 years</b>	<b>6 to 15 years</b>	<b>More than 15 years</b>	<b>Total</b>
Commercial activity or business	\$	734	295	114	1,143
Consumer loans		974	321	-	1,295
Mortgage loans		<u>2</u>	<u>20</u>	<u>399</u>	<u>421</u>
Total	\$	1,710	636	513	2,859
		=====	====	====	=====
		<b>December 31, 2019</b>			
		<b>by amortization period</b>			
		<b>1 to 5 years</b>	<b>6 to 15 years</b>	<b>More than 15 years</b>	<b>Total</b>
Commercial activity or business	\$	828	323	140	1,291
Consumer loans		985	342	-	1,327
Mortgage loans		<u>2</u>	<u>18</u>	<u>376</u>	<u>396</u>
Total	\$	1,815	683	516	3,014
		=====	====	====	=====

As of June 30, 2020 and December 31, 2019, the balances of non-performing credit loan portfolio fully reserved and eliminated from the condensed consolidated interim balance sheet are as follows:

		<b>June 30, 2020</b>	<b>December 31, 2019</b>
Commercial or business activity	\$	<u>9,510</u>	<u>13,306</u>
Consumer loans:			
Credit cards		3,204	3,279
Other consumer loans		<u>2,641</u>	<u>3,058</u>
		5,845	6,337
Mortgage loans		<u>5,319</u>	<u>4,523</u>
Total	\$	20,674	24,166
		=====	=====

For the period ended on June 30, 2020 and for the year ended on December 31, 2019, the amounts of loan portfolio sold, excluding securitization and leasing transactions, are as follows:

		<b>June 30, 2020</b>	<b>December 31, 2019</b>
<b><u>Loan portfolio</u></b>			
Business or commercial activity	\$	44	512
Consumer loans		5,376	17,962
Mortgage loans		<u>-</u>	<u>1,287</u>
Total	\$	5,420	19,761
		=====	=====

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As of June 30, 2020 and December 31, 2019, the amount of lines of credit and letters of credit recorded in memorandum accounts amount to \$644,124 and \$632,810, respectively.

For the six-month periods ended June 30, 2020 and 2019, the revenues from interest income and commissions recorded in the condensed consolidated interim statement of income, segmented by type of loan, are comprised as follows:

<b><u>Type of loan</u></b>	<b><u>Interest</u></b>	<b><u>June 30, 2020</u></b> <b><u>Commissions</u></b>	<b><u>Total</u></b>	<b><u>June 2019</u></b> <b><u>Total</u></b>
Commercial loans-				
Denominated in Mexican pesos:				
Commercial	\$ 17,545	539	18,084	19,600
Rediscounted portfolio	592	-	592	696
Finance lease	109	-	109	95
Denominated in U.S. foreign currency (equivalent in Mexican pesos):				
Commercial	3,873	-	3,873	4,217
Rediscounted portfolio	57	-	57	96
Finance lease	<u>49</u>	<u>-</u>	<u>49</u>	<u>41</u>
Business or commercial activity	22,225	539	22,764	24,745
Loans to financial entities	1,119	3	1,122	1,157
Loans to government entities	<u>5,520</u>	<u>18</u>	<u>5,538</u>	<u>5,504</u>
Total commercial loans	<u>28,864</u>	<u>560</u>	<u>29,424</u>	<u>31,406</u>
Consumer loans-				
Credit card	13,525	19	13,544	15,157
Other consumer loans	<u>17,295</u>	<u>403</u>	<u>17,698</u>	<u>18,911</u>
Total consumer loans	<u>30,820</u>	<u>422</u>	<u>31,242</u>	<u>34,068</u>
Mortgage loans	<u>12,125</u>	<u>22</u>	<u>12,147</u>	<u>11,153</u>
Total	\$ 71,809 =====	1,004 =====	72,813 =====	76,627 =====

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At June 30, 2020 and December 31, 2019, loans classified by economic sectors are as follows:

<b>Sector</b>	<b>June 30, 2020</b>		<b>December 31, 2019</b>	
	<b>Amount</b>	<b>Concentration percentage</b>	<b>Amount</b>	<b>Concentration percentage</b>
Private (companies and individuals)	\$ 580,994	44.55%	517,134	41.59%
Credit cards and consumer	296,098	22.70%	310,643	24.98%
Mortgage	248,823	19.08%	238,808	19.21%
Loans to government entities	149,740	11.48%	143,725	11.56%
Financial (local entities)	27,857	2.14%	32,004	2.57%
Financial (non-Mexican entities)	743	0.05%	1,158	0.09%
Other past-due loans	<u>7</u>	<u>-</u>	<u>6</u>	<u>-</u>
Total	\$ 1,304,262	100.00%	1,243,478	100.00%
	=====	=====	=====	=====

**Related-party loans-**

As of June 30, 2020 and December 31, 2019, loans granted to related parties in accordance with the provisions of Article 73 of the Banking Law, amounted to \$42,079 and \$33,747, respectively, including \$18,726 and \$16,453, 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 June 30, 2020, the remnant of the special CETES and special "C" CETES is composed as follows:

<b>Originating trust</b>	<b>Special CETES</b>			<b>Special CETES "C"</b>		
	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>
422-9	128,738,261	\$ 16,210	07/07/2022	-	\$ -	-
423-9	10,656,993	1,342	01/07/2027	468,306	18	01/07/2027
431-2	964,363	<u>111</u>	04/08/2022	1,800	<u>-</u>	04/08/2022
Total		\$ 17,663			\$ 18	
		=====			=====	

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**(11) Restructured loans denominated in UDIS-**

As June 30, 2020 and December 31, 2019, restructured loans denominated in UDIS amounted to \$491 and \$598, respectively.

**(12) 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 as of June 30, 2020 and December 31, 2019, is composed as is shown below:

<b>June 30, 2020</b>						
<b>Risk category</b>		<b>Total loans</b>	<b>Allowance for loan losses</b>			<b>Total</b>
			<b>Commercial</b>	<b>Consumer</b>	<b>Mortgage</b>	
A1	\$	1,045,497	1,707	1,365	251	3,323
A2		85,554	467	899	76	1,442
B1		79,679	322	2,073	33	2,428
B2		56,363	113	2,060	126	2,299
B3		34,889	464	1,114	70	1,648
C1		32,019	699	1,651	145	2,495
C2		18,550	316	2,598	100	3,014
D		12,445	1,946	1,314	839	4,099
E		<u>21,101</u>	<u>4,921</u>	<u>6,603</u>	<u>1,961</u>	<u>13,485</u>
		1,386,097	10,955	19,677	3,601	34,233
Additional reserves		-	<u>3,506</u>	<u>2,893</u>	<u>1,211</u>	<u>7,610</u>
Total	\$	<u>1,386,097</u>	<u>14,461</u>	<u>22,570</u>	<u>4,812</u>	<u>41,843</u>
		=====	=====	=====	=====	=====

<b>December 31, 2019</b>						
<b>Risk category</b>		<b>Total loans</b>	<b>Allowance for loan losses</b>			<b>Total</b>
			<b>Commercial</b>	<b>Consumer</b>	<b>Mortgage</b>	
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		<u>21,763</u>	<u>3,923</u>	<u>8,047</u>	<u>1,846</u>	<u>13,816</u>
Total	\$	<u>1,317,464</u>	<u>9,111</u>	<u>22,151</u>	<u>4,149</u>	<u>35,411</u>
		=====	=====	=====	=====	=====

The balance of the allowance for loan losses at June 30, 2020 and December 31, 2019, is determined based on the balance of the portfolio at those dates.

The allowance for loan losses at June 30, 2020 and December 31, 2019, covers 100% of non-performing accrued interest.

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The amount of the allowance for loan losses at June 30, 2020 and December 31, 2019, includes the classification of loan granted in foreign currency valued at the exchange rate in effect on those dates.

The allowance for loan losses as of June 30, 2020 amounts to \$41,843, which includes an estimate of \$34,233 calculated according to the methodologies approved by the Commission used by the Bank and \$7,610 of additional reserves as described as follows:

By means of a communication dated April 14 and 16, 2020 addressed to the Commission, referring to the additional reserves mentioned in the "B-6 Loan Portfolio" rule, the Bank informed that additional reserves have been established to cover risks that are not foreseen in the different loan portfolio rating methodologies.

These additional reserves were originated due to the economic environment of global uncertainty derived from the COVID-19 pandemic with effects on the national economy and consequently on the companies and individuals loan portfolio. The methodology used to determine the additional reserves considers the following scenarios:

- i. The following economic impacts estimates due to the pandemic:
  - a) A deep Gross Domestic Product (GDP) nosedive of 4.5% in 2020,
  - b) Increase in unemployment rates,
  - c) Drop in exports given the U.S. power demand fell,
  - d) Consumption reduction,
  - e) Private investment reduction, among others and
- ii. No economic impacts due to the pandemic, under the collective loan portfolio approach. On the other hand, the individualized loan portfolio (client individual impairment evaluation) is analyzed separately under the economic impact scenario, attending to the main affected sectors, considering a stress scenario in which companies in these sectors reflect impairment.

The constitution of preventive reserves were registered beginning on March 2020 and this approach will continue until the resolution that modifies the Regulations, published in the Official Gazette of the Federation on March 13, 2020 comes into effect (the Resolution), considering the press release of April 8, 2020, through which the Commission issued agreements and provisions to deal with the contingency of the COVID-19 pandemic, where it postponed the entry of regulations related to international standards and prudential precepts, establishing that the Resolution will enter into force on January 1, 2022, which was originally scheduled for January 1, 2021.

By means of an additional communication dated May 19, 2020 addressed to the Commission, the Bank informed that given the COVID support programs to temporarily suspend capital and interest payments or to stop interest accrual to help borrowers to fulfill their obligations, and the special accounting standard created by the regulator, the loan impairment was not as severe as expected since defaults were not being recognized during that time. However, this may end when the program finishes and borrowers have to face their obligations so that the Institution considers this scenario in its additional reserves recorded. The Bank estimated this effect amounts to \$1,066 within the additional reserves.

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As of June 30, 2020 and December 31, 2019, allowance for loan losses by type of portfolio is comprised as follows:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Commercial loans:		
Commercial or business activity	\$ 13,199	8,181
Financial entities	623	395
Government entities	<u>639</u>	<u>535</u>
	14,461	9,111
Consumer loans	22,570	22,151
Mortgage loans	<u>4,812</u>	<u>4,149</u>
Total of allowance for loan losses	\$ 41,843	35,411
	=====	=====

**Changes in the allowance for loan losses** - There is an analysis below of the allowance for loan losses for the six-month period ended on June 30, 2020 and the year ended December 31, 2019.

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Balance at the beginning of the period and year	\$ 35,411	31,811
Allowance charged to income statement from January to March <sup>(1)</sup>	16,550	8,014
Allowance charged to income statement from April to June <sup>(1)</sup>	7,880	9,609
Allowance charged to income statement from July to September	-	9,797
Allowance charged to income statement from October to December	-	9,760
Applications, write-downs and others	(18,131)	(33,552)
Exchange rate fluctuations	124	(35)
Other expenses <sup>(2)</sup>	<u>9</u>	<u>7</u>
Balance at end of period and year	\$ 41,843	35,411
	=====	=====

<sup>(1)</sup> y <sup>(2)</sup> See explanation in the next page.

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- (1) Recoveries of loan previously written-off for the six-month periods ended June 30, 2020 and 2019, amounted to \$584 and \$720, respectively and are presented under the allowance for loan losses caption in the condensed consolidated interim statement of income, therefore, the net allowance for loan losses variation in the six-month periods ended June 30, 2020 and 2019, amounted to \$23,846 and \$16,903, respectively.
- (2) Allowances for loan losses of securitized portfolio in trust extinguished during the period, and which were recognized by the Institution at the time it repurchased the portfolio.

**(13) Equity investments-**

As of June 30, 2020 and December 31, 2019, 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:

<u>Entity</u>	<u>Participation</u>		<u>June 30, 2020</u>	<u>December 31, 2019</u>
	<u>June 30, 2020</u>	<u>December 31, 2019</u>		
Trust No. 1729 INVEX – Disposal of Portfolio <sup>(1)</sup>	32.25%	32.25%	\$ 252	252
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	46.14%	246	228
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%	50.00%	182	181
Fideicomiso FIMPE	28.50%	28.50%	42	50
Other investments recognized at cost	Various	Various	<u>97</u>	<u>104</u>
Total			\$ 819	815
			===	===

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 the six-month periods ended on June 30, 2020 and 2019, dividends received from other permanent investments amounted to \$106 and \$109, respectively, which is recognized in the condensed consolidated interim income statement under the “Other operating income” caption.

For the six-month periods ended on June 2020 and 2019, participation in results of associated companies amounted to \$4 and \$23, respectively.

<sup>(1)</sup>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 June 30, 2020 and December 31, 2019 is shown the next page.

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**Item**

Total contributions	\$	1,243
Associated reserve		(485)
Net value		758
Allowance for impairment		(506)
Net value	\$	252
		=====

There has no movements on the balances above mentioned from December 2019 to June 2020.

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 as of June 30, 2020 and December 31, 2019.

**(14) Deposits funding-**

As of June 30, 2020 and December 31, 2019, deposits funding is as follows:

	<b><u>June 30,</u></b>	<b><u>December 31,</u></b>
	<b><u>2020</u></b>	<b><u>2019</u></b>
On demand deposit:		
On demand deposits	\$ 1,017,143	923,191
Time deposits:		
PRLV	232,224	211,685
Time deposits	50,579	42,385
Debt securities issued <sup>(a)</sup>	89,927	85,852
Inactive deposits global account	<u>4,781</u>	<u>4,507</u>
Total	\$ 1,394,654	1,267,620
	=====	=====

As of June 30, 2020 and December 31, 2019, the average rates in pesos of on-demand deposits (unaudited) based on their short- and long-term enforceability are 1.30% and 5.29% compared to 1.36% and 6.35%, respectively.

<sup>(a)</sup> Debt securities description of the principal programs

As of June 30, 2020 and December 31, 2019, the Institution has placed short-term and long-term debt securities, composed as follows:

	<b><u>June 30, 2020</u></b>			<b><u>December 31, 2019</u></b>		
	<b><u>Amount</u></b>	<b><u>Average term</u></b>	<b><u>Average</u></b>	<b><u>Amount</u></b>	<b><u>Average term</u></b>	<b><u>Average</u></b>
		<b><u>(days)</u></b>	<b><u>rate</u></b>		<b><u>(days)</u></b>	<b><u>Rate</u></b>
Long term bank bonds	\$ 8,122	1,063	6.95%	\$ 12,342	1,254	7.70%
Short term bank bonds	6,943	202	6.67%	12,306	192	7.70%
Securitization debt certificates MXP	33,207	1,911	6.44%	25,212	2,111	8.11%
Securitization debt certificates UDI's	21,856	5,369	4.03%	21,705	5,355	4.03%
Securitization certificates USD	2,312	1,080	0.92%	-	-	-
Senior notes	<u>17,487</u>	3,653	4.38%	<u>14,287</u>	3,653	4.38%
		=====	=====		=====	=====
Total	\$ 89,927			\$ 85,852		
	=====			=====		

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**(15) Interbank loans and loans from other entities-**

As of June 30, 2020 and December 31, 2019, interbank loans and loans from other entities are as follows:

	<u>MXN</u>		<u>Rate in average %</u>		<u>Average term (days)</u>	
	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Call money:						
Banks	\$ - ===	7,414 =====	- ===	7.25 ===	- ==	2 ==
Loans to other entities:						
Short term:						
Central Bank	\$ 50	-	5.52	-	182	-
Trusts Instituted in Relation to Agriculture (FIRA)	<u>7,124</u>	<u>6,058</u>	5.44 =====	7.69 =====	218 ===	213 ===
	\$ <u>7,174</u> =====	<u>6,058</u> =====				
Long term:						
FIRA	\$ 7,719	7,063	6.17	7.57	5	5
Operating and Financing Housing Fund (FOVI)	<u>51</u>	<u>61</u>	7.49 =====	7.75 =====	25 ===	25 ===
	\$ <u>7,770</u> =====	<u>7,124</u> =====				

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**(16) Subordinated bonds issued-**

Subordinated obligations as of June 30, 2020 and December 31, 2019, are comprised as follows:

	<b><u>June 30,</u></b> <b><u>2020</u></b>	<b><u>December 31,</u></b> <b><u>2019</u></b>
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
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.	17,319	14,150
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.	34,634	28,296
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.	4,618	3,773
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.	23,089	18,864
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	17,317	14,148
Unpaid accrued interest	<u>1,816</u>	<u>1,680</u>
Total	\$ 98,793 =====	95,061 =====

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**(17) Related parties-**

In compliance with the provisions of Criteria C-3 "Related parties" issued by the Commission, significant related parties balance/transactions as of June 30, 2020 and December 31, 2019, are described below:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Banco Bilbao Vizcaya Argentaria, S. A.:		
Derivative financial instruments <sup>(1)</sup>	\$ 5,093	(13,945)
Repurchase/resale agreements receivable (payable) <sup>(1)</sup>	2,980	(1,865)
	=====	=====
BBVA Bancomer Operadora, S. A. de C. V.:		
Administrative services fees <sup>(2)</sup>	\$ 5,310	5,663
Accounts payables <sup>(1)</sup>	2,185	2,965
	=====	=====
BBVA Bancomer Servicios Administrativos, S. A. de C. V.:		
Administrative services fees <sup>(2)</sup>	\$ 7,703	7,130
Accounts payables <sup>(1)</sup>	2,025	2,871
	=====	=====
Seguros BBVA Bancomer, S. A. de C. V.:		
Commissions income <sup>(2)</sup>	\$ 950	1,030
Insurance premiums paid <sup>(2)</sup>	42	48
	=====	=====
Pensiones BBVA Bancomer, S. A.:		
Investment securities <sup>(1)</sup>	\$ 3,330	3,640
	=====	=====
BBVA Bancomer Gestión, S. A. de C. V.:		
Commissions the fee income <sup>(2)</sup>	\$ 2,071	1,755
	=====	=====
Aplica Tecnología Avanzada, S. A. de C. V.:		
Deposits <sup>(1)</sup>	\$ 1,283	726
	=====	=====
Income:		
Commissions income <sup>(2)</sup>	\$ 8	-
	=====	=====
Administrative services fees <sup>(2)</sup>	\$ 19	19
	=====	=====
Expense:		
Processing and systems development <sup>(2)</sup>	\$ 1,475	1,219
Interest from Repurchase agreements	6	-
	=====	=====
BBVA Leasing México, S. A. de C. V. (formerly Facileasing, S. A. de C. V.):		
Deposits <sup>(1)</sup>	\$ 877	537
	=====	=====
Loans portfolio <sup>(1)</sup>	\$ 2,948	4,777
	=====	=====
Income:		
Interest <sup>(2)</sup>	\$ 134	145
Administrative services fees <sup>(2)</sup>	36	45
	=====	=====

(1) and (2) See explanation on next page.

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<sup>(1)</sup> Balances of accounts payable/receivable at June 30, 2020 and December 31, 2019.

<sup>(2)</sup> It relates to the income or (expense) recorded in the condensed consolidated interim income statement for the periods of six-months ended on June 30, 2020 and 2019.

At June 30, 2020 and December 31, 2019, there are other related parties transactions that are deemed as non-significant they have not been disclosed.

**(18) Income tax-**

For the period ended June 30, 2020 and 2019, the effective tax rates were 26.70% and 27.71%, respectively. The main items in the reconciliation between the effective tax rate and legal income tax rate were inflationary effect, non-deductible items and cancelations of nontaxable provisions.

**(19) Stockholders' equity-**

**(a) Structure of the Capital Stock-**

The capital stock of the Institution at June 30, 2020 and December 31, 2019, composed as follows:

Number of shares at Par Value of \$0.28 Mexican pesos per shared			
	<u>Capital stock</u>	<u>Capital stock unsubscribed</u>	<u>Paid-in</u>
Series "F"	9,107,142,859	(1,370,063,922)	7,737,078,937
Series "B"	<u>8,749,999,999</u>	<u>(1,316,335,923)</u>	<u>7,433,664,076</u>
Total	17,857,142,858 =====	(2,686,399,845) =====	15,170,743,013 =====
Historical amount			
	<u>Capital stock</u>	<u>Capital stock unsubscribed</u>	<u>Paid-in</u>
Series "F"	\$ 2,550	(384)	2,166
Series "B"	<u>2,450</u>	<u>(368)</u>	<u>2,082</u>
Subtotal	\$ 5,000 =====	(752) =====	4,248
Reordering of capital updates			10,971
Adjustment to pesos as of December 2007			<u>8,924</u>
Total			\$ 24,143 =====

On February 28, 2020, at a General Ordinary Shareholders' Meeting, it was resolved to authorize the distribution of dividends in an amount of \$39,101, from "Retained earnings" account, at a rate of \$0.677299061172885 pesos per share, which was paid to shareholders on March 24, for \$10,275.

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.

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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 June 30, 2020, and December 31, 2019, 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.

**(20) 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 the 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 the three and six-month periods ended June 30, 2020 and 2019, by economic segments are as follows:

<b><u>Six-month period ended June 30, 2020</u></b>		<b>Corporate and</b>			
<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Other Segments</u></b>
Net interest income	\$ 60,728	44,063	15,756	265	644
Allowance for loan losses	<u>(23,846)</u>	<u>(19,062)</u>	<u>(4,784)</u>	-	-
Net interest income adjusted for allowance for loan losses	36,882	25,001	10,972	265	644
Commissions and fees, net	12,807	8,413	4,181	172	41
Financial intermediation income (expense)	4,795	1,197	490	3,068	40
Other operating income	<u>(347)</u>	<u>(192)</u>	<u>65</u>	<u>1</u>	<u>(221)</u>
	54,137	34,419	15,708	3,506	504
		=====	=====	=====	=====
Administrative and promotional expenses	<u>(32,430)</u>				
Net operating revenues	21,707				
Equity in the income of non consolidated subsidiaries and associated companies	<u>4</u>				
Income before income tax	21,711				
Current income tax	(5,138)				
Deferred income tax (net)	<u>(657)</u>				
Income before non-controlling interest	15,916				
Non-controlling interest	<u>1</u>				
Net income	\$ 15,917				
		=====			

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<b><u>Three-month period ended June 30, 2020</u></b>		<b>Corporate and</b>			
<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Other Segments</u></b>
Net interest income	\$ 27,684	19,987	8,058	(43)	(318)
Allowance for loan losses	<u>(7,609)</u>	<u>(3,908)</u>	<u>(3,701)</u>	-	-
Net interest income adjusted for allowance for loan losses	20,075	16,079	4,357	(43)	(318)
Commissions and fees, net	5,879	3,976	1,789	102	12
Financial intermediation income (expense)	2,468	589	302	1,469	108
Other operating income	<u>(416)</u>	<u>(116)</u>	<u>25</u>	-	<u>(325)</u>
	28,006	20,528	6,473	1,528	(523)
		=====	=====	=====	=====
Administrative and promotional expenses	<u>(15,849)</u>				
Net operating revenues	12,157				
Equity in the income of non consolidated subsidiaries and associated companies	<u>(15)</u>				
Income before income tax	12,142				
Current income tax	82				
Deferred income tax (net)	<u>(2,750)</u>				
Income before non-controlling interest	9,474				
Non-controlling interest	<u>(1)</u>				
Net income	\$ 9,473				
	=====				

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**Six-month period ended June 30, 2019**

<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Corporate and Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Other Segments</u></b>
Net interest income	\$ 63,975	41,966	19,735	1,404	870
Allowance for loan losses	<u>(16,903)</u>	<u>(15,589)</u>	<u>(1,314)</u>	<u>-</u>	<u>-</u>
Net interest income adjusted for allowance for loan losses	47,072	26,377	18,421	1,404	870
Commissions and fees, net	13,953	9,090	4,311	116	436
Financial intermediation income	3,184	2,061	355	674	94
Other operating (expense) income	<u>(134)</u>	<u>(807)</u>	<u>35</u>	<u>1</u>	<u>637</u>
	64,075	36,721	23,122	2,195	2,037
		=====	=====	=====	=====
Administrative and promotional expenses	<u>(30,970)</u>				
Net operating revenues	33,105				
Equity in the income of non- consolidated subsidiaries and associates	<u>23</u>				
Income before income tax	33,128				
Current income tax	(11,335)				
Deferred income tax (net)	<u>2,162</u>				
Income before non-controlling interest	23,955				
Non-controlling interest	<u>4</u>				
Net income	\$ 23,959				
	=====				

(Continued)

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

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

**Three-month period ended June 30, 2019**

<b><u>Item</u></b>	<b><u>Total</u></b>	<b><u>Commercial Bank</u></b>	<b><u>Corporate and Government Banking</u></b>	<b><u>Market Operations</u></b>	<b><u>Other Segments</u></b>
Net interest income	\$ 32,154	22,304	9,070	214	566
Allowance for loan losses	<u>(9,246)</u>	<u>(8,207)</u>	<u>(1,039)</u>	-	-
Net interest income adjusted for allowance for loan losses	22,908	14,097	8,031	214	566
Commissions and fees, net	7,069	4,658	2,238	104	69
Financial intermediation income (expense)	1,418	1,483	168	(370)	137
Other operating income	<u>(33)</u>	<u>(744)</u>	<u>16</u>	<u>1</u>	<u>694</u>
	31,362	19,494	10,453	(51)	1,466
		=====	=====	=====	=====
Administrative and promotional expenses	<u>(15,607)</u>				
Net operating revenues	15,755				
Equity in the income of non consolidated subsidiaries and associated companies	<u>19</u>				
Income before income tax	15,774				
Current income tax	(6,554)				
Deferred income tax (net)	<u>2,285</u>				
Income before non-controlling interest	11,505				
Non-controlling interest	-				
Net income	\$ 11,505				
	=====				

(Continued)

**BBVA Bancomer, S. A.,**  
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Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

**(21) Contingencies-**

At June 30, 2020 and December 31, 2019, there are claims against the Institution in ordinary 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, at those dates, the Institution has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of \$608 and \$630, respectively.

The legal contingencies movement for June 30, 2020 and December 31, 2019, financial six-month period and year is as follows:

	<b>Initial balance 2020</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance June 30, 2020</b>
\$	630	88	(110)	608

	<b>Initial balance 2019</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance December 31, 2019</b>
\$	466	360	(196)	630

At June 30, 2020 and December 31, 2019, there are claims against the Institution in labor actions; however, in opinion of its external lawyers, claims filed are considered inadmissible and, in the event of unfavorable resolutions, they would not affect significantly adversely the Institution's financial condition. For such purposes, as of June 30, 2020 and December 31, 2019, the Institution has weighted the impacts of each claim and has recorded a reserve for these labor matters of \$729 and \$683, respectively.

The movement of the claims against the Institution in labor actions for June 30, 2020 and December 31, 2019, financial six-month period and year is as follows:

	<b>Initial balance 2020</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance June 30, 2020</b>
\$	683	107	(61)	729

	<b>Initial balance 2019</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance December 31, 2019</b>
\$	719	128	(164)	683

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 outputs of resources, as well as the eventuality obtaining reimbursements.

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**BBVA Bancomer, S. A.,**  
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(Millions of Mexican pesos)

**(22) Significant event-**

**Support for the contingency derived from COVID-19**

Through Official Notice No. P-285/2020 dated on March 26, 2020 and Official statement No. 026/2020 dated April 15, 2020, the Commission authorized credit institutions to apply Special Accounting Standards (SAS) in order to support the clients impacted by the pandemic caused by the SARS-CoV2 virus (COVID-19) and the measures taken to prevent its spread.

The support program consists in granting borrowers a partial or total deferral of principal and / or interest payments for up to 4 months, and with the possibility of an additional 2 months. The support program will be up to 18 months in the case of credits granted to the primary agricultural sectors, such as livestock, forestry and fishing and to the industrial, commercial and service sectors integrated into the aforementioned primary sectors.

This will be applicable to credit institutions with respect to the following types of credits and for clients whose loans are classified as performing for accounting purposes as of February 28, 2020 and that at the request of each borrower are adhered to the program within the following 120 days:

- ✓ Credits for housing construction.
- ✓ Individual loans with a mortgage guarantee.
- ✓ Revolving and non-revolving loans, aimed at individuals (auto, personal, payroll, credit card (CC) and microcredits).
- ✓ Commercial loans for legal entities and individuals with business activity.
- ✓ Trusts of the bank considered as debtors.

In all cases, the restructuring/renewal process must not exceed 120 days from February 28, 2020 and the expiration period may be granted, if any, may not exceed 6 months, from the date on which it would have expired.

The SAS applicable to the Institution by type of credit are as follows:

1. Credits with "one-time payment of principal at maturity and periodic payments of interest, as well as, credits with one-time payment of principal and interest at maturity", which are restructured or renewed, will not be considered as non performing loans in terms of provisions of paragraph 79 of the Criteria B-6 Credit Portfolio contained in the Annex 33 of the General Provisions applicable to Credit Institutions (CUB). This as long as the borrowers loans are classified as a performing loans of February 28, 2020, in accordance with paragraph 12 of the B-6.
2. For credits with "periodic payments of principal and interest", which are restructured or renewed, may be considered as due loans, without applying what is established in paragraphs 82 and 84 of the Criteria B-6. This as long as, the borrowers are classified as a loan as of February 28, 2020, according to paragraph 12 of the Criteria B-6.

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**BBVA Bancomer, S. A.,**  
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(Millions of Mexican pesos)

3. Credits that are established as revolving from their start, which are restructured or renewed, are not considered to be nonperforming in terms of what is established in paragraphs 80 and 81 of the Criteria B-6. This as long as the borrowers are classified as a performing loan as of February 28, 2020, in accordance to paragraph 12 of the Criteria B-6.

In accordance with the SAS, the support programs by portfolio type consist of the following:

- ✓ Commercial (Enterprises and SMEs). Grace period between 4 and 6 months for capital and/or interest. According with each borrower's negotiations, the deferred monthly payments will be required at the expiration of the contract, with the extension of the expiration of the contract or at the end of the deferral period.
- ✓ Mortgages.- Deferral of up to 4 monthly installments that are required upon the maturity of the loan.
- ✓ Payroll, Auto and Personal.- Grace period of 4 months (or 8 biweeklies) of capital and/or interest are granted, with an extension of the term.
- ✓ CC.- Consists of deferring the payment enforceability for 4 months.

In all cases, the collection of default interest or charges for collection expenses do not apply and there will not affect the credit bureau.

As a result of the adhesion of the borrowers to the support programs, as of June 30, 2020 the total loan portfolio supported corresponds to \$324,306 of which, the number of cases and the deferred amount by type of credit as of the date mentioned above are detailed below:

<b>Portfolio</b>	<b>Number supported contracts</b>	<b>Deferred balance</b>	<b>Total Balance</b>
Commercial Activity	9,098	\$ 8,035	\$ 83,097
SME*	37,697	5,184	51,904
Mortgages	120,079	3,292	104,158
Auto	121,706	1,889	18,190
Payroll	281,017	2,391	22,240
Personal	139,053	1,449	12,461
CC	<u>783,763</u>	<u>4,203</u>	<u>32,256</u>
<b>Total</b>	<b>1,492,413</b>	<b>\$ 26,443</b>	<b>\$ 324,306</b>
	=====	=====	=====

\*Under grouping criteria of the Commission

If the SAS had not been applied, the Institution would have had an immaterial impact on the classification of the credit portfolio in the balance sheet. Considering that this support program started on April, and as the majority of the portfolio adhered to the program were still classified as performing in the referred month, as of June 30, 2020 most of the clients would still be in the performing loan portfolio due to the natural count of the dates without payments; that said, the non-performing loan portfolio supported in June 30, 2020 only corresponds to \$17, which represents 0.01% of the total, which has a marginal impact of less than 1 basis points (bp) on the Non-Performing Loan ratio (NPL).

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**BBVA Bancomer, S. A.,**  
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer  
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(Millions of Mexican pesos)

As of June 30, 2020 accrued interest that would have been recognized in the financial margin of the Income Statement, if the support program had not been granted, would amount to approximately \$5,001.

On that same date, the solvency effect for applying the SAS represented a decrease of 14 bp in the Capitalization Index (ICAP). This decrease is explained by the net effect of the lower generation of financial margin, as well as by the containment of risk-weighted assets of the credit portfolio.

**Extension of debtor support facilities.** Through Official Notice No. P-325/2020 dated June 23, 2020, the Commission has communicated the extension of the term to conclude the process of restructuring or renewal of the Official Support Program COVID to July 31, 2020 and generally applicable to customers who have been affected and that were accounted as performing as of March 31, 2020.

**(23) Regulatory pronouncements recently issued-**

**Adoption of international standard**

- a. According to press release No. 022/2020 dated April 8, 2020, the Commission announced that "the effective date of the Resolution published on the *Official Gazzete* ("DOF") on March 13, 2020, referring to the implementation of the International Financial Reporting Standard ("IFRS 9") and the recalibration of the commercial credit portfolio, will be on January 1, 2022, which was originally scheduled for January 1, 2021", according to what is indicated in subsection b and c of this section.
- b. According to the Resolution that modifies the general provisions applicable to credit institutions, published in the DOF on March 13, 2020, the Commission has resolved to adopt the IFRS 9, for which it is necessary to update the accounting criteria applicable to credit institutions, to make them consistent with the financial and international reporting standards contained in this resolution, which will allow having transparent and comparable financial information with other countries, with its entry effective on January 1, 2021.

BBVA Mexico's administration is in a process of determining the effects of the adoption of these modifications to the accounting criteria applicable to credit institutions.

- c. In accordance with the amendments that modifies the general provisions applicable to credit institutions, published in the DOF on November 4, 2019, the Commission has resolved to modify the following Financial Reporting Standards (FRS), which had previously been published in the DOF of December 27, 2017; and this will be effective as of January 1, 2021 rather than on January 1<sup>st</sup>, 2019.

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**BBVA Bancomer, S. A.,**  
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**and Subsidiaries**

Notes to the condensed consolidated interim financial information

(Millions of Mexican pesos)

The following is a brief description of the main changes with application as of January 1, 2021:

**Mexican FRS B-17 “Fair Value Determination”-** It 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 market-based determination and not on a specific value of an asset or a liability and that, when determining the fair value, the entity should use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions as of a specific date, including assumptions about risk. As a result, the entity’s intention to hold or liquidate an asset, or otherwise satisfy a liability, is not relevant in determining fair value.

In the event that the provisions contained in this 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 particular FRS that corresponds prospectively.

**Mexican FRS C-3 “Accounts receivable”-** Main changes issued for this FRS are shown below:

- a. It leaves the Bulletin C-3 “Accounts receivable” without effect.
- b. Specifies that accounts receivable 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 considered as a financial instrument.
- c. It establishes that the provisions for loan losses for commercial accounts payable is recognized from the moment the income is accrued, based on expected credit losses.
- d. It establishes that, from the initial recognition, the value of money over time must be considered, so if the effect of the present value of the account receivable is important in view of its term, it must be adjusted based on its present value. The effect of the present value is relevant when the payment of the account receivable is agreed, in whole or in part, for a term greater than one year, since in these cases a financing operation exists.

The accounting changes that arise must be recognized retrospectively, however, the valuation effects can be recognized prospectively.

**Mexican FRS C-9 “Provisions, contingencies and commitments”-** It leaves without effect the Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”, its scope is reduced by relocating the issue related to the accounting treatment of financial liabilities in FRS C-19 “Financial instruments payable” and it modifies the definition of a liability as “virtually unavoidable” and including the term “likely”. First time adoption of this Mexican FRS does not generate accounting changes in the financial statements of the Institution.

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(Millions of Mexican pesos)

**Mexican FRS C-16 “Impairment of Financial Instruments Receivable (FIR)”-** It indicates that, to determine the recognition of the expected loss, the historical experience that the entity has in credit losses should be considered; as well as, current conditions and reasonable and sustainable forecasts for the different measurable future events that could affect the amount of future cash flows to be recovered from the FIR.

It also notes that the expected loss should be recognized when, having increased credit risk, it is concluded that a portion of the FIR future cash flows will not be recovered. Any accounting changes that arise should be recognized retrospectively.

**Mexican FRS C-19 “Financial instruments payable”-** The main characteristics issued for this FRS are shown below:

- The possibility of valuing certain financial liabilities at their fair value is established when certain conditions are met.
- Value long-term liabilities at their present value at initial recognition.
- When restructuring a liability, without substantially modifying the future cash flows to settle it, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized using a modified effective interest rate, instead of directly affecting the net income or loss.
- It incorporates the provisions in IFRIC 19 “Extinction of Financial Liabilities with Capital Instruments”, an issue that was not included in the existing regulations.
- The effect of extinguishing a financial liability must be presented as a financial result in the comprehensive income statement.
- It introduces the concepts of amortized cost to value financial liabilities and the effective interest method, based on the effective interest rate.

Any accounting changes that arise must be recognized retrospectively.

**Mexican FRS C-20 “Financial instruments to collect principal and interest”-** The main characteristics issued for this FRS are shown below:

- The way of classifying the financial instruments as assets is modified, since the concept of intention to acquire and hold them to determine their classification is discarded, instead the adoption of the concept business model of the administration.
- The classification includes financial instruments whose objective is to collect the contractual cash flows and obtain a gain on the contractual interest they generate, having characteristics of a loan.
- They include both financial instruments generated by sales of goods or services, financial leases or loans, as well as those acquired in the market.

Any accounting changes that arise should be recognized retrospectively.

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**BBVA Bancomer, S. A.,**  
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**Mexican FRS D-1 “Revenues from clients’ contracts”** - The main changes issued for this FRS are shown below:

- Control transfer, based on the opportunity to recognize income.
- Identify the obligations to be complied with in a contractual agreement.
- The allocation of the transaction price among the complied obligations based on the independent sales price.
- 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 first applies this rule.

**Mexican FRS D-2 “Revenue, costs from contracts with clients”** – The main change in this rule is the separation of the regulations regarding the recognition of revenue from contracts with clients from the regulations for the recognition of costs for contracts with clients.

The initial application date is the beginning of the period in which the Institution first applies this rule.

**Mexican FRS D-5 “Leasing”**- Effective from January 1, 2019. Its early application is allowed for those who use FRS D-1 “Revenue from contracts with clients” and FRS D-2 “Costs from contracts with clients”, before the date of initial application of this FRS. It leaves without effect the Bulletin D-5 “Leases”. The application for the first time of this FRS generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are the following:

- Eliminates the classification of leases as operational or capitalizable for a lessee, and the latter must recognize a liability for leasing at the present value of the payments and an asset for use of rights for the same amount, of all leases with a duration greater than 12 months, unless the underlying asset is of low value.
- An expense for depreciation or amortization of the right-of-use assets and an interest expense on the lease liabilities are recognized.
- It modifies the presentation of related cash flows, as cash outflows from operating activities are reduced, with an increase in outflows of cash flows from financing activities.
- It modifies the recognition of the gain or loss when a seller-lessee transfers an asset to another entity and leases that asset in return.
- The accounting recognition by the lessor has no changes in relation to the previous Bulletin D-5, and only some disclosure requirements are added.

BBVA Mexico’s Management is in the process of determining the effects of adopting the new FRS and the improvement to the FRS in the financial statements.

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(Millions of Mexican pesos, except otherwise noted)

**d. New Standard Pronouncements issued by CINIF**

*El Consejo Mexicano de Normas de Información Financiera, A. C.* (CINIF) has issued the improvements mentioned below:

**Improvements to 2020 Mexican FRS**

In December 2019, the CINIF issued a document titled “Improvements to Mexican FRS 2020”, which contains specific amendments to some existing Mexican FRS. The main amendments made to the FRS do not generate accounting changes in the annual financial statements.



**BBVA Bancomer, S.A.,  
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acting directly or through its Texas Agency**

**U.S.\$10,000,000,000 Medium-Term Note Program**

Under this U.S.\$10,000,000,000 Medium-Term Note Program (the “**Program**”) described in this base offering memorandum (this “**Offering Memorandum**”), BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States (the “**Bank**”), acting through its Texas Agency unless the applicable pricing supplement specifies that the Bank is acting directly (the “**Issuer**”), may from time to time issue notes (the “**Notes**”) on a senior or subordinated basis. The Notes will be denominated in any currency agreed upon between the Bank and the relevant Dealer (as defined below).

***THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE SAVINGS PROTECTION AGENCY (INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO, OR “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.***

***An investment in Notes issued under the Program involves certain risks. For a discussion of these risks, see “Risk Factors” beginning on page 13.***

This Offering Memorandum does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). This Offering Memorandum has not been reviewed or approved by any regulator which is a competent authority under the Prospectus Regulation. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) for the approval of this document as base listing particulars and for Notes issued under the Program to be admitted to the Official List and trading on Euronext Dublin (the “**Global Exchange Market**”) for a period of twelve months from the date of this base listing particulars. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, “**MiFID II**”). There is no assurance that any series of Notes will be listed and admitted to trading on the Global Exchange Market. The Notes may also be listed and traded on other non-EU regulated markets or not be listed at all.

**We have not and will not register the Notes under the United States Securities Act of 1933, as amended (the “Securities Act”), or any securities laws of any state or any other jurisdiction. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers (“QIBs”) in reliance on the exemption from registration provided by Rule 144A (“Rule 144A”) under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S (“Regulation S”) under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See “Plan of Distribution” and “Transfer Restrictions.”**

**Neither the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the “CNBV”) nor the U.S. Securities and Exchange Commission (the “SEC”), nor any state or foreign securities commission or regulatory authority, has approved or disapproved of the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of an offering of the Notes or the accuracy, adequacy or completeness of this Offering Memorandum. Any representation to the contrary is a criminal offense.**

***Arranger***

**BNP Paribas**

***Dealers***

**Barclays  
BofA Securities  
Credit Suisse  
Goldman Sachs & Co. LLC  
Morgan Stanley  
SMBC Nikko**

**BBVA  
Citigroup  
Deutsche Bank  
HSBC  
MUFG  
Standard Chartered Bank  
Wells Fargo Securities**

**BNP Paribas  
Credit Agricole CIB  
Deutsche Bank Securities  
J.P. Morgan  
Nomura  
UBS Investment Bank**

The date of this Offering Memorandum is April 23, 2020.

This Offering Memorandum should be read and understood in conjunction with any supplement hereto. Full information on the Issuer and any Notes issued under the Program is available on the basis of the combination of this Offering Memorandum (including any supplement and any document incorporated by reference herein) and the relevant Pricing Supplement.

We, in our capacity as issuer, accept responsibility for the information contained in this Offering Memorandum. We, having taken all reasonable care to ensure that such is the case, confirm that the information contained in this Offering Memorandum is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR “RNV”), MAINTAINED BY THE CNBV AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO; THE NOTES MAY BE OFFERED OR SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS, SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. WE WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV IN RESPECT OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV FOR STATISTICAL AND INFORMATIONAL PURPOSES, TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY OF SUCH NOTICE TO, AND RECEIPT BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, AND DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM. THIS OFFERING MEMORANDUM IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.**

No person is or has been authorized to give any information or to make any representations, other than that which is contained in or consistent with this Offering Memorandum, and we take no responsibility for any other information or representations that you may receive from others. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Program or to advise any investor in the Notes of any information that comes to their attention. Neither this Offering Memorandum nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank or any of the Dealers that any recipient of this Offering Memorandum or any recipient of any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. In the absence of a relevant Pricing Supplement, neither this Offering Memorandum nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank or any of the Dealers to subscribe for or to purchase any Notes.

Neither this Offering Memorandum nor any Pricing Supplement constitutes an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of the Notes may be restricted by law in certain jurisdictions. The Bank and the Dealers do not represent that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering.

In particular, no action has, to date, been taken by the Bank or the Dealers that would permit a public offering of any Notes or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any

advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. There are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in the United States, Mexico, Canada, Japan, Hong Kong, Singapore and the European Economic Area, among others. See “Plan of Distribution” and “Transfer Restrictions.” In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE “RISK FACTORS” IN THIS OFFERING MEMORANDUM AND ANY SUPPLEMENT HERETO FOR A DESCRIPTION OF SPECIFIED FACTORS RELATING TO AN INVESTMENT IN THE NOTES. NEITHER WE, THE DEALERS, NOR ANY OF OUR OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO YOU REGARDING THE LEGALITY OF AN INVESTMENT BY YOU UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE NOTES.

The Notes issued under the Program have not been, and will not be, approved or disapproved by the CNBV, the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is a criminal offense.

The Notes are not deposits with us and are not insured by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the IPAB, and are not guaranteed or secured, in any manner, by any entity that is part of Grupo Financiero BBVA Bancomer (including its holding company).

A series of Notes issued under the Program may be rated or unrated. Where a series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Program. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Bank may adversely affect the market price of the Notes issued under the Program. The rating of certain series of Notes to be issued under the Program may be specified in the applicable Pricing Supplement. Whether or not each credit rating applied for in relation to a relevant series of Notes will be issued by a credit rating agency established in the European Union or the United Kingdom (the “**UK**”) and registered under Regulation (EC) No. 1060/2009/EC, as amended (the “**CRA Regulation**”), will be disclosed in the Pricing Supplement. In general, and subject to and in accordance with the provisions of the CRA Regulation, European regulated investors are restricted from using a credit rating for regulatory purposes if such credit rating is not issued by a credit rating agency established in the European Union or the UK and registered under the CRA Regulation.

In making an investment decision, investors must rely on their own examination of the Bank and its subsidiaries and the terms of the Notes being offered, including the merits and risks involved.

## NOTICES TO INVESTORS

### NOTICE TO RELATED PARTIES OF THE ISSUER

**PURSUANT TO BULLETIN 3/2012 ISSUED BY BANCO DE MÉXICO, AS AMENDED FROM TIME TO TIME, INCLUDING THE AMENDMENT THROUGH BULLETIN 16/2018, NO RELATED PARTY OF THE ISSUER, AS DEFINED IN ARTICLE 73 OF THE MEXICAN BANKING LAW, MAY ACQUIRE, DIRECTLY OR INDIRECTLY, ANY SUBORDINATED NOTES TO BE ISSUED UNDER THE PROGRAM.**

#### Notice to Persons in the United States

The offer and sale of Notes has not been, and is not required to be, registered with the SEC. The Notes will be offered and sold in the United States solely to “qualified institutional buyers” under Rule 144A of the Securities Act, and in offshore transactions to persons other than U.S. persons, in reliance on Regulation S under the Securities Act. Following any such offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act; or
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “Transfer Restrictions.”

Accordingly, each purchaser, in making its purchase, will be deemed to have represented to, and agreed with, the Bank that it is:

- a “qualified institutional buyer” under Rule 144A; or
- a non-U.S. person purchasing the Notes in an offshore transaction, to the extent such offering is made in accordance with Regulation S under the Securities Act.

#### Notice to Persons in the United Kingdom

In the UK, this communication is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Order**”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

#### Prohibition on Sales to EEA and UK Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA and UK Retail Investors,” the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”) or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.



### **MiFID II Product Governance / Target Market**

The Pricing Supplement in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of the Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

### **Conflicts of Interest**

Because BBVA Securities Inc., a dealer under the Program, is under common control with the Bank, a conflict of interest under Financial Industry Regulatory Authority, Inc. (“**FINRA**”) Rule 5121 is deemed to exist. Accordingly, an offering of the Notes in which BBVA Securities Inc. participates will be conducted in accordance with this rule. Pursuant to FINRA Rule 5121, BBVA Securities Inc. will not confirm sales to any account over which it exercises discretionary authority without the specific prior written approval of the account holder.

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AS REQUIRED UNDER APPLICABLE MEXICAN LAW, *BANCO DE MÉXICO*, THE MEXICAN CENTRAL BANK, MUST AUTHORIZE EACH ISSUANCE OF SUBORDINATED NOTES. FURTHERMORE, EACH INDENTURE FOR THE ISSUANCE OF SUBORDINATED NOTES WILL BE REQUIRED TO BE EXECUTED AND ACKNOWLEDGED BY AN AUTHORIZED OFFICIAL OF THE CNBV. AUTHORIZATION OF ANY ISSUANCE OF THE SUBORDINATED NOTES BY *BANCO DE MÉXICO* DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF THE SUBORDINATED NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE SUBORDINATED NOTES OR AS TO THE BANK'S SOLVENCY, LIQUIDITY OR CREDIT QUALITY, OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN OR IN ANY AMENDMENT OR SUPPLEMENT HERETO, OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), RELEVANT PROVISIONS OF BULLETIN 3/2012 ISSUED BY *BANCO DE MÉXICO* AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE CRÉDITO*) ISSUED BY THE CNBV.

Unless otherwise indicated or the context otherwise requires, references to:

- the “**Bank**,” “**we**,” “**us**,” “**our**” and “**ourselves**” are to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, and its consolidated subsidiaries;
- the “**BBVA Parent**” or “**BBVA**” are to our indirect parent, Banco Bilbao Vizcaya Argentaria, S.A.;
- the “**BBVA Group**” are to BBVA Parent and its subsidiaries;
- the “**Issuer**” are to the Bank, acting through its Texas Agency unless otherwise specified in the applicable Pricing Supplement;
- the “**Texas Agency**” are to the Texas Agency of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer;
- “**Dealers**” are to Banco Bilbao Vizcaya Argentaria, SA, Barclays Capital Inc., BBVA Securities Inc., BNP Paribas, BNP Paribas Securities Corp., BofA Securities, Inc., Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Deutsche Bank AG,

London Branch, Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, MUFG Securities Americas Inc., Nomura Securities International, Inc., SMBC Nikko Securities America, Inc., Standard Chartered Bank, UBS Securities LLC and Wells Fargo Securities, LLC and any other Dealer appointed from time to time in accordance with the Dealer Agreement;

- “**relevant Dealer**” are, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, to all Dealers agreeing to purchase such Notes; and
- “**Mexico**” is to the United Mexican States.

## AVAILABLE INFORMATION

We file annual and quarterly reports and other information, all of which is in the Spanish language, with the Bolsa Mexicana de Valores, S.A.B. de C.V. (the “**BMV**”) and the Bolsa Institucional de Valores, S.A. de C.V. (the “**BIVA**”) in accordance with the requirements applicable to issuers of securities registered with the RNV maintained by the CNBV. Our BMV and/or BIVA filings are available to the public on the Internet at our website, [www.bbva.mx](http://www.bbva.mx), at the BMV’s website, [www.bmv.com.mx](http://www.bmv.com.mx), and at the BIVA’s website, [www.biva.mx](http://www.biva.mx). The address of our website is included in this Offering Memorandum as active textual references only. The information on our website is not a part of, and is not incorporated by reference into, this Offering Memorandum or any supplement thereto.

To permit compliance with Rule 144A under the Securities Act in connection with resales of Notes in reliance on Rule 144A, we will be required under the indenture relating to such Notes, upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “**Notices to Investors**”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

Application has been made to Euronext Dublin for the approval of this document as listing particulars. This Offering Memorandum forms, in all material respects, the listing particulars for admission to Euronext Dublin. We will be required to comply with any undertakings given by us from time to time to Euronext Dublin in connection with the Notes issued under the Program, and to furnish to it all such information as the rules of Euronext Dublin may require in connection with the listing of the Notes.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a multi-purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). Most of the members of our board of directors (the “**Board of Directors**”), executive officers and controlling persons named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws.

No treaty exists between the United States and Mexico for the reciprocal enforcement of foreign judgments. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements were met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy; *provided* that U.S. courts would grant reciprocal treatment to Mexican judgments. Additionally, there is uncertainty as to the enforceability, in original actions in Mexican courts of liabilities predicated, in whole or in part, on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws. See “Risk Factors.”

If proceedings are brought in Mexico seeking to enforce our obligations in respect of the Notes, we would not be required to discharge such obligations in a currency other than the Mexican peso. Pursuant to Mexican law, an obligation in a currency other than the Mexican peso, which is payable in Mexico, as a result of the enforcement of a judgment or an initial claim, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payment is made. Such rate of exchange is currently determined by *Banco de México* each business day in Mexico and published the following banking-business day in the Mexican Federal Official Gazette (*Diario Oficial de la Federación*).

We have been advised by Texas counsel that a money judgment rendered in Mexico for amounts due under any indenture governing the Notes issued under the Program or such Notes (other than a judgment for taxes, fines or other penalties) that has become final, conclusive and enforceable under the judicial system of Mexico would generally be enforceable against the Issuer in a Texas court if such judgment meets the requirements of the Uniform Foreign-Country Money Judgment Recognition Act as then in effect in the State of Texas and the judgment creditor complies with the applicable procedures for recognition. However, a Texas court is not permitted to recognize a foreign money judgment against the Texas Agency (as issuer) that (i) was rendered under a judicial system that does not provide

impartial tribunal or procedures compatible with due process of law, (ii) if the Mexican court did not have personal jurisdiction over the Texas Agency (as issuer), or (iii) if the Mexican court did not have jurisdiction over the subject matter. Moreover, a Texas court may determine not to recognize a foreign money judgment against the Bank if (a) the Issuer did not receive notice of the Mexican court proceeding in sufficient time to enable an adequate defense, (b) the judgment was obtained by fraud that deprived the Issuer of an adequate opportunity to present its case, (c) the cause of action or defense in such judgment is repugnant to the public policy of Texas or the United States, (d) the judgment conflicts with another final and conclusive judgment, (e) the proceeding in the Mexican court was contrary to a settlement agreement concerning the dispute, (f) personal jurisdiction was based only on personal service and the Mexican court was a seriously inconvenient forum, (g) the judgment was rendered in circumstances that raise substantial doubt about the integrity of the Mexican court with respect to the judgment, (h) the specific proceeding in the Mexican court leading to the judgment was not compatible with due process of law or (i) a Mexican court would not recognize a comparable judgment rendered by a Texas court. A Texas court would ordinarily only render or enforce a judgment for money relating to the indenture governing the Notes issued under the Program or such Notes in U.S. dollars.

The Bank has appointed CT Corporation System, with offices located at 28 Liberty St., New York, New York 10005, as its authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York arising out of or based upon the Notes issued under the Program or any indenture governing such Notes. See “Description of the Notes.”

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum relating to our plans, forecasts and expectations regarding future events, strategies and projections are estimates. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial position, (ii) statements of plans, objectives or goals, including those related to our operations, and (iii) statements of assumptions underlying such statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “consider,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “assume,” “foresee,” “seeks,” “predict,” “project,” “potential,” or the negative of these terms, and other similar terms are used in this Offering Memorandum to identify such forward-looking statements. Forward-looking statements included in this Offering Memorandum are based on our current expectations and projections related to future events and trends that affect or would affect our business.

Forward-looking statements include risks, uncertainties and assumptions, since these refer to future events and, therefore, do not represent any guarantee of future results. Therefore, our financial condition, results of operations, strategies, competitive position and market environment may significantly differ from our estimates as a result of a number of factors, including, but not limited to:

- Changes in economic, political, social and other conditions in Mexico and elsewhere, including changes resulting from the COVID-19 pandemic;
- changes in requirements to make contributions to the Mexican government;
- financing plans and limitations on our access to sources of financing on competitive terms;
- changes in general economic, business, social, political, public health or other conditions in Mexico, the United States or elsewhere;
- the ability or willingness of our customers to meet their payment obligations;
- the monetary, foreign exchange, liquidity and interest rate policies of *Banco de México*, the Mexican Central Bank;
- possible disruptions to commercial activities due to natural and man-made disasters, including health epidemics, weather events, terrorist activities and armed conflicts;
- material changes to, or withdrawals from, or renegotiations of free trade agreements to which Mexico is a party, including the implementation of the new North American Free Trade Agreement (“NAFTA,” being replaced by the United States, Mexico, Canada Agreement, or the “USMCA”);
- competition in the banking and financial services industry in Mexico;
- profitability of our businesses;
- changes in exchange rates, market interest rates or the rate of inflation;
- credit and other risks of lending, such as increases in default of borrowers, and changes required to loan loss reserves and amounts;
- limitations on our access to sources of financing on competitive terms;
- failure to meet capital or other requirements;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- limitations on our ability to freely determine interest rates;
- changes in reserve or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- our inability to hedge against market risks, including but not limited, to interest rate and exchange rate movements;

- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- changes in our or Mexico's domestic and international credit ratings;
- changes in regulations relating to the products we offer or otherwise;
- changes in capital markets in general that may affect policies or attitudes towards investing in Mexico or securities issued by companies in Mexico;
- any failure or weakness in our operating controls or procedures or our risk management policies;
- changes in consumer spending and saving habits;
- a deterioration of labor relations with our employees and changes in the laws or regulations applicable thereto that would result in additional costs relating to employee benefits;
- our ability to implement new technologies and to safeguard against cyber-attacks and other breaches of our information technology systems;
- interruptions or failures in our technology systems;
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*, or "COFECE") or the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the "SHCP") with respect to our business and the Mexican banking industry generally;
- any adverse administrative or legal proceedings against us;
- organized criminal activities and other geopolitical events;
- any failure to detect money laundering or other illegal or improper activities;
- cyber-attacks and their impact on our reputation, operations and results;
- the impact of acquisitions and divestitures;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under "Risk Factors" in this Offering Memorandum.

Therefore, our actual performance may be adversely affected and may significantly differ from the expectations set forth in these forward-looking statements, which do not represent a guarantee of our future performance. Accordingly, you should not place undue reliance on the estimates and forward-looking statements included in this Offering Memorandum to make an investment decision.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations and estimates reflected in, or suggested by, forward-looking statements included in this Offering Memorandum to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Forward-looking statements included herein are made only as of the date of this Offering Memorandum. Except as required by law, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events or circumstances.

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### Accounting Principles

Our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years then ended (our “**2019 Financial Statements**”) and our audited consolidated financial statements as of December 31, 2018 and 2017 and for the years then ended (our “**2018 Financial Statements**” and, together with our 2019 Financial Statements, our “**Audited Financial Statements**”) contained in this Offering Memorandum have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for banks, as amended (“**Mexican Banking GAAP**”).

Mexican Banking GAAP differs in certain respects from Mexican Financial Reporting Standards, as published by the Mexican Board for the Research and Development of Financial Reporting Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP also differs in certain respects from generally accepted accounting principles in the United States of America (“**U.S. GAAP**”), and the guidelines of the U.S. Securities and Exchange Commission applicable to banking institutions in the United States and from the International Financial Reporting Standards (“**IFRS**”). See “Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS.” No reconciliation of our Audited Financial Statements to U.S. GAAP or IFRS has been prepared for the purposes of this Offering Memorandum. Any such reconciliation would likely result in material differences. See “Risk Factors—The Financial Statements included in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP and IFRS.”

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Audited Financial Statements and the other financial information with respect to us contained in this Offering Memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See Notes 3 and 16 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Our financial information should be read together with our Audited Financial Statements, the corresponding notes thereto, and the applicable reports of the independent auditors, each of which are included in this Offering Memorandum.

### Currencies

In this Offering Memorandum, references to “pesos” and “Ps.” are to Mexican pesos, and references to “U.S. dollars” and “U.S.\$” are to United States dollars.

This Offering Memorandum contains translations of peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at the exchange rate of Ps.18.8642 to U.S.\$1.00, which was the rate on December 31, 2019, as published by *Banco de México* in the Federal Official Gazette on January 2, 2020. On April 22, 2020, the rate published by *Banco de México* in the Federal Official Gazette was Ps.24.4248 to U.S.\$1.00.

### Terms Relating to Our Loan Portfolio

As used in this Offering Memorandum, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

“**Total current loans**” and “**total current loan portfolio**” refer to the aggregate of (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to “accrued interest, but unpaid,” (3) “rediscounted loans” and (4) the “UDI Trusts” (as defined below). Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid on current loans during that period. Such “accrued interest” is reported as part of our total current loan portfolio in our financial statements until it is paid or becomes part of the total past due loan portfolio in accordance with the CNBV’s rules.

“**Rediscounted loans**” are peso- and U.S. dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government’s development banks and are generally funded in part by such development banks. In accordance with Mexican Banking GAAP,



rediscounted loans are recorded on the balance sheet as outstanding loans until they are paid or become past due in accordance with the CNBV's rules. As mandated by the CNBV, total current loans include the off-balance sheet portfolio trusts ("**UDI Trusts**"), which are trusts holding our loans converted into UDIs that are consolidated in our financial statements. Under a UDI-based loan or financial instrument, interest is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount in pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. Under the UDI Trust program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See Notes 3, 9, 10 and 26 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

The terms "**total past due loans**" and "**total past due loan portfolio**" include past due principal and past due interest. For a description of our policies regarding the classification of loans as past due, see "Selected Statistical Information—Loan Portfolio—Past Due Loan Portfolio." The term "**net past due loans**" refers to total past due loans less the allowance for loan losses on these loans.

References in this Offering Memorandum to "**provisions**" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders' equity (net of deferred taxes). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

References in this Offering Memorandum to "**allowance**" are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms "**total loans**" and "**total loan portfolio**" include total current loans plus total past due loans, each as defined above. The terms "**net total loans**" and "**net total loan portfolio**" refer to net total current loans plus net past due loans, as defined above.

The loan portfolio information provided in "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this Offering Memorandum as described above, except that the data for the loan portfolio presented under "Selected Statistical Information" does not include amounts attributable to accrued interest, which represented 0.64% of our total loan portfolio as of December 31, 2019. See "Selected Statistical Information—Loan Portfolio" and the footnotes to the tables included therein.

### Terms Relating to Our Capital Adequacy

As used in this Offering Memorandum, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

- "**Total Capital**" or "**Total Net Capital**" refers to total net capital (*capital neto*), as such term is determined based on the Mexican Banking Law (*Ley de Instituciones de Crédito*) and the Rules for Capitalization referred to below.
- "**Tier 1 Capital**" refers to the basic capital (*parte básica*) of the Total Net Capital, as such term is determined based on the Rules for Capitalization.
- "**Fundamental Capital**" refers to our fundamental capital (*capital fundamental*) or "Core Equity Tier 1 Capital."
- "**Tier 2 Capital**" refers to the *parte complementaria* (additional portion) of the Total Net Capital (*capital complementario*), as such term is determined based on the Rules for Capitalization.
- "**Capital Ratios**" refers to each of the ratios of (i)(a) the Total Net Capital (*capital neto*), (b) Fundamental Capital (*capital fundamental*) or (c) Tier 1 Capital to (ii) risk-weighted assets, market risk and operational risk, calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) or the CNBV, as the case may be, pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.
- "**Capital Conservation Buffer**" refers to the capital supplement required to be equivalent to 2.5% of a Mexican bank's total risk-weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.

- **“General Rules Applicable to Mexican Banks”** means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) issued by the CNBV, as such regulations have been amended and may be amended from time to time.
- **“Rules for Capitalization”** means the provisions regulating the capitalization of banks included in the General Rules Applicable to Mexican Banks issued by the CNBV, as such regulations may be amended or superseded.
- **“Mexican Capitalization Requirements”** refers to the capitalization requirements for commercial banks set forth under the Mexican Banking Law, Rules for Capitalization and the General Rules Applicable to Mexican Banks, as such regulations may be amended or superseded.

#### **Other Definitions**

The following additional definitions are used in this Offering Memorandum:

- **“Repurchase agreement”** means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (1) a specified premium to be paid or received and (2) the obligation to resell or repurchase the underlying security. Repurchase agreements may or may not be secured.
- **“Sofom”** means multi-purpose financial entities, or *sociedades financieras de objeto múltiple*.

#### **Rounding Adjustments**

Certain amounts and percentages included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetical aggregation of the figures preceding them.

#### **Market Share and Ranking Information**

Unless otherwise indicated, the market share and ranking information included in this Offering Memorandum is derived from statistics of the CNBV or the Mexican Banking Association (*Asociación de Bancos de México, A.C.*), each as of December 31, 2019.

We accept responsibility for accurately reproducing the information and, as far as we are aware and are able to ascertain from information published by *Banco de México*, the CNBV or the Mexican Banking Association (*Asociación de Bancos de México, A.C.*), no facts have been omitted which would render such reproduced information inaccurate or misleading.

## SUMMARY

*The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Offering Memorandum and any supplement thereto. For a more complete understanding of us and the Program, you should read the entire Offering Memorandum and any supplement thereto, including the risk factors and our Audited Financial Statements included elsewhere in this Offering Memorandum and any supplement thereto.*

### The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law. As of December 31, 2019, we had total assets of Ps.2,130,588 million, total deposits of Ps.1,267,620 million and stockholders' equity of Ps.214,866 million. For the year ended December 31, 2019, our net income was Ps.49,254 million. As of December 31, 2019, based on total assets, loans and deposits, we were the largest bank in Mexico according to data from the CNBV. We are present in all 32 Mexican states.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V., a Mexican financial services holding company ("**GFBB**"). GFBB is controlled, and substantially all of its capital stock is beneficially owned, by Banco Bilbao Vizcaya Argentaria, S.A., a leading Spanish bank and the controlling entity of a global financial group ("**BBVA Parent**"). As of December 31, 2019, the Bank accounted for 90.2% of GFBB's total assets and 86.4% of GFBB's net income for the year then ended.

We are principally focused on distributing our banking products and services efficiently. As of December 31, 2019, we distributed our products and services in Mexico through a nationwide network of 1,860 branches, as well as our agency located in Houston, Texas. At that same date, we operated 13,170 ATMs and 463,644 point-of-sale ("**POS**") terminals, and also offered a wide range of products and services through mobile phone apps and internet banking. As of December 31, 2019, channels other than a teller window were used in approximately 88% of our banking transactions (excluding those completed at POS terminals).

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's gross domestic product ("**GDP**"), which grew by 1.3% from 2017 to 2019 according to data from *Banco de México*. From 2017 to 2019, the compounded annual growth rate of our total current loan portfolio balance and of our total deposits (including demand and time deposits) was 7.3% and 3.9%, respectively, while our asset quality remained stable. Our current loan portfolio balance grew by 6.6% in the year ended December 31, 2019, by 7.9% in 2018 and by 5.7% in 2017, in each case, compared to the previous year. Total past due loans as a percentage of total loans was 2.2% at December 31, 2019, 2.0% at December 31, 2018 and 2.1% at December 31, 2017.

As of December 31, 2019, the total balance of our current commercial loan portfolio, which includes loans to corporations and other enterprises as well as financial and governmental entities, represented 56% of our total current loan portfolio balance, while the total balance of our consumer loan portfolio represented 25% of our total current loan portfolio balance and our mortgage loan portfolio balance represented the remaining 19%.

Our net income increased by 6.9% in the year ended December 31, 2019, by 17.7% in 2018 and by 17.5% in 2017, each as compared to the previous year.

We are continuously focused on evolving and improving the customer experience and expanding our range of products and services offered both through traditional and digital channels. One of the main elements of the Bank's business model is customer segmentation, enabling it to tailor its services to each customer segment. To approach the different customer segments, the Bank operates through the following business units:

- **Retail Network:** Caters to all retail segments through an extensive branch network. This business unit focuses on providing banking and insurance services to retail customers and small businesses.
- **Government and Business Banking:** Focuses on providing banking services to medium-sized companies, government entities, housing developers and distributors in the automobile market.
- **Corporate and Investment Banking:** Focuses on providing banking services to institutional and large corporate investors, including global customers of the Bank, offering them a wide range of investment products. Recently this unit merged with our former global markets unit, which, together with our brokerage services function, offers sophisticated products to individuals and enterprises.

The business units are supported by staff units, which contribute to the consistent performance of our business, and offer an integrated management structure that promotes the creation of synergies aimed to achieve our continued growth goals.

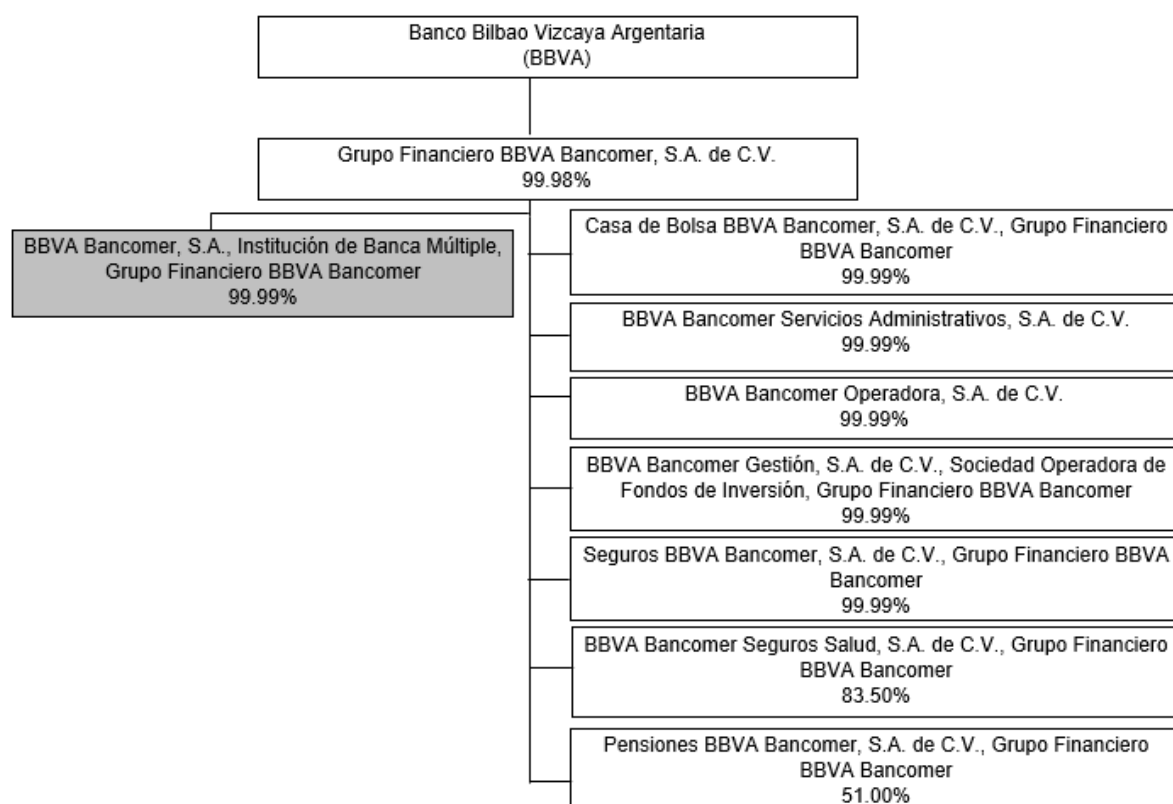
### **Organizational Structure**

We are the principal subsidiary of GFBB, a holding company authorized under Mexican law to establish and operate a financial group.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates that are not our subsidiaries, including:

- bank insurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer;
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero BBVA Bancomer;
- pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer; and
- health insurance products on behalf of BBVA Bancomer Seguros Salud, S.A. de C.V., Grupo Financiero BBVA Bancomer.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this Offering Memorandum:<sup>(1)</sup>



<sup>(1)</sup> See our Audited Financial Statements included elsewhere in this Offering Memorandum for a list of our subsidiaries.

Our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600. Our telephone number is +52 (55) 5621-3434.

## Our History

### General

The Bank was incorporated under the name “El Nuevo Mundo, S.A.” on October 8, 1945 in Mexico City. The Bank’s name was changed in 1951 to “Industria y Crédito, S.A.” and then to “Financiera Bancomer, S.A.” in 1957.

In 1977, various institutions comprising the network of the Banco de Comercio Group, among which were Banco de Comercio, S.A. and Hipotecaria Bancomer, S.A. merged, with Financiera Bancomer, S.A. as the surviving entity. Financiera Bancomer, S.A. changed its corporate name to Bancomer, S.A.

Bancomer, like most other Mexican commercial banks, was nationalized in 1982. At the end of the 1980s, a series of measures were implemented to deregulate the Mexican financial system. This process of deregulation resulted in the re-privatization of commercial banks, including Bancomer, S.A. As part of the subsequent privatization process, in 1991, a group of Mexican investors consisting of the major shareholders of Valores Monterrey Aetna, S.A. de C.V. acquired 56% of the outstanding capital stock of Bancomer, S.A. GFBB was incorporated in 1991 in order to acquire and hold a controlling interest in Bancomer and other financial institutions.

GFBB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in Bancomer for shares of GFBB's capital stock, which gave GFBB control of nearly 100% of Bancomer's outstanding capital.

In July 2000, BBVA Parent acquired control of Grupo Financiero Bancomer, as a result of which Grupo Financiero Bancomer changed its name to Grupo Financiero BBVA Bancomer, S.A. de C.V. (which we refer to in this Offering Memorandum as "GFBB").

## Strategy

Since 2013, the Bank has made significant progress in its transformation. In 2017, we defined our purpose – "to bring the age of opportunity to everyone," the values that guide us, and our strategic priorities.

The values that guide us include:

- *the customer comes first* - prioritizing our customers' experience and needs;
- *we think big* - we want to help our customers achieve their most valuable goals, being more than a bank that enables opportunities, so we can have a positive impact on people's lives and on the business activities of companies; and
- *we are one team* - we encourage everyone at the Bank to actively participate, so that everyone works towards the same common objectives.

In an effort to continue with our transformation during 2019, we redefined our value proposition to focus on our customers' real needs, as well as on our strategic priorities.

Thus, we aim to further strengthen our relationship with our customers, taking into consideration the following: (1) our objective of providing quality financial counseling to help customers make the best financial decisions; (2) clear, straightforward and trustworthy solutions on fair terms; and (3) a transparent and convenient experience, via digital channels or direct human interaction.

Along with the foregoing, to fully respond to major trends in the financial industry, as well as to the competitive environment in which we operate, our customers' expectations and behavior and our commitment to sustainability and data privacy, we created three new core principles and implemented six new strategic priorities:

- Our value proposition that defines us and distinguishes us from our competitors:
  - Strengthen our customers' financial health
  - Guide our customers to a sustainable future
- Leverage our existing assets to create distinctive performance:
  - Increase number of total customers
  - Promote operational excellence
- Our utilization of boosters to help us achieve our main goals:
  - Utilize our best and most committed team
  - Be technology and data driven

## Recent Developments

In late 2019, an outbreak of the COVID-19 virus originated in China and since then it has spread globally, disrupted markets and economies worldwide and resulted in severe uncertainty about the economies affected by the outbreak. The Bank has been, and will continue to be, affected by the COVID-19 outbreak both directly and indirectly, through an impact on its customers, counterparties, employees and other stakeholders, both in Mexico and elsewhere, as a result of, among others, public health measures, such as closings of "non-essential" businesses and restrictions on travel and gatherings. The exact ramifications of this outbreak are highly uncertain and, as of the date of this Offering Memorandum, it is difficult to predict the spread or duration of the pandemic or its full effect on the Mexican and global economies.

The COVID-19 outbreak and the preventive measures implemented in Mexico and elsewhere to contain its spread could have an adverse effect on our borrowers, which could in turn increase our delinquency rates and past due loan ratios. On March 25, 2020, the CNBV, in order to mitigate the economic effects of the COVID-19 outbreak, announced certain special temporary measures applicable to banking institutions, including, among others, (i) temporary accounting principles not requiring the creation of loan-loss provisions in respect of mortgages, automobile

loans, personal loans, payroll loans, credit cards and loans to small and medium-sized companies the payment of which is deferred for up to six months, (ii) a recommendation to banks not to pay dividends, pay bonuses or repurchase outstanding shares, (iii) the use by banks of the capital conservation buffer without any sanctions being triggered, (iv) permitting non-qualifying assets to be used to calculate the liquidity ratios applicable to banks, and (v) extending the deadlines for public issuers to report their financial condition. We expect that a significant number of our clients, including credit card holders and mortgage borrowers, as well as small, medium and large companies will seek to take advantage of these measures. Any deferrals granted by us to our clients in respect of these measures will not affect our capitalization levels or ratios.

Further restrictions on the business community and on the general population may also be introduced by Mexican federal, state and municipal governments and we cannot predict the duration of any such restrictive measures. There can also be no assurance that the adverse impact of the COVID-19 outbreak will not lead to a tightening of liquidity conditions or funding uncertainty. Also, on March 31, 2020, the CNBV, in line with the recommendations issued by the European Central Bank, issued a communication to the Mexican financial institutions asking those institutions to refrain from making any distributions to their shareholders in respect of earnings for the fiscal years ended in 2019 and 2020.

On March 26, 2020, Standard & Poor's Financial Services LLC ("**S&P**") revised its rating of Mexico from BBB+ to BBB and, on March 27, 2020, S&P lowered its global rating of the Bank from BBB+ to BBB. The downgrade derived from a methodological issue, since the ratings of the Bank are tied to the ratings of Mexico. On April 15, 2020, Fitch Ratings Inc. ("**Fitch**") revised its rating of Mexico from BBB to BBB- (stable outlook), and on April 17, 2020, Moody's Investors Service, Inc. ("**Moody's**") downgraded its ratings of Mexico from A3 to Baa1. On April 22, 2020, Moody's downgraded its global rating of the Bank from A3 to Baa1. Currently, our credit ratings are BBB+ (negative outlook) by Fitch, Baa1 (negative outlook) by Moody's and BBB (negative outlook) by S&P.

## Market Information

The following table provides comparative information with respect to the Bank and certain selected leading banks in Mexico as of December 31, 2019 (unless otherwise indicated). This comparison is for illustrative purposes only.

	The Bank <sup>(1)</sup>	Citibanamex	Banorte	Santander	HSBC	Scotiabank
	(millions of Ps., except for percentages)					
Total loan portfolio.....	1,243,478	655,812	756,143	713,680	400,531	413,731
Total deposits funding.....	1,267,620	774,016	756,631	775,334	542,235	421,236
Market share (total loans).....	22.95%	12.13%	13.99%	13.20%	7.41%	7.65%
Total assets .....	2,130,588	1,234,493	1,149,534	1,392,920	791,071	585,448
Total loan portfolio / total assets .....	58.36%	53.12%	65.78%	51.24%	50.63%	70.67%
Total loan portfolio / total deposits.....	98.10%	84.73%	99.94%	92.05%	73.87%	98.22%
Total stockholders' equity .....	214,866	160,816	114,258	138,381	66,244	53,196
Net income .....	49,254	20,122	27,493	21,264	7,374	4,948
Return on assets (ROA) <sup>(2)</sup> .....	2.37%	1.54%	2.34%	1.54%	0.93%	0.89%
Return on equity (ROE) <sup>(3)</sup> .....	23.71%	12.66%	23.98%	15.83%	11.42%	9.59%
Cost of funding <sup>(4)</sup> .....	2.80%	2.30%	3.26%	3.50%	4.40%	5.70%
Delinquency ratio <sup>(5)</sup> .....	2.21%	2.18%	1.64%	2.28%	1.96%	2.37%
Operating efficiency ratio <sup>(6)</sup> .....	38.18%	57.45%	42.25%	45.37%	58.81%	58.30%
Branches.....	1,860	1,465	1,182	1,045	951	553

(1) Data for the Bank is derived from the Bank's 2019 Financial Statements. Data for other financial institutions is derived from information reported by the CNBV.

(2) ROA is equal to net income for the year divided by total average assets for the year.

(3) ROE is equal to net income for the year divided by average stockholders' equity for the year.

(4) Source: *Banco de México*.

(5) Delinquency ratio is equal to total non-performing loans divided by total loans.

(6) Operating efficiency is equal to (x) administrative and promotional expenses divided by (y) net interest income plus net commissions plus other operating income (expenses) plus financial intermediation income for the year.



## SUMMARY OF THE PROGRAM

*The following is a summary of the description of Notes which may be offered under the Program, and any decision to invest in any Notes should be based on a consideration of this Offering Memorandum as a whole, including any supplement hereto. The specific terms of the Notes will be as set forth in the relevant Pricing Supplement and may contain terms and conditions which differ from, or are in addition to, those set forth below. Capitalized terms used but not defined in this section have the meanings assigned to them in “Description of the Notes.” For a more complete description of the terms of the Notes, see “Description of the Notes.”*

### THE NOTES AND THE PROGRAM

<b>Issuer:</b>	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency, unless the applicable Pricing Supplement specifies that the Bank is acting directly (each, a “ <b>Pricing Supplement</b> ”).
<b>Arranger:</b>	BNP Paribas Securities Corp.
<b>Dealers:</b>	<p>Banco Bilbao Vizcaya Argentaria, SA, Barclays Capital Inc., BBVA Securities Inc., BNP Paribas, BNP Paribas Securities Corp., BofA Securities, Inc., Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (USA) LLC, Deutsche Bank AG, London Branch, Deutsche Bank Securities Inc., Goldman Sachs &amp; Co. LLC, HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Morgan Stanley &amp; Co. LLC, MUFG Securities Americas Inc., Nomura Securities International, Inc., SMBC Nikko Securities America, Inc., Standard Chartered Bank, UBS Securities LLC and Wells Fargo Securities, LLC, and any other Dealer appointed from time to time in accordance with the Dealer Agreement.</p> <p>Notes may also be issued to or placed through other dealers and to third parties other than dealers.</p>
<b>Trustee, Registrar, Transfer Agent and Paying Agent:</b>	The Bank of New York Mellon will act as trustee, registrar, transfer agent and paying agent (the “ <b>Trustee</b> ”).
<b>Listing Agent:</b>	The Bank of New York Mellon SA/NV, Dublin Branch, will act as the Euronext Dublin listing agent, unless otherwise stated in the applicable Pricing Supplement.
<b>Program Size:</b>	The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement), subject to increase in accordance with the terms of the Dealer Agreement.
<b>Distribution:</b>	<p>The method of distribution of each Tranche (as defined below) will be stated in the applicable Pricing Supplement.</p> <p>Notes may be distributed (i) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (ii) outside the United States to persons other than U.S. persons (as such terms are defined in Regulation S under the Securities Act) in offshore transactions meeting the requirements of Regulation S under the Securities Act, in each case on a syndicated or non-syndicated basis, subject to the selling restrictions described under “Plan of Distribution” and “Transfer Restrictions.”</p>

<b>Issuance:</b>	<p>Unless otherwise specified in the applicable Pricing Supplement, each Series of Notes may contain one or more tranches of Notes (each, a “<b>Tranche</b>”) having identical terms, including the Original Issue Date and the public offering price. Unless specified in the applicable Pricing Supplement, Additional Notes may be issued as part of existing Series of Senior Notes. See “Description of the Notes—General—Further Issuances.” Unless otherwise specified in the applicable Pricing Supplement, Additional Notes may not be issued as part of an existing Series of Subordinated Notes. See “Description of the Notes—General—Further Issuances.” The specific terms of each Tranche will be set forth in the applicable Pricing Supplement.</p>
<b>Series:</b>	<p>Each original issue of Notes, together with any further issues of Notes expressed to form a single series with the original issue, which are denominated in the same currency, have the same Maturity Date (as indicated in the applicable Pricing Supplement) and Interest Payment Dates (if any) and have identical terms (including listing, but excluding the Original Issue Date or the initial Interest Payment Date, as the case may be, and the public offering price) shall constitute a “<b>Series</b>.” The expression “Notes of the relevant Series” shall be construed accordingly.</p>
<b>Status of the Notes:</b>	<p>Each Note will be unsecured and will be either a senior or a subordinated debt obligation of the Bank.</p> <p>Notes that are senior debt obligations will rank equally with all other senior unsecured and unsubordinated obligations of the Bank, as described in the Senior Notes Indenture and the applicable Pricing Supplement.</p> <p>Notes that are subordinated debt obligations will rank (i) subordinated and junior to all of the Bank’s present and future senior indebtedness, (ii) <i>pari passu</i> with all of the Bank’s other present and future subordinated preferred indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (<i>obligaciones subordinadas no preferentes</i>) and all classes of the Bank’s capital stock, as specified in the applicable Subordinated Notes Indenture and the applicable Pricing Supplement. See “Description of the Notes—General.”</p>
<b>Specified Currencies:</b>	<p>Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Bank and the relevant Dealer(s), as indicated in the applicable Pricing Supplement.</p>
<b>Use of Proceeds:</b>	<p>Unless otherwise specified in the applicable Pricing Supplement, the net proceeds from each issue of Notes will be used for general corporate purposes of the Bank and its subsidiaries. If there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.</p> <p>Where the “Use of Proceeds” section of the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described in this “Use of Proceeds” section, the net proceeds from each such issue of SDG Notes (as defined under “Risk Factors—Risks Relating to the Notes—The application of the net proceeds of SDG Notes as described in “Use of Proceeds” may not meet investor expectations or be suitable for an investor’s investment criteria”) will be used as so described; <i>provided</i> that any such event or failure to apply the net proceeds of any issue of SDG Notes for any Sustainability Projects or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an event of default under the relevant SDG Notes or give rise to any other claim of a holder of such SDG Notes against the Bank.</p>
<b>Issue Price:</b>	<p>Notes may be issued at an issue price which is equal to, less than or more than their principal amount, as provided in the applicable Pricing Supplement.</p>

**Form of Notes:**

Notes will be issued in registered form in the nominal amount of a specified denomination as provided in the applicable Pricing Supplement.

Notes offered and sold in offshore transactions in reliance on Regulation S to persons which are non-U.S. persons will be represented by one or more global notes in registered form (each, a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through The Depository Trust Company (“**DTC**”), Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, S.A. (“**Clearstream**”), and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

Notes offered and sold to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act will be represented by one or more global notes in registered form (each, a “**Rule 144A Global Note**” and, together with each Regulation S Global Note, the “**Global Notes**”).

We will not offer Notes in bearer form.

**Deposit:**

Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear, Clearstream or any other clearance system, as specified in the applicable Pricing Supplement. No beneficial owner of an interest in a Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable.

**Fixed Rate Notes:**

The Issuer will pay interest on Notes that are Fixed Rate Notes on the dates specified in the applicable Pricing Supplement.

**Fixed Reset Notes:**

The Issuer will pay interest on Notes that are Fixed Reset Notes on the dates specified in the applicable Pricing Supplement. The interest rate on Fixed Reset Notes will reset on each Fixed Reset Date by reference to the relevant Reset Margin and Reset Reference Rate.

**Floating Rate Notes:**

The Issuer will pay interest on Floating Rate Notes on the dates specified in the applicable Pricing Supplement. Each series of Floating Rate Notes will have one or more interest rate bases as indicated in the applicable Pricing Supplement.

The interest rate on each Floating Rate Note for each interest period will be determined by reference to the applicable interest rate bases specified in the applicable Pricing Supplement for that interest period, plus or minus the applicable spread, if any, and/or multiplied by the applicable spread multiplier, if any. The applicable Pricing Supplement will also specify the maximum or minimum interest rate, if any, and certain additional terms.

Interest on Floating Rate Notes will be computed in the manner and will be payable on the dates described under the section entitled “Description of the Notes—Floating Rate Notes.” Interest on Floating Rate Notes will be calculated on the basis of such Floating Day Count Fraction (as defined under “Description of the Notes—Floating Rate Notes—How Interest Is Calculated”) as may be set forth in the applicable Pricing Supplement.

**Interest Period(s) or  
Interest Payment Date(s)  
for Floating Rate Notes:**

Such period(s) or date(s) as may be indicated in the applicable Pricing Supplement.

<b>Fixed/Floating Rate Notes:</b>	Fixed/Floating Rate Notes bear interest at a rate that converts from a fixed rate to a floating rate. See “Description of the Notes— Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Fixed/Floating Rate Notes.”
<b>Floating/Fixed Rate Notes:</b>	Floating/Fixed Rate Notes bear interest at a rate that converts from a floating rate to a fixed rate. See “Description of the Notes— Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Floating/Fixed Rate Notes.”
<b>Indexed Notes:</b>	Notes may be issued with the principal amount payable at maturity, or interest to be paid thereon, or both, to be determined with reference to the price or prices of specified commodities or securities, baskets of securities, indices of securities, stocks, the exchange rate of one or more specified currencies relative to an indexed currency or other formulae, assets or bases of reference, as may be specified in such Note and the applicable Pricing Supplement.
<b>Extendible Notes:</b>	Notes may be issued with an Initial Maturity Date, which may be extended from time to time upon the election of the holders on specified Election Date(s) up to a Final Maturity Date, as set forth in the applicable Pricing Supplement. The Pricing Supplement relating to each issue of Extendible Notes will set forth the terms of such Notes.
<b>Dual Currency Notes:</b>	Notes may be issued under which the Issuer is permitted under certain circumstances to pay principal, premium, if any, and/or interest in more than one currency or in a composite currency. The terms of any Dual Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes.
<b>Amortizing Notes:</b>	Amortizing Notes are Fixed Rate Notes for which payments combining principal and interest are made in installments over the life of the Note. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. The terms and conditions of any Amortizing Notes, including the amortization schedule, will set forth in the applicable Pricing Supplement related to any such Notes.
<b>Original Issue Discount Notes:</b>	Notes may be issued at more than a <i>de minimis</i> discount from the principal amount payable at maturity. Certain additional considerations relating to Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.
<b>Redemption:</b>	The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of that Series cannot be redeemed prior to their stated maturity, that such Notes will be redeemable for taxation reasons or at the option of the Issuer and/or the Noteholders or, with respect to Subordinated Notes, in the case of the occurrence of a Special Event.
<b>Events of Default, Notice and Waiver:</b>	An Event of Default with respect to Senior Notes shall take place as set forth in “Description of the Notes—Certain Terms and Conditions Applicable to Senior Notes—Events of Default, Notice and Waiver.” An Event of Default with respect to Subordinated Notes shall take place as set forth in “Description of the Notes— Certain Terms and Conditions Applicable to Subordinated Notes—Events of Default, Notice and Waiver.”

**Consolidation, Merger,  
Sale or Transfer of Assets:**

The Bank may not, without the consent of holders of at least 66<sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the outstanding Notes of each Series outstanding, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, as described in “Description of the Notes—Covenants—Consolidation, Merger, Sale or Transfer of Assets.”

**Denomination of Notes:**

Notes may be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Pricing Supplement.

**Additional Amounts:**

All payments made by or on the Issuer’s behalf in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made or any authority or agency therein or thereof having power to tax (collectively, “**Relevant Tax**”) unless the withholding or deduction of such Relevant Tax is required by law or by the interpretation or administration thereof. In that event, the Issuer will pay additional amounts, subject to certain exceptions and limitations, as described in “Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Payment of Additional Amounts,” or as otherwise provided in the applicable Pricing Supplement, so that the net amounts received by holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction.

**Rating:**

The Notes of each Series issued under the Program may be rated or unrated. Where the Notes of a Series are rated, such rating will be set out in the applicable Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Listing and Admission to  
Trading:**

Application may be made to Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) to admit a Series of Notes to the Official List and for admission to trading on the Global Exchange Market, which is the exchange-regulated market of Euronext Dublin, application may also be made to list a Series of Notes on another exchange or a series of Notes may be unlisted, in each case as specified in the applicable Pricing Supplement.

**Governing Law:**

The Senior Notes Indenture is, and any Subordinated Notes Indenture and the Notes will be, governed by, and construed in accordance with, the law of the State of New York; *provided* that the ranking and subordination of the Subordinated Notes, certain matters arising under Mexican law as set forth in the applicable Pricing Supplement, and matters relating to the Bank’s insolvency or liquidation will be governed by, and construed in accordance with, Mexican law (as amended from time to time). See “Description of the Notes—Governing Law; Consent to Jurisdiction.”

The Issuer will consent to the jurisdiction of the Supreme Court of the State of New York, Borough of Manhattan, County of New York, and the United States District Court for the Southern District of New York. See “Description of the Notes—Governing Law; Consent to Jurisdiction.”

**Transfer Restrictions:**

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons except to “qualified institutional buyers” in accordance with Rule 144A or outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act. Additional transfer restrictions may be set forth in an applicable Pricing Supplement. See “Transfer Restrictions.”

As required under Article 7, second paragraph, of the Mexican Securities Market Law, Articles 24 Bis, 24 Bis 1 and other related Articles of the General Provisions Applicable to Securities Issuers and other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y otros Participantes del Mercado de Valores*), we will notify the CNBV of the terms and conditions of any offering of the Notes outside of Mexico, for statistical and informational purposes only. The Notes have not been and will not be registered with the RNV maintained by the CNBV and, therefore, the Notes may not be publicly offered or sold in Mexico. The Notes may be offered and sold in Mexico, on a private placement basis, solely to investors that qualify as institutional or accredited investors, pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. See “Transfer Restrictions.”

**Risk Factors:**

You should carefully consider all of the information contained in this Offering Memorandum prior to investing in the Notes. In particular, we urge you to carefully consider the information set forth under “Risk Factors” beginning on page 13 for a discussion of the risks and uncertainties relating to us, our business, the Mexican financial industry, our stockholders, Mexico and the Notes.

## RISK FACTORS

*An investment in the Notes involves risk. You should carefully consider the risks and uncertainties described below and the other information contained in this Offering Memorandum before making an investment in the Notes. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The risks described below are not the only ones facing us or Mexican banks and other corporations in Mexico. Additional risks and uncertainties not currently known to us or that we currently deem non-material may also materially and adversely affect our business and our ability to make payments on the Notes.*

### Risks Relating to Our Business

***The COVID-19 pandemic is affecting our business and operations and its consequences and future impact on us are difficult to predict.***

The COVID-19 pandemic, which originated in China and subsequently spread to many other countries in the world, including Mexico and other countries where our clients operate, is adversely impacting the global economy as well as the Mexican economy and our business. In addition to the impact on human lives and the health of more than one and a half million people globally, the pandemic has resulted in the following, among others: emergency actions by governmental authorities worldwide, including the shutdown of national borders and directives for residents in many countries, including Mexico, to shelter at home and for certain business to suspend “non-essential” business activities; disruption of supply chains worldwide; falls in production and demand, which is expected to lead to sharp declines in the GDP of those countries which are most affected by the pandemic and have an overall negative impact on global GDP in 2020; increases in unemployment levels; a sharp deterioration in the valuation of financial assets and investments; increased volatility in the financial markets, including with respect to the value and trading of our debt securities; exchange rate volatility; an increase in loan defaults by both companies and individuals; and increases in public debt due to actions taken by governmental authorities in response to the pandemic.

In several countries, governmental authorities are taking measures to mitigate the economic effects of the pandemic. In Mexico, several measures have been adopted to preserve banking and financial activities, including the implementation of a program to assist clients-debtors that are current by granting them grace periods to repay interest and/or principal of their loans without requiring banks to comply with provisioning rules. Other measures aimed at protecting vulnerable persons include the increased participation of the Mexican development banks in the financing to households and micro-, small- and medium-sized enterprises. Likewise, the CNBV has recommended Mexican banks not to make any distributions to their shareholders during 2020. It is difficult to predict what effect these measures and other future measures will have on banks operating in Mexico, including us, or how effective these and other measures taken to mitigate the economic effects of the pandemic will be.

We had to close some of our branches in Mexico during the month of March 2020. As of April 14, 2020, we had closed 46% of our branches. While we still have branches open as of the date of this Offering Memorandum, we may generally provide only a limited number of services through them. In addition, a significant number of Bank personnel, including the teams who provide central services, are working remotely, disrupting our normal operations.

In addition, we face various risks arising from the pandemic, such as a higher risk of impairment of our assets (including financial instruments valued at fair value, which may suffer significant fluctuations), a possible significant increase in loan defaults and credit losses, a decrease in our business activity, such as new retail lending (which has decreased significantly since the nationwide lockdown in Mexico that began on March 31, 2020). These risks may continue to affect us while the lockdown continues or thereafter, including if the Mexican economy is not able to recover quickly from the pandemic. Moreover, the spread of COVID-19 could also negatively impact the business and operations of third-party service providers who perform critical services for us. In addition, remote working has increased cybersecurity risks given greater use of computer networks outside the corporate environment.

As a result of the above, the pandemic is adversely affecting us. The ultimate magnitude of the impact on our business, financial condition and results of operations, which could be material, will depend on future developments, which are uncertain, including, among others, the intensity and duration of the consequences derived from the pandemic in Mexico and the different geographies in which our clients, suppliers, service providers and counterparties operate.

To the extent the COVID-19 virus pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section.

***We have been, and may continue to be, adversely affected by global economic conditions, particularly those in the United States and in international financial markets.***

Because the Mexican economy is heavily influenced by the U.S. economy, policies adopted by the U.S. government may adversely affect economic conditions in Mexico. For example, on October 1, 2018, the United States, Mexico and Canada formally agreed to renegotiate the terms and conditions of NAFTA under a new treaty among Mexico, the United States and Canada (USMCA). Unlike NAFTA, the USMCA includes a sunset clause that requires the USMCA to be analyzed and modified, if applicable, every six years, and after 16 years the terms of the USMCA will expire, at which point they will need to be renegotiated and restated. This treaty also includes amendments to the rules of origin in practically all sectors in order to certify a product as originating in the region, rules to deter artificial changes to exchange rates to obtain commercial advantages, additional intellectual property protections, as well as amendments in labor matters and information technologies, among other provisions. On November 30, 2018, Mexico, Canada and the United States entered into a protocol to substitute NAFTA for the USMCA. On June 19, 2019, the Mexican Senate ratified the USMCA and, on December 13, 2019, the amending protocol of the USMCA was approved by the Mexican Senate, which includes relevant amendments in labor, steel, pharmaceutical, intellectual property and environmental matters. In addition, on January 16, 2020, the United States Senate approved the USMCA, which was signed on January 29, 2020 by President Donald Trump. In addition, on that same date, the Prime Minister of Canada presented to the House of Commons of the Canadian government, the final text of the USMCA for approval, and it was approved by the Canadian Senate on March 13, 2020. The USMCA is expected to enter into force three months after the last notice of approval is submitted by the parties. However, its entry into force may be delayed as a result of the effects of the current COVID-19 pandemic, or for other reasons, if one or more of the parties believe the appropriate regulations are not implemented. Until the USMCA enters into force, NAFTA will continue to be valid and applicable in trade relations between the three countries.

The inability to initially ratify the USMCA, or any future amendment to it, on terms less favorable to Mexico with respect to its imports and exports, or on terms that would otherwise undermine the ability to trade among the three countries or impede progress towards a more competitive North America, could significantly affect the Mexican economy and financial markets in Mexico. More generally, there may be changes in other existing trade agreements, greater restrictions on free trade in general and significant increases in tariffs on goods imported from Mexico into the United States. It remains unclear as to what the United States or other foreign governments, including China, will or will not do regarding tariffs, NAFTA, the USMCA or other international trade policies and agreements. For example, in June 2019, the current U.S. administration announced plans to impose a series of increasing tariffs on Mexico unless the Mexican government enacted certain changes to its policies. Although the governments of Mexico and the United States were able to reach an agreement in this instance, we cannot assure you that we will not be adversely affected by any changes to existing tariffs in the future.

Changes in regimes affecting foreign trade may adversely affect Mexico and our business, results of operations, financial condition and prospects and our ability to pay our debt, including the Notes.

In addition to these factors, declining international crude oil prices (including those triggered by the recent crude oil price competition between Russia and Saudi Arabia) and a reduction in crude oil production in Mexico and weaker-than-expected manufacturing activity in the United States, could have an adverse effect on the Mexican economy and its growth prospects. Any one of these factors could have an unfavorable impact on our business, results of operations, financial condition and prospects and our ability to pay our debt, including the Notes.

Further adverse changes affecting the European economy, and the Spanish economy more specifically, could adversely affect the BBVA Group and its credit ratings. Such events could affect the perception of our brand among clients, which could, in turn, have an impact on our business.

The events described above, geopolitical events or global economic or other conditions generally, and related uncertainty could have the one or more of following effects:

- an economic downturn or insufficient recovery of the economy generally and the financial markets and any adverse social or political developments for any reason, including illnesses or epidemics, including the COVID-19 pandemic, which may adversely impact our business, financial condition and results of operations;
- increased regulation of the financial industry, which may increase our costs of capital, capital reserves and liquidity requirements, affect the pricing of our products and services and limit our ability to pursue business opportunities or to grow our loan portfolio;



- the inability to estimate losses inherent in credit exposure or to make difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our customers to pay their leases and loans;
- the inability of corporate and individual borrowers to timely or fully comply with their existing obligations;
- the derivatives markets and similar operations, including volatility affecting those operations, could adversely impact global financial systems and the solvency of its participants;
- the value of our portfolio of investment securities may be adversely affected; and
- our ability to obtain capital and liquidity on favorable terms, or at all, whether due to increasing our cost of capital or forcing us to increase the fees we charge to customers, may have a significant adverse effect on our margins, financial condition and results of operations.

Uncertainty exists concerning the future economic environment in the United States, Mexico and the international markets. Such economic uncertainty could have a negative impact on our business and results of operations. A slowing or decline in economic activity in the United States and Mexico, the global economic effect of pandemics, such as the COVID-19 virus that originated in China and has spread globally, fluctuations in crude oil prices, the uncertainty of monetary policy of the U.S. or Mexican governments and the new policy perspectives of the U.S. and Mexican administrations would likely aggravate the adverse effects of these difficult economic and market conditions on our business and on other participants in the financial services industry. Volatility conditions in the global financial markets could have a significant adverse effect on our business, including on our ability to obtain capital and liquidity on acceptable terms, or at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers or we may become unable to maintain certain liability maturities. Any such increase in capital markets funding availability or costs or in deposit rates could have a material adverse effect on our margins and liquidity.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financing availability and terms and, more generally, on our results, financial condition and prospects.

***Downgrades in our credit ratings, those of any of our subsidiaries or those of Mexico could increase our cost of funding and negatively affect our ability to obtain additional funds, attract deposits or renew our maturing debt.***

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our income and profit, our capital adequacy and leverage, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. In addition, our credit ratings are affected by an assessment of Mexican sovereign risk generally. For example, on March 26, 2020, S&P revised its rating of Mexico from BBB+ to BBB and, the next day, S&P lowered its global rating of the Bank from BBB+ to BBB (negative outlook). On April 15, 2020, Fitch downgraded the credit ratings for Mexico's sovereign debt and, on April 17, 2020, Moody's downgraded the credit ratings for Mexico's sovereign debt from A3 to Baa1. On April 22, 2020, Moody's downgraded its global rating of the Bank from A3 to Baa1. Currently, our credit ratings are BBB+ (negative outlook) by Fitch, Baa1 (negative outlook) by Moody's and BBB (negative outlook) by S&P.

Our creditors and counterparties in derivative financial transactions are sensitive to the risk of a downgrade. Changes in our credit rating would increase our funding costs and our ability to obtain funds in the capital markets or through private creditors and could restrict our participation in certain activities. We cannot assure you that rating agencies will maintain our current credit ratings.

Further, our ability to compete effectively in the deposit market depends on several factors, including our financial stability reflected in our credit ratings. A downgrade in our credit rating could have an adverse effect on the perception of our financial stability and our ability to obtain deposits or other funds, which could significantly affect our business, financial condition and results of operations.

***Intensified competition from banks and from non-bank financial institutions may adversely affect us, including our operational margin.***

The Mexican financial sector is highly competitive. Our main bank competitors are Banco Nacional de México, S.A., or Citibanamex, a subsidiary of Citigroup, Inc., Banco Santander México, S.A., a subsidiary of Banco Santander Central Hispano, S.A., HSBC Mexico, S.A., a subsidiary of HSBC, Banco Mercantil del Norte, S.A., or Banorte, and Scotiabank Inverlat, S.A., or Scotiabank, a subsidiary of The Bank of Nova Scotia. In addition, we face increasing competition from non-bank financial institutions.

Non-Mexican financial institutions incorporated in the United States, Canada, member states of the European Union, Japan and other countries that have entered into a free trade agreement with Mexico are permitted to establish financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of December 31, 2019, Mexico's 10 largest domestic banks, measured in terms of assets, held 84.1% of the total assets in the Mexican banking system. Six of these 10 banks are foreign-owned.

The SHCP has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants.

Further, certain of our competitors, such as *Sofomes*, are not financial institutions and therefore, are not subject to the supervision of regulatory authorities or to the extensive Mexican banking regulations to which we are subject, including the requirement to maintain certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and the provision of other financial services. Moreover, competition is likely to increase as a result of the entrance of new participants into the financial services sector. For example, new smaller operators, including financial technology (or "fintech") companies, assisted by their operational flexibility and relatively lower capital requirements, have recently entered the market and compete with traditional banks.

In addition to legal and regulatory reforms in the Mexican banking industry, which have increased competition among banks and among other financial institutions, we believe that the Mexican government's commitments and policies of adopting market-oriented reforms in, and the liberalization of, the financial industry have also resulted in increased competition from traditional banking institutions. As financial sector reform continues, foreign financial institutions, some with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a substantial adverse effect on our business.

An increase in competition or a more aggressive competitive strategy adopted by our competitors could require us to lower certain interest rates or pay higher interest rates to depositors and creditors, in order to avoid losing clients to banks offering more attractive rates, which would increase our interest expense and could affect us.

***Our financial results are exposed to market risk and we are subject to fluctuations in interest rates and other market risks, which may significantly and adversely affect our profitability and results of operations.***

Market risk refers to the probability of variations in our net interest income or in the market value of our assets and liabilities due to volatility of interest rates, inflation, exchange rates or equity prices. Changes in interest rates affect, among others, the following areas of our business:

- net interest income;
- the volume of loans originated;
- credit spreads;
- the market value of our securities portfolio;
- the value of our loans and deposits; and
- the value of our derivatives transactions.

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies and domestic and international economic and political conditions. Variations in interest rates could affect the interest earned on our assets and the interest paid on our borrowings, thereby affecting our net interest income, which comprises the majority of our revenue, reducing our growth rate and potentially resulting in losses. In

addition, costs we incur as we implement strategies to reduce interest rate exposure could increase in the future (which, in turn, will impact our results). We monitor our interest rate risk using the net interest margin sensitivity, which is the difference between the return on our assets and the financial cost of our financial liabilities based on a one-year period and a parallel movement of 100 basis points (1%) in market interest rates.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in loans and deterioration in the quality of assets. Increases in interest rates could also reduce the propensity of our customers to prepay or refinance fixed-rate loans. Increases in interest rates could reduce the value of our financial assets and our profit or require us to record losses on sales of our securities or loans. We hold a substantial portfolio of debt securities and loans that refer to both fixed and floating interest rates.

Likewise, we could experience increased delinquencies in a low-interest-rate environment if such an environment is accompanied by high levels of unemployment and recessionary conditions. We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and the value of our assets and liabilities.

We are also exposed to equity price risk in our investments in equity securities in the banking book and in the trading portfolio. The performance of financial markets could cause adverse changes in the value of our investment portfolio. The volatility of world equity markets due to the continued economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility could affect the value of our investments in equity securities and, depending on their fair value and future recovery expectations, could become a permanent impairment which would affect our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be materially adversely affected, which would, in turn, adversely impact our business.

***Market conditions have resulted, and could result, in material changes to the estimated fair values of our financial assets. Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects.***

Since 2008, financial markets have been subject to significant stress resulting in steep falls in financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposure to securities, loans and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by us on disposal may be lower than the current fair market value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgments and estimates in order to establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

***The rules applicable to loan loss provisions have been modified over time.***

In an effort to conform its regulations to the recommendations issued by the Basel Committee on Banking Supervision (the “**Basel Committee**”), since 2009, the Mexican government has implemented new rules regarding the methodology that Mexican banks must use to classify loans and to determine loan loss provisions. The new regulatory framework shifted away from an accrued losses methodology to an expected losses methodology. This new methodology has been implemented in phases, as follows:

- in 2009, for credit card loans;
- in 2011, for consumer, mortgage and government loans;
- in 2013, for commercial loans;

- in 2014, for loans to financial institutions;
- in 2015, for revolving consumer loans;
- in 2017, for term loans and mortgages, and accounting for loan losses and write-offs; and
- in 2018, for reserves and capital related to credit card loans.

Additionally, in 2015, the CNBV adjusted the rating methodology for non-revolving consumer and mortgage loan portfolios, which continues to be based on expected losses and incorporates new factors based on recent information on the industry's performance. In addition to taking into consideration the borrower's experience with the lender, the new methodology which took effect on June 1, 2017, also considers information provided by credit information companies about the credit behavior of the borrower with other creditors.

In the future, the CNBV could modify the accounting rules applicable to loan loss allowances, and further modify the methodology to measure credit risk or the requirements for loan loss provisions of other portfolios. Any such modifications could require us to increase our allowance for loan losses which could, adversely affect our businesses, financial position or results of operations.

***Many of our public sector loans are secured by cash flows from the Mexican federal government.***

Most of our loans to Mexican states and municipalities are secured by such entities' right to receive *participaciones federales* (which are the resources allocated to them by the Mexican federal government) on the terms established in the *Ley de Coordinación Fiscal* and the covenants in the *Sistema de Coordinación Fiscal* and through the administrative collaboration in federal tax matters, and, in certain cases, with *aportaciones federales*. Any changes to Mexican laws regarding the use of *participaciones federales* as a source of payment for these loans or defects in the perfection of a security interest in such collateral could require amendments to our credit facilities and impact the credit risk of such facilities or the manner in which we operate with state and municipal governments in Mexico, which, in turn, could adversely affect our business, financial condition and results of operations

Furthermore, as *participaciones federales* are subject to the conditions of the Mexican economy and dependent on the Mexican federal government's tax collections, we cannot give any assurances that the *participaciones federales* will remain at their current levels or that they will be sufficient for the timely payment of the respective loans. If *participaciones federales* are reduced as a result of changes to Mexican laws or for any other reason, our results of operations and financial condition could be adversely affected. Moreover, there can be no assurance that the Mexican federal government will not apply retentions, compensations, reductions or adjustments to such *participaciones federales* and *aportaciones federales*. In addition, pursuant to the *Ley de Tesorería de la Federación*, the Mexican Treasury (*Tesorería de la Federación*) is responsible for the transfer of such *participaciones federales* and *aportaciones federales* in the corresponding bank accounts, and any delays in such transfers, whether due to technical or legal reasons or otherwise, affecting the cash flows securing our loans.

Defects in the perfection of our security interests or the granting of guarantees that are fraudulent to creditors by our borrowers could impair our ability to recover on our collateral. Accordingly, we cannot assure you that we will be able to realize the full value of our collateral, or timely realize the real value of collateral granted by Mexican state and municipal governments. If we are not able to realize the full value of our collateral, our results of operations and financial condition could be adversely and significantly affected.

***The future of public sector lending in Mexico is uncertain.***

Our business is subject to a continuously evolving regulatory regime of financial services laws, administrative actions and policies at the state level and at the federal level. In particular, due to certain high profile restructurings of Mexican state and municipal debt, in April 2016, the Mexican Congress approved certain amendments related to government sector lending. As a result, state and municipal governments are now subject to the Law of Financial Discipline for States and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*), which seeks to organize and align the budgetary and financial instruments of the states, municipalities and their agencies to ensure sustainable management of local public finances. This law establishes general principles of financial discipline, and includes, among others, rules on the incurrence of indebtedness and a registry for such indebtedness, applicable to states and municipalities. We cannot predict the exact impact this law will have on our business.

Additionally, although state and municipal public debt is regulated by the respective state laws in Mexico, there are certain provisions and limitations set forth in the Mexican constitution and other federal laws of Mexico (including in the Law of Financial Discipline for States and Municipalities), in particular in connection with the use of *participaciones federales* and *aportaciones federales* as a source of payment or as a public funding investment. In the past, there have been inconsistencies between state and federal law with respect to these uses of *participaciones federales* which have been addressed by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which state and municipal loans have been granted. We cannot ensure that future judicial interpretations or resolutions, or policies implemented by the Mexican government, will not have an adverse effect on us, including the value of our government loan portfolio.

***Our borrowers of public sector loans may claim privileges under Mexican law, and our ability to sue and recover may be limited.***

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. Articles 9 and 49 of the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) provide that *participaciones federales* and *aportaciones federales* used by states or municipalities may not be subject to attachment or liens, may not be assigned or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities, provided that they have the authorization of the state's congress and are registered with the SHCP in the Registry of Obligations and Loans of the States (*Registro de Obligaciones y Empréstitos de Entidades Federativas*).

In addition, Article 4 of the Mexican Federal Code for Civil Procedure (*Código Federal de Procedimientos Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the federal, state or municipal governments. As a result, the ability of a creditor to enforce judgment against such governments or agencies, upon the occurrence of a default, may be limited, and this could materially affect our business, financial condition and results of operation. Furthermore, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair our ability to recover on our collateral. Accordingly, we can provide no assurance that we will be able to realize the full value of our collateral or realize it in a timely manner. Furthermore, many secured creditors may compete for collateral granted by state or municipal governments, as *participaciones federales* are available, on a *pro rata* basis, to secured creditors. As a result, lower recovery rates, asset quality deterioration and decreased value of collateral could have a material and adverse effect on our results of operations and financial condition.

***We are subject to consumer laws that could limit the activities of Mexican banks.***

The Mexican National Commission for the Protection and Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, or the “CONDUSEF”) has broad powers to regulate our activities and the activities of other Mexican banks. The CONDUSEF is entitled to:

- order amendments to our standard form commercial banking documentation (such as loan and deposit agreements), if the CONDUSEF deems that the provisions included in such agreements are deemed as detrimental to users;
- publish information that may be detrimental to our business and reputation as well as any action taken against any Mexican banks;
- impose fines;
- order the attachment of our assets for the benefit of our customers; and
- initiate class actions for the benefit of groups of customers.

The CONDUSEF has broad discretionary authority to take the foregoing and other actions. Actions taken by the CONDUSEF against us, whether on an isolated or recurrent basis, could have a material impact on our business.

***Mexican financial authorities have broad authority in certain areas, including to initiate class action lawsuits, as a result of the Mexican financial reform.***

Pursuant to the Mexican Law for the Protection and Defense of Financial Services Users, the CONDUSEF has broad authority to oversee financial institutions, such as: the ability to initiate class action lawsuits against banks in connection with events affecting groups of users of financial services; the requirement that it maintain a Bureau of

Financial Entities (*Buró de Entidades Financieras*), which sets forth the relevant information for users of financial services; the ability to require amendments to standard forms of commercial documentation and the forms used to keep record of certain operations if it considers that its provisions harm users; the ability to issue resolutions as part of arbitration proceedings, for the benefit of customers, that would permit customers to attach assets of financial institutions prior to the completion of arbitration proceedings; and the broader authority to fine a financial institution that does not comply with its orders. Due to the potential scope and the lack of judicial precedents regarding the financial reform, we cannot predict the outcome of the exercise of financial oversight powers of the CONDUSEF or any class actions, including the extent of any liability we may face.

***We are subject to capitalization requirements, and our failure to maintain required Capital Ratios could result in administrative actions or sanctions against us which could affect our ability to comply with our obligations, including those under our banking license and our debt obligations, including the Notes.***

In December 2010, the Basel Committee reached an agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. The Basel III framework includes heightened capitalization standards reflecting increases in both the quality and quantity of the regulatory capital base and enhancements to the risk coverage of the capital framework. Basel III capital standards also include capital buffers that must be maintained above the minimum capital requirements. These capital buffers include, on a fully phased-in basis, the Capital Conservation Buffer, a variable surcharge of up to 2.5% of total risk-weighted assets for certain global systemically important banks, a countercyclical buffer of up to 2.5% (during excessive credit growth periods) and a systemic entities supplemental buffer up to 3.5% of total risk-weighted assets, which may be deployed at the discretion of our regulators. The Basel III capital standards are expected to be implemented at the national level subject to certain transitional rules, with the principal requirements having been phased in from January 2013 to January 2019, and the remaining requirements to be fully effective by 2022. The CNBV issued amendments to the Mexican Capitalization Requirements, which became effective on January 1, 2013 and implemented Basel III in all relevant respects.

As a result of these amendments, as of May 2016, as a Grade IV bank of systemic importance, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50% of our Tier 1 Capital. This Capital Supplement was required to be implemented over a four-year period in four equal parts from December 2016. As of December 31, 2019, our Capital Supplement was fully implemented in compliance with the CNBV requirements. The CNBV reconfirmed our status as a Grade IV bank of systemic importance on May 23, 2019. Any amendments to the Capital Requirements or their implementation could have a material adverse effect on our business financial condition or results of operations.

Currently, the minimum Capital Ratios required to be classified as Class I are (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement.

In addition to the changes to the capital adequacy framework described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio (the “**LCR**”) and Net Stable Funding Ratio (“**NSFR**”) metrics, with the objectives of (1) promoting the short-term resilience of banks’ liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (2) promoting resilience over a longer term by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The LCR was subsequently revised by the Basel Committee in January 2013, which included an amended definition of high-quality liquid assets and a revised timetable for the phase-in of the standard from 2015 to 2019, as well as some technical changes to some of the stress scenario assumptions. The final framework to be established in Mexico could differ from Basel III in certain respects. The LCR was implemented in December 2015. In October 2014, the Basel Committee published the final NSFR, which established a standard for banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The first effective date of the NSFR under the Basel Committee standard was January 1, 2018. A proposed disclosure standard related to the NSFR was published in December 2014. During 2015, the CNBV and *Banco de México* modified general regulatory dispositions related to operational risk, counterparty and market risk and credit risk. As of the date of this Offering Memorandum, the CNBV and *Banco de México* have not issued a final definition of the NSFR based on the guidelines approved by the Basel Committee in October 2014.

The effective management of our capital position is important to our ability to operate our business, continue to grow organically and to pursue our business strategy. However, as these changes to the legal framework of our capitalization and other changes are implemented, or as future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we could experience a material adverse effect on our financial condition and regulatory capital position. In addition, the implementation and maintenance of enhanced liquidity risk management systems could result in significant costs, and more stringent requirements to hold liquid assets could significantly affect our credit business as more funds could be required to acquire or maintain a liquidity buffer, thereby reducing our future profitability.

If the SHCP determines, after an evaluation, that we have not complied with applicable requirements to our credit activity, we may be forced to lend to certain sectors of the economy or to certain persons that may not meet our credit quality standards, that we may not know or that may entail unacceptable credit risks, which, in turn, may impact our financial condition, results of our operations and the quality of our assets. Moreover, if we were to fail any evaluation, publicity surrounding such failure may impact our reputation, which, in turn, may adversely impact our ability to conduct business in Mexico and our financial condition and results of operations.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation could result in significant loss of revenue, limit our ability to pursue business opportunities and affect the value of our assets, require us to increase our rates and therefore reduce demand for our services and products, impose additional costs on us and otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in legislation or in their interpretation or application will not adversely affect us.

***We are subject to extensive regulation and supervision that could result in intervention, sanctions and other penalties by our regulators and supervisors, which could harm our reputation or have a material adverse effect on our results of operations, financial condition or prospects.***

We are subject to comprehensive regulation and supervision by Mexican regulatory authorities and, in respect of our Texas Agency, certain U.S. regulatory authorities. The Mexican regulatory authorities include *Banco de México*, the CNBV, the IPAB and the SHCP. The Mexican federal administration that took office in December 2018 could implement new policies or interpretations to existing laws and regulations or propose changes to such regulations that could have an adverse effect on our business, financial condition and results of operations. See “The Mexican Financial Industry.” These regulatory authorities have broad powers to adopt rules that could affect our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, requirements relating to the maintenance of liquidity ratios, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Moreover, Mexican and U.S. financial regulatory authorities have broad powers to enforce legal requirements, including imposing fines, requiring that new capital be contributed, inhibiting us from paying dividends to our shareholders or paying bonuses to our employees, or revoking licenses to operate our business (including our banking or broker-dealer licenses).

Furthermore, if we face significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. The regulatory burden of our business and commercial operations affect our financial returns.

The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have an outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in and restricting the payment of dividends or bonuses to employees. As a result, we face significant high levels of supervision, resulting in increasing internal compliance costs and supervision fees (*derechos*), and, in the event of a breach of our regulatory obligations, we could face regulatory fines that could be significant.

Some of our regulators focus on consumer protection, including on the design and operation of products, the behavior of customers and the operation of markets. Applicable legislation may prevent institutions such as ours from providing products to customers until changes are made to address the regulators’ views on potential detriment to consumers. Regulation covers several aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with applicable legislation, we could face sanctions, penalties, fines or other regulatory actions imposed by the authorities, including the revocation of our

authorization and the intervention in our operations, any of which may have an adverse impact on our business, financial condition or results of operations.

Furthermore, customers of financial institutions, including our customers, could seek compensation if they suffer loss as a result of an offered product, or on the occasion of the incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and judgments by the authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our results of operations and financial condition and prospects as a result of any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

We are subject to several laws regarding our organization, operations, credit and funding activities, capitalization, transactions with related parties, and taxation and other matters. These laws impose several requirements on us, including the maintenance of minimum credit risk-based, market risk-based and operating risk-based capital levels and allowance for impairment losses, prohibited activities, regulation of our business practices and practices relating to risk-profile and sales of securities, regulation on money laundering, regulation on derivatives, commissions charged, application of accounting regulations and tax obligations. Many of the applicable laws have changed extensively in recent years and some have had a negative impact on our business. There may be future changes in the legal system or in the interpretation of the laws, which could have a relevant adverse effect on our business.

Likewise, the laws, and policies to which we are subject, could be changed at any time, and the interpretation and the application of those laws and regulations by regulators may also be subject to change. See “The Mexican Financial Industry.”

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation could result in significant loss of revenue, limit our ability to pursue certain business opportunities, affect the value of our assets, require us to increase our rates and, therefore, reduce demand for our products and impose additional costs on us. Accordingly, we cannot assure you that future changes in legislation or in their interpretation or application will not adversely affect us.

Changes in legislation and regulations may increase our compliance costs and limit our ability to pursue certain business opportunities and offer certain products and services to our clients. Since certain of the banking laws, including the norms implementing Basel III, have been recently adopted in Mexico, the application of those laws and related regulations to the operations of financial institutions is evolving.

Furthermore, pursuant to Mexican case law (*jurisprudencia*) issued by the Mexican *Pleno en Materia Penal del Primer Circuito* of the Mexican Federal Judicial Power (*Poder Judicial de la Federación*) in June 2019, which is binding on courts in the first circuit (*tribunales colegiados en el primer circuito*) and only in respect of criminal matters in which a banking institution acts as auxiliary authority to immobilize or seize bank accounts, a Mexican banking institution may be deemed as responsible authority (*autoridad responsable*) for purposes of an amparo suit (*juicio de amparo*) under circumstances that may imply that certain actions taken by a Mexican banking institution may be suspended or revoked, among other potential results. Even if, pursuant to Mexican law and related case law, a Mexican banking institution is only deemed as responsible authority when (i) such institution acts in a manner equivalent to a governmental authority, (ii) affects rights of individuals, and (iii) its functions are determined by law, such case law permits interpretation and subjective elements decided by each judge. The characterization of a Mexican banking institution, under certain circumstances, as a responsible authority, may subject such institution to the provisions of the Mexican *Ley de Amparo*, which effects and consequences are currently unknown, and may increase the regulatory charges applicable to, and affect the activities of the Bank. Recent non-binding Mexican judicial criteria (*tesis aisladas*) have set forth that, if a banking institution is acting in its ordinary course of business, it cannot be deemed as a responsible authority under the Mexican *Ley de Amparo*.

In addition, while the Bank operates as a stand-alone subsidiary within the BBVA Group, the Bank’s reputation could be damaged by the actions, behavior or performance of other members of the BBVA Group, their employees, affiliates, suppliers, intermediaries, counterparties or customers, or those of the financial services industry generally. The actions of any such persons or any investigations conducted by any governmental authority with respect to such actions could damage our reputation and adversely affect the confidence of our clients, credit rating agencies, regulators, creditors and other parties, which could have an adverse effect on our business, financial condition and results of operations.



***We are subject to litigation and other legal, administrative and regulatory proceedings.***

We are party to various litigation and other legal proceedings relating to claims resulting from the normal course of business. See “The Bank—Legal Proceedings.” Litigation is subject to uncertainties, and we may obtain adverse rulings. Furthermore, the current regulatory environment, which has resulted in an increased supervision, combined with uncertainty about the evolution of the regulatory regime, could lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties. See Note 35 to our Audited Financial Statements included elsewhere in this Offering Memorandum. We cannot assure you that these or other legal, administrative or judicial proceedings will not adversely affect our ability to operate in the way that we expect or otherwise adversely affect our results of operations and financial position should we obtain adverse rulings.

Our business activities occur in a highly regulated sector. The Mexican banking regulators and other authorities, including antitrust and tax authorities, have increased their supervision, and the frequency and amounts of fines and assessments have increased. Although we intend to defend ourselves vigorously when proceedings are brought or fines are imposed by authorities, we cannot assure you that we will be successful in such defense. Accordingly, we may in the future be required to pay fines that could be significant, which could materially adversely affect us. There are several investigations, administrative proceedings, legal actions and claims pending against or related to us, in the ordinary course of business. In the opinion of our management, none of these investigations, proceedings, actions or claims is expected to have a material adverse effect on our business; however, we are unable to predict the outcome of any of these investigations, proceedings, actions or claims or the impact on our business, financial position or results of operations.

In April 2017, COFECE commenced a proceeding relating to monopolistic practices by certain participants in the Mexican government bond market, including the Bank. In September 2019, COFECE issued a statement of probable liability within such proceeding, to certain participants, including the Bank. This proceeding is in process.

However, in 2018, the CNBV also performed an investigation regarding the Bank’s involvement in the trading of securities issued by the Mexican government between 2012 and 2017. In November 2018, the CNBV imposed two fines on the Bank, in insignificant amounts, but expressly stated that it did not find evidence of market manipulation. The Bank challenged those fines before the Federal Administrative Court of Justice and obtained favorable resolutions, annulling the fines, one of which is currently under review.

Additionally, in March 2018, the Bank and certain of its affiliates were named as defendants in a putative class action filed in the United States of America, regarding their activities as market makers and intermediaries of securities issued by the Mexican government. At the request of the plaintiffs, the court dismissed the suit in September 2019, granting the plaintiffs leave to file a revised claim, which was presented in December 2019. This proceeding is in process.

It is not currently possible to predict the outcome of the above-referenced proceedings, or if they will have a material adverse effect on the Bank’s reputation, financial condition or results of operations (except for the aforementioned fine imposed by the CNBV which is not substantial).

***Current loan loss reserve requirements in Mexico differ from those in the United States and other countries.***

Except for loans granted to the public sector, *Banco de México*, the IPAB and certain multilateral organizations and public development banks, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth in Mexican bank legislation and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican banking legislation relating to loan classification and determination of loan loss reserves are different and could be less stringent than those applicable to banks in the United States and certain other countries. Current rules approved by the CNBV allow banks to use additional objective and subjective factors in determining loan loss reserves. If the rules applicable in the United States were applicable in Mexico today, the balance of our loan loss reserves could be higher than those we currently record.

We believe our loan loss reserves are adequate to cover all known or knowable losses in our loan portfolio. We may, however, be required to increase our loan loss reserves in the future. Any required increases in our reserves could adversely affect us, including our results of operations, financial condition and our ability to pay our debt, including the Notes.

***Liquidity and funding risks could adversely affect us.***

Some Mexican banks have suffered severe liquidity problems at different times, particularly in connection with refinancing short-term U.S. dollar liabilities in the international capital markets.

We anticipate that our customers will continue to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as our principal source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the amounts we expect or such are not renewed.

We cannot assure you that the Mexican banking system or we will not be subject to liquidity or funding problems in the future. While we expect to be able to pay or refinance our liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

***Currency and interest rate risks may adversely affect us.***

We are exposed to currency risk whenever we hold an open position in a currency other than pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Such currency and interest rate risks include, among others, the risk that our income decreases. The Mexican peso has fluctuated significantly against the U.S. dollar in recent years. For instance, at December 31, 2017, the peso appreciated to Ps.19.7354 per U.S. dollar, and remained stable in 2018, ending the year at Ps.19.6566 per U.S. dollar at December 31, 2018. At December 31, 2019, the peso appreciated against the U.S. dollar, closing the year at Ps.18.8642 per U.S. dollar as of December 31, 2019. As of April 22, 2020, the peso had depreciated to Ps.24.4248 per U.S. dollar. As a result, the risks associated with such positions could be greater than in certain other countries. Our foreign currency liabilities are taken into account when determining limits to our regulatory capital and liquidity, as required by *Banco de Mexico* regulation. Although we have implemented risk management procedures in connection with our trading and treasury activities, we cannot assure you that we will not experience losses with respect to these positions in the future, which could have an adverse effect on us.

As of December 31, 2019, the average value at risk associated with our financial instruments sensitive to interest rates and foreign currency exchange rates was U.S.\$5.5 million (Ps.103.7 million) and U.S.\$0.88 million (Ps.16.6 million), respectively.

In recent years, interest rates in Mexico have remained relatively low; however, *Banco de México* started a tightening cycle at the end of 2015 that took the benchmark rate to 7.25% as of December 31, 2019. *Banco de México* has since the end of 2019 cut its benchmark rates six times, resulting in a benchmark rate of 6.5% as of the date of this Offering Memorandum. However, any increases in interest rates could increase our funding costs and reduce the demand of our loans, in particular among consumers. Rising interest rates could therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels could adversely affect the Mexican economy and the financial position and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which, in turn, may lead to deterioration in our asset quality.

Severe devaluation or depreciation of the peso could have an adverse effect on our business by, for example, increasing the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers or affect our results of operations measured in U.S. dollar terms. In addition, any devaluation or depreciation may result, as in the past, in the implementation of exchange controls that could impact our ability to convert pesos into U.S. dollars or to transfer currencies outside of Mexico.

***Failure to successfully implement and continue to improve our credit risk management system could have a material adverse effect on our business, financial condition and results of operations.***

As a commercial bank, credit risk is one of the main types of risks inherent to our business. We may not be able to improve our credit risk management system so that it can function effectively. For example, an important feature of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves a detailed analysis of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which could result in a higher exposure to credit risks than that indicated by our risk rating system. In cases where we rely on third party information to assess credit risk, we cannot assure you this information is accurate. In addition, we have been trying to refine our credit policies to address potential risks associated with particular industries or types of customers, such as affiliated

entities and group customers. However, we may not be able to timely detect these risks before they occur or, due to the limitations of the tools that we have, our employees may not be able to effectively implement them, which could increase our credit risk. Failure to effectively implement, follow or adjust our credit risk management system could have an adverse effect on our business or financial condition.

***High levels of past due portfolio or insufficient loan loss reserves to cover loan losses, may have a material adverse effect on our business, financial condition or results of operations.***

Past due portfolio or low credit quality loans may negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the number of impaired or past due loans in our portfolio. In particular, the principal balance of our reported past due loans could increase in the future as a result of growth in our loan portfolio balance or factors beyond our control, such as the impact of macroeconomic trends, internal and external political events affecting Mexico or events affecting certain industries.

On March 25, 2020, the CNBV, in order to mitigate the economic effects of the COVID-19 outbreak, announced certain special temporary measures applicable to banking institutions, including, among others, the total or partial deferral of principal and/or interest payments by debtors of consumer, housing and commercial loans that classify as “*créditos vigentes*,” for up to four months (with an additional period of two months), without the requirement of classifying loans as past due and requiring the creation of reserves. Such temporary measures and any other measures to be taken by the Mexican federal government with respect to the COVID-19 outbreak may adversely impact our business and financial condition.

In addition, while we believe our current loan loss reserve is adequate to cover all losses in our loan portfolio, our current loan loss reserves could prove to be inadequate to cover an increase in the amount of past due loans or any future deterioration in the overall credit quality of our portfolio. As a result, if our credit quality deteriorates, we may have to increase our loan loss reserves. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves will be sufficient to cover losses. Failure to control the level of our past due loans could have a material adverse effect on our business, financial condition and results of operations.

***Our loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on our business.***

Our loan and investment portfolios are subject to the risk of prepayment as result of the right of a borrower or issuer to pay its loan prior to maturity. Typically, in a downward interest rate environment, prepayment activity increases, reducing the weighted average lives of our interest earning assets, and such activity could have a relevant adverse effect on our business.

Prepayment risk also might have a significant adverse impact on our credit card and collateralized mortgage loans since prepayments could also shorten the weighted average life of these portfolios, which would negatively impact us. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on our business, financial condition or results of operations.

***Our revenues from commissions could be reduced.***

The commissions we charge from the diverse banking and other financial services that we provide represent an important source of our revenues. Market downturns have led, and will probably continue leading, to a decline in the volume of transactions we make for our customers and, therefore, to a decline in our revenues. In addition, because the commissions that we charge for managing our clients’ portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of our clients’ portfolios or increases the withdrawals would reduce the revenues we receive from our private banking and custody businesses.

Moreover, risk tolerance of our clients to non-deposit investments such as stocks, debt instruments and mutual funds, could decrease, which would adversely affect our commission income.

Even in the absence of a market downturn, our revenues from fees may also be reduced by legislative changes affecting this business model of the financial system.

***Risks not contemplated in our insurance policies may materially adversely affect us.***

We maintain insurance for amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability insurance for services we provide, general directors and officers liability insurance and general liability insurance against

fraudulent activity. However, it is possible that the terms and conditions of our insurance policies will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur.

If any uninsured events occur with respect to a significant part of our operations, or we are obliged to pay high deductibles, our financial condition and results of operations could be affected. Additionally, if we are unable to renew our insurance policies upon expiration or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could materially adversely affect us.

***We could be adversely affected if our customers face financial problems.***

The volatility of the market and an economic recession (which is currently expected as a result of COVID-19) could significantly and adversely affect the liquidity, credit ratings, businesses or financial condition of our borrowers, which could in turn increase our past due loan ratios, affect our financial assets and result in decreased demand for borrowings in general. In addition, the tolerance of our customers to the risk related to non-deposit investments that we offer could decrease significantly, which would adversely affect our commission income. We could also be adversely affected by the negative effects of increased regulatory requirements relating to our clients, due to the high costs associated with regulatory compliance.

***We are exposed to risks faced by other financial institutions, and in particular, financial institutions in Europe.***

On a daily basis we transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry in general have led to liquidity problems and could lead to losses or defaults by other financial institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. For example, the financial situation of a number of European governments was shaken by the European sovereign debt crisis in 2011, contributing to volatility of financial and credit markets. Recently, economic conditions in the Eurozone economies have improved, reducing the default risks of some nations and of the financial system as a whole. In 2016, however, the decision made in the British referendum of June 23, 2016 to leave the European Union (“**Brexit**”) caused a sharp spike in volatility as it opened up the possibility of major nations withdrawing from the European Union. In 2017, recent electoral results in France and more favorable positive economic conditions in Europe have had a calming effect on the credit and financial markets. In 2019, the United Kingdom and the European Union reached an agreement that allowed the former to exit the union on January 31, 2020. Such agreement includes a transition period of 11 months in which the United Kingdom will continue abiding by the rules and regulations of the European Union. These liquidity concerns have had, and could continue to have, an adverse effect on interbank financial transactions in general and on us in particular, given that our ultimate parent, BBVA Parent, is incorporated and operates in Spain. If any of these countries default on their debt, or experience a significant widening on credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial condition, results of operations or prospects.

***We may be required to make significant contributions to the IPAB.***

The IPAB manages the bank savings protection system in Mexico. In accordance with Mexican law, banks are required to make monthly contributions to the IPAB to support its operations that are equal to 1/12 of 0.004% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. Mexican authorities impose regular assessments on banking institutions covered by the IPAB. We contributed to the IPAB Ps.5,430 million for the year ended December 31, 2019, Ps.5,217 million for the year ended December 31, 2018 and Ps.4,917 million for the year ended December 31, 2017. If the IPAB’s reserves are insufficient to manage the Mexican bank savings protection system and provide the necessary financial support required by troubled banking institutions, the IPAB has the right to require extraordinary contributions of participants in the system. Such extraordinary contributions could increase our expenses and could have a material adverse effect on our businesses.

***We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.***

To be able to grow, remain competitive, enter into new businesses, or meet capital adequacy requirements, we may require new or additional capital in the future. Moreover, we may need to obtain additional capital in the event

that we suffer any significant losses in any of our activities. Our ability to obtain additional capital in the future is subject to various situations, including:

- public health and economic consequences in Mexico and elsewhere of the COVID-19 pandemic;
- our future financial position, results of operations and cash flows;
- any necessary government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms, if at all, which could affect us, including our ability to pay our debt, including the Notes.

***We are subject to market, operational and other related risks associated with our derivative financial transactions that could have a material adverse effect on our business.***

We enter into derivative financial transactions for trading and hedging purposes. We are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the financing or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to perform its obligations thereunder, including providing sufficient collateral).

In addition, Mexican courts have had limited relevant experience with such derivative financial transactions. As a result, the outcome of derivatives disputes being decided through the Mexican judicial system is not fully predictable.

Our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our information technology systems and, accordingly, any failure in our systems increases the risks associated with these transactions.

***The retail banking market is exposed to macroeconomic and other situations that could negatively impact household income and consumer demand, and a downturn in the economy could result in increased loan losses.***

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio rapidly. Demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other supplies, the ability of consumer credit, interest rates, consumer confidence, retail trends and exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for our products, including our consumer products, could decline. A decline in demand for consumer goods would also reduce demand for our durable goods loans and would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic situations that could negatively impact the household income of our retail customers and result in increased loan losses. In addition, natural disasters, like the earthquakes that affected Mexico in 2017, or the outbreak of contagious diseases and pandemics, such as the COVID-19, could also affect our customers. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform if an economic crisis arises, such as a recession or a significant peso depreciation or devaluation. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio over time.

***Natural disasters and weather conditions may adversely affect us.***

Our operations and those of our customers could be located in areas subject to natural disasters and severe weather conditions. Natural disasters or severe weather conditions could increase our operating costs or the operating costs of our customers. Moreover, if our insurance or our clients' insurance does not fully cover the losses resulting from these events, our income, liquidity or capital resources could be adversely affected. Some experts believe that climate change resulting from global warming could lead to an increase in the frequency and intensity of natural disasters in the future. Our operations have insurance that cover damage caused by natural disasters, accidents and other similar events. However, we cannot assure you that the losses caused by damages to our operations or to the operations of our clients will not exceed the limits established in the corresponding insurance policies.

***Our continuing focus on individuals and small and medium-sized companies (PyMes) could lead to higher levels of past due loans and subsequent charge-offs.***

We are continuing to lend and provide other services to individuals and to small and medium-sized companies. As of December 31, 2019, small and medium-sized companies represented 14% of our corporate loan portfolio. As individuals and small and medium-sized companies are more likely to be adversely affected by a downturn in the Mexican economy than large companies, the balance of our past due loans could increase, which could result in higher allowance for loan losses.

There can be no assurance that the levels of past due loans and subsequent charge-offs will not be materially higher in the future.

***We engage in transactions with our parent GFBB and its subsidiaries or affiliates that could not be on an arm's-length basis.***

We cannot assure you that transactions between us and our parent GFBB or any of its or our subsidiaries or affiliates have been or will be conducted on terms equal to those we would obtain from unrelated parties. For example, occasionally we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with Servicios Corporativos Bancomer, S.A. de C.V. for the distribution of certain banking products, Seguros BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer, for the sale of insurance policies and Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer, to offer brokerage services.

Applicable laws to companies that offer securities to the public and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds.

We are likely to continue to engage in transactions with our parent and its and our subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFBB or any of its or our subsidiaries or affiliates could arise. See "Related Party Transactions."

While in the past the CNBV has not disagreed with our determinations that the terms of these transactions are "substantially on market conditions," we cannot assure you that the CNBV will agree with our future determinations to that effect.

***Resources and business opportunities could be channeled, to other entities within the financial group controlled by GFBB.***

We are the principal subsidiary of GFBB. GFBB could, at any time, devote more resources or divert business opportunities to other subsidiaries of GFBB that could directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFBB to us, on grounds of capital efficiency, regulatory constraints or other criteria. Any diversion of our resources or business opportunities to other subsidiaries of GFBB, or the transfer to us of unprofitable operations of other subsidiaries of GFBB, may have an adverse effect on us.

***Cyber-attacks or other breaches of network or information technology security could have an adverse effect on our business.***

Our technologies, systems, networks, and those of our business partners could be the target of cyberattacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, as well as a disruption of our business operations. Cyber-security risks for financial institutions have significantly increased because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other parties. Our business is highly dependent on our technology infrastructure and that of our service providers, and we are not immune to attacks against our or their network or systems. Although we have not experienced any significant loss as a result of cyber-attacks, there can be no assurance that we will not be the target of cyber-attacks in the future that could adversely affect our operations or financial condition. As cyber threats continue to evolve, we could have to incur additional expenses to enhance our protective measures or to remediate any information security vulnerability. If we are not able to effectively manage our cybersecurity risk, including as a result of failing to update our systems and processes in response to new threats, this situation could hold us responsible

to pay compensation, lead us to lose customers, or assets, or to become the object of penalties and fines, any of which could have a material adverse effect on our reputation, results of operations and financial condition.

***Future mergers or acquisitions of other institutions could disrupt our operations.***

In the past we have acquired some companies and it is possible that we conduct further mergers or acquisitions. See “The Bank—Our History—BBVA’s Investment in GFBB.” Such mergers and acquisitions could lead to difficulties and delays in the integration of acquired companies, or delays in receiving regulatory approvals, that could divert our management’s attention and human resources. Any future acquisitions could require us to operate in new markets and may subject us to regulation in other countries with which we have not had prior experience. Such transactions are likely to entail risks, including unknown or unforeseen liabilities relating to the acquired assets or business, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

***We are subject to anti-corruption laws in Mexico and to similar laws of other jurisdictions.***

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*, or the “SNA”), the Mexican Congress approved a group of laws that comprises the legal framework that aims to ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals.

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*) and amendments on internal controls of the federal executive branch to the Organic Law of Public Administration (*Ley Orgánica de la Administración Pública Federal*), to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*). The SNA requires us to enhance internal controls and audits, as a means to reduce the exposure to liability.

We cannot assure you that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees, directors, officers, shareholders, affiliates or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a significant adverse effect on our business.

***Any deterioration of labor relations with our employees could have a material adverse effect on our business, financial condition and results of operations.***

We depend on intensive use of human resources in our activities. As of December 31, 2019, approximately 38.01% of our employees were unionized. In the future we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage. In addition, their employment contracts are regulated by collective bargaining agreements. Any collective bargaining agreement executed in the future could have shorter terms than our previous agreements and, if we are not able to negotiate collective bargaining agreements on acceptable terms to us, we could be subject to a significant increase in labor costs, deterioration of employee relations, or strikes, which could have a material adverse effect on us and on the market price of the Notes.

***Our businesses rely heavily on data collection, processing and storage systems, the failure of which could affect our risk management and internal control systems.***

As transaction processes have become increasingly bulky and complex in recent years, our main businesses are highly dependent on our ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process and our risk management and internal control systems, as well as our timely response to changing market conditions.

Furthermore, we are dependent on information systems in order to process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We could experience operational problems with our

information systems as a result of system failures, viruses, computer “hackers” or other causes. Any important disruption or the slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could reduce demand for our services and products and could significantly and adversely affect our customers which, in turn, could have a material adverse effect on our reputation, financial condition and results of operations.

***Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have an important adverse effect on our business.***

Being able to be competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure. On the other hand, we could experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base while still ensuring the security of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially adversely affect us.

***Our Audited Financial Statements included elsewhere in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP and IFRS.***

Our Audited Financial Statements included elsewhere in this Offering Memorandum have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, which are material to our Audited Financial Statements and other financial information included elsewhere in this Offering Memorandum. We have made no attempt to identify or quantify the impact of those differences in this Offering Memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this Offering Memorandum. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, and how those differences might affect the financial information included in this Offering Memorandum. See “Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS.”

***We may not be able to detect money laundering and other illegal activities, on a timely basis or at all, which could expose us to liabilities and have a material adverse effect on our business.***

We are required to comply with applicable anti-money laundering and anti-terrorism financing laws in Mexico and abroad. These laws require us, among other things, to adopt and enforce “know your customer” policies and procedures, to monitor our customers’ activity in order to detect and report suspicious activity and transactions exceeding certain thresholds to the corresponding authorities, to apply know your customer and enhanced due diligence procedures to high risk customers and to keep customers’ files and records for a certain period of time. These laws have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of more detailed government supervision. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to physically receive currencies, as a result of foreign exchange and other similar transactions. The government agencies to which we report have the power to impose fines and other penalties on us. See “Supervision and Regulation—Money Laundering Regulations.”

While we have adopted policies and procedures, have implemented controls that we consider strong which are aimed at detecting and preventing the use of our banking network for money laundering or terrorism financing activities, and continually work on improving and strengthening those controls, there is a risk that we may be used by other persons to engage in money laundering considering that we are the largest bank in Mexico with an important presence throughout the country and that our main activity is retail banking.

To the extent we fail to fully comply with applicable laws, the relevant competent government agencies have the power to impose fines and other penalties on us, including the revocation of our banking license. In addition, our business and reputation could suffer if our infrastructure is used by third parties for money laundering or illegal purposes and some of our operations could be suspended by competent authorities. Any of these events could have a material adverse effect on our business, financial condition or results of operations.



Likewise, if we were to be accused of being associated with, or become a party to money laundering activities, then our reputation could suffer and we could become subject to fines, sanctions or being included to any “blacklist” which would prevent any third parties from transacting business with us.

## **Risks Relating to Mexico and Other Markets**

*Economic, political and social developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.*

We are a Mexican bank and most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso as compared to the U.S. dollar, price instability, inflation, changes in crude oil prices, interest rates, regulation, taxation, social instability, acts of terrorism, outbreaks of disease and pandemics and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy and occasionally makes significant changes to policies and laws. The Mexican government’s actions to control inflation and other policies historically have resulted, among other things, in increases to interest rates, changes in tax policies, price controls, currency fluctuations, exchange controls and limits on imports. Mexican government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income could result in lower demand for our services and products. The Mexican government recently cut spending in response to a downward trend in international crude oil prices and as a result of the implementation of President López Obrador’s austerity plan, and it could further cut spending in the future. These cuts could adversely affect the Mexican economy.

Because the Mexican economy is heavily influenced by the U.S. economy, policies that may be adopted by the U.S. government could adversely affect economic conditions in Mexico. The 2016 U.S. presidential election and the change in the U.S. administration have had an impact on the worldwide economy and the Mexican economy. See “—Risks Relating to Our Business—We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.”

We could be adversely affected by changes in policies or laws involving, among others:

- government responses to the COVID-19 pandemic;
- interest rates;
- trade arrangements between Mexico and other jurisdictions;
- exchange rates and exchange controls and restrictions on the movement of capital in or out of Mexico;
- reserve requirements;
- levels of crude oil production and crude oil prices;
- capital requirements;
- funding and lending limits;
- commissions charged to customers;
- inflation;
- liquidity of the domestic capital and lending markets; and
- tax, monetary and regulatory matters.

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot assure you that political, economic or social events in Mexico, over which we have no control, such as those resulting from the COVID-19 pandemic, will not have an adverse effect on our business,

financial condition, results of operations and prospects. Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican government has implemented various measures to increase security and has strengthened its police and military forces. Despite these efforts, organized crime (drug-related crime in particular) continues to exist and operate in Mexico. These activities, their possible escalation and the violence associated with them could have a negative impact on the Mexican economy or on our operations in the future. See, “—Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.” The social and political situation in Mexico could adversely affect the Mexican economy, which could have a material adverse effect on our business, financial condition and results of operations.

***Political, economic and social conditions in Mexico could adversely and significantly affect Mexican economic policy and, in turn, our business.***

Political circumstances in Mexico could significantly and adversely affect Mexican economic policies which could have an effect on our operations. Mexico’s presidential, federal and local elections were held on July 1, 2018 resulting in a voting majority (in the presidential, federal and local elections) in favor of Movimiento de Regeneración Nacional (“**Morena**”), a left-wing political party. The party with the majority in the Mexican Congress changed as of August 29, 2018, and the executive branch of the Mexican federal government took office on December 1, 2018.

The Mexican President strongly influences policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law policy in Mexico, which could adversely affect economic, political and social conditions in Mexico. In addition, as a result of Morena and its political allies controlling an absolute majority of both chambers of the Mexican Congress, as well as the majority in the congresses of most of the states of the country, the Mexican President has considerable power to propose or amend laws and determine governmental policies and actions that relate to the Mexican economy.

Mr. López Obrador, the appointed public officials of Morena and the Mexican Congress, acting within their corresponding positions, have the ability to direct the policies of the federal government, to present new legislation and approve any amendments to existing legislation.

During his campaign and his first year in office, Mr. Andrés Manuel López Obrador has announced and implemented several structural changes including a significant decrease in salaries and labor benefits currently granted to public officers. We cannot assure you that these events, over which we have no control, will not have an adverse effect on our business, financial condition and results of operations, and we cannot predict the impact that these political conditions will have on the Mexican economy. Likewise, we cannot assure you that political developments in Mexico or changes in Mexican laws, or public policies will not adversely affect our business, prospects, financial condition and results of operations.

Informal discussions led by the Senate’s majority party leader to limit certain fees and commissions charged by banks took place during the first 100 days of the new administration, causing high uncertainty over the final outcome of these discussions. In addition, during his campaign, Mr. López Obrador proposed, among other things, to modify and/or terminate certain structural reforms. As of the date of this Offering Memorandum, a new education reform was approved by the Mexican Congress and ratified by the legislative authorities of 22 Mexican states. In addition, the new administration canceled the New Mexico City Airport (*Nuevo Aeropuerto Internacional de la Ciudad de México*) project, and announced the kickoff of the main infrastructure projects that were promised during the campaign (including a new refinery at Dos Bocas, the “Mayan train,” and the construction of a new airport in Santa Lucía). In March 2020, the Mexican federal government also carried out a popular consultation (or referendum) with respect to the construction and development of a brewing facility by Constellations Brand in Baja California, Mexico. Based on the results of such consultation, the government decided to cancel the project. Investors and credit rating agencies may be cautious about the new administration’s policies, which could contribute to a decrease in the Mexican economy’s resilience in the event of a global economic downturn.

On June 5, 2019, Fitch downgraded Mexico’s sovereign debt, which reflects an assessment of the overall financial capacity of the government of Mexico to pay its obligations and its ability to meet its financial commitments as they become due, from BBB+ to BBB citing increased risk due to the deteriorating credit of Petróleos Mexicanos (“**PEMEX**”) and weakness in the macroeconomic outlook due to, among other things, trade tensions. In addition, Moody’s changed its outlook on Mexico’s A3 rating from stable to negative. The same day, Fitch downgraded PEMEX from BBB- to BB+, citing insufficient investment to restore declining production. On March 26, 2020, S&P downgraded its credit rating for Mexico’s sovereign debt from BBB+ to BBB (negative outlook). Moreover, on April 3, 2020, Fitch downgraded PEMEX from BB+ to BB, citing the continued deterioration of its stand-alone credit

profile amid the downturn in the global oil and gas industry, Fitch's lower oil price assumptions and the weakening credit linkage between Mexico and PEMEX and, on April 15, 2020, Fitch revised its rating of Mexico's sovereign debt from BBB to BBB- (stable outlook). Finally, on April 17, 2020, Moody's downgraded its ratings of PEMEX's senior unsecured notes, as well as its ratings of PEMEX's guarantee, from Baa3 to Ba2 and, simultaneously, Moody's withdrew PEMEX's Baa3 issuer rating and assigned a Ba2 corporate family rating to PEMEX. Moody's also lowered PEMEX's Baseline Credit Assessment (BCA), which reflects its standalone credit strength, to caa2 from caa1. These rating actions were triggered by PEMEX's higher liquidity and business risk. Simultaneously, on April 17, 2020, Moody's downgraded the credit ratings for Mexico's sovereign debt from A3 to Baa1 and maintained the negative outlook. We cannot assure you that the rating agencies will not announce additional downgrades of Mexico and/or PEMEX in the future. An recent downgrades or any future downgrades could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot ensure you that political or social developments, over which we have no control, will not have a material adverse effect on our business, financial condition and results of operations.

***Adverse economic conditions in Mexico may have a material adverse effect on our business, financial condition and results of operations.***

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as peso-U.S. dollar exchange rates, rates of inflation, levels of interest rates, legislation, taxation, social instability and other political, social and economic developments in Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on us. We cannot assure you that these conditions will not return or will not have a significant and adverse effect on our business.

In Mexico, during 2019, GDP shrank 0.1% and the inflation rate was 3.6% on average. In Mexico, during 2018, GDP grew 2.1% and inflation was 4.9% on average, compared to GDP growth of 2.1% and inflation of 6.0% on average during 2017.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*, or "**Cetes**"), averaged 7.84%, 7.62% and 6.69% for the years ended December 31, 2019, 2018 and 2017, respectively. Accordingly, if we incur peso denominated debt in the future, it could be done at high interest rates.

A recession, including one resulting from the COVID-19 pandemic, could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand of our products and services. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could have a material adverse effect on our business, financial condition and results of operations.

***Depreciation or fluctuation in the peso - U.S. dollar and other currencies can have an adverse effect on us.***

High rates of devaluation or depreciation of the peso may limit our ability to transfer pesos or to convert pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in future periods. Among other effects, a depreciation or devaluation could increase the amount of our foreign currency-denominated liabilities, such as the Notes, and could result in greater defaults from our borrowers.

For instance, at the end of 2017, the peso had depreciated to Ps.19.74 per U.S. dollar. As of December 31, 2018, the peso remained stable at Ps.19.66 per U.S. dollar and as of December 31, 2019, the peso remained at Ps.18.8642 per U.S. dollar. As of April 22, 2020, the peso had depreciated to Ps.24.4248 per U.S. dollar. The Mexican government has implemented a series of measures to limit the volatility of the peso. However, we cannot assure you that such measures will be applied in the future or will be effective if applied or how such measures will impact the Mexican economy.

A considerable depreciation or devaluation of the peso may could also result in the imposition of exchange controls, as has occurred in Mexico or in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer currencies outside of Mexico, the Mexican government could enact restrictive exchange control policies in the future. Devaluation or depreciation of the peso against the U.S. dollar may also have a material adverse effect on our financial condition or our ability to pay our debt, including the Notes.

***Events in other countries, including the United States and countries in Europe, could adversely affect us.***

Economic and market conditions in other countries could, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries could differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries could have an adverse effect on the market value of securities of Mexican companies. For example, during the global financial crisis in 2008, the prices of both Mexican debt and equity securities decreased substantially.

Economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement and increased economic activity between the two countries, which was highlighted during the 2008 to 2009 economic crisis affecting the United States. The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States' economy, the termination of NAFTA and the entering into force of USMCA or other related events, or slowdowns or contractions of the U.S. economy may impact the economy of Mexico. In 2009, the GDP of the United States contracted by 3.5% while Mexican GDP fell by 4.7%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 9.3% in 2009 in the United States and from 4.3% in September 2008 to 6.4% in September 2009 in Mexico. This sudden change in economic conditions reduced credit demand, caused a 31.8% depreciation of the peso from September 2008 to March 2009 and triggered a monetary policy response by *Banco de México* that resulted in low interest rates, which decreased to 4.5% in December 2009 from its December 2008 level of 8.3%. Nevertheless, these changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. In addition, the normalization of monetary policy in the U.S. has caused an increase in the volatility of the peso and in the peso/U.S. dollar exchange rate. The relative strength of the U.S. dollar against other currencies, including the peso, could impact manufacturing's contribution to growth, thus affecting economic activity in Mexico.

Likewise, economic conditions in Mexico could also be affected by U.S. international trade policies. Because the Mexican economy is heavily influenced by the U.S. economy, a delay in the entry into force of the USMCA and/or other U.S. trade policies that may be adopted by the U.S. government may adversely affect economic conditions in Mexico. The U.S. government's current policies have generated volatility in the global capital markets, in Mexico in particular, and could create uncertainty regarding key policies, such as trade, immigration, fiscal and defense policy.

Illegal immigration from Mexico to the United States has caused friction between the two countries and could reduce economic activity between them. On June 7, 2019, Mexico and the United States signed a joint declaration committing both countries to undertake specific actions to control illegal immigration. However, the U.S. presidential administration had previously announced plans to institute import tariffs in response to the issue of illegal immigration across the Mexico-U.S. border. We cannot assure you that the U.S. government will not have future plans to impose tariffs on Mexico and that we will not be adversely affected by such plans or tariffs in the future. In the event of certain changes in U.S. policy implemented by the current U.S. administration, the Mexican government could implement retaliatory actions, such as the imposition of restrictions on Mexican imports of products from the United States or imports and exports of products to the United States or remittances from the United States to Mexico. If the United States were to impose tariffs on Mexican products, this could adversely affect our business and results of operations.

Additionally, economic conditions in Mexico may also be affected by political developments in the United States, such as the presidential election taking place in November 2020. We cannot assure you that any developments in the U.S. or elsewhere will not materially and adversely affect us in the future.

See “—Risks Relating to Our Business—We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions” for further information relating to risks posed by developments in other countries, particularly the United States and United Kingdom. We cannot assure you that the events in Europe, the U.S. or elsewhere will not materially and adversely affect us in the future.

***Global economic conditions, volatility in the financial markets and reductions in crude oil prices may negatively affect our business, financial condition, results of operations and prospects.***

The market value of the securities of Mexican companies is affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions

in Mexico, investor reactions to developments in any of these other countries may have an adverse effect on the market value of the securities of Mexican issuers, including our securities.

In March 2020, the Kingdom of Saudi Arabia, the largest crude oil exporter in the world, reduced the prices of the crude oil it produces and increased its production and sale levels, as a result of an impasse in negotiations with Russia and OPEC regarding production levels. This reduction, along with the global economic slowdown, has resulted in substantial decreases in crude oil prices worldwide. In April 2020, the countries members of the OPEC+ alliance, including Mexico, agreed to significantly reduce output, with the aim of lifting crude oil prices from 20-year lows. The reduction in the amount of crude oil may have an adverse effect on the revenues of the Mexican government economy and, in turn, on Mexico. We cannot assure you of the duration of the reduction in production of crude oil or the continued downward pressure on the price of crude oil or the impact these developments will have on the Mexican and global economies. These developments may have a significant adverse effect on our business, financial condition, results of operations and prospects.

***Changes in taxes and other fiscal assessments may adversely affect our business, financial condition or results of operations.***

The Mexican government continuously enacts reforms to the tax regime and other laws to which we and our customers are subject. Such reforms include changes in the tax rates and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of any future tax reform cannot be quantified and there can be no assurance that any such reforms will not have an adverse effect on our business. Furthermore, any reform of this nature may produce uncertainty in the financial system, increasing the cost of borrowing and our past due portfolio.

***Exposure to Mexican sovereign debt and to debt of Mexican government-owned entities could have an adverse effect on our business, financial condition or results of operations.***

Like many other Mexican banks, we invest in debt securities issued by the Mexican federal government and Mexican government-owned entities. Any failure by the Mexican government or any of those government-owned entities to timely pay its debt, or a significant decrease in their market value derived from a downgrade to its credit rating, could have an adverse effect on our business.

On June 5, 2019, Fitch downgraded Mexico's sovereign debt, which reflects an assessment of the overall financial capacity of the government of Mexico to pay its obligations and its ability to meet its financial commitments as they become due, from BBB+ to BBB-, citing increased risk due to PEMEX's deteriorating credit profile and weakness in the macroeconomic outlook. In addition, Moody's changed its outlook on Mexico's A3 rating from "stable" to "negative." Fitch also downgraded PEMEX from BB+ to BBB-, citing insufficient investment to restore declining production. On March 27, 2020, S&P downgraded Mexico's sovereign debt to BBB from BBB+, and downgraded PEMEX's stand-alone credit profile to ccc+ from b-. More recently, on April 3, 2020, Fitch downgraded PEMEX from BB+ to BB, citing the continued deterioration of its stand-alone credit profile amid the downturn in the global oil and gas industry, Fitch's lower oil price assumptions and the weakening credit linkage between Mexico and PEMEX and, on April 15, 2020, Fitch downgraded its rating of Mexico's sovereign debt from BBB to BBB- (stable outlook). Finally, on April 17, 2020, Moody's downgraded its ratings of PEMEX's senior unsecured notes, as well as its ratings of PEMEX's guarantee, from Baa3 to Ba2 and, simultaneously, Moody's withdrew PEMEX's Baa3 issuer rating and assigned a Ba2 corporate family rating to PEMEX. Moody's also lowered PEMEX's Baseline Credit Assessment (BCA), which reflects its standalone credit strength, to caa2 from caa1. These rating actions were triggered by PEMEX's higher liquidity and business risk. Simultaneously, on April 17, 2020, Moody's downgraded the credit ratings for Mexico's sovereign debt from A3 to Baa1 and maintained the negative outlook. We cannot assure you that the rating agencies will not announce additional downgrades of Mexico and/or PEMEX in the future. The recent downgrades or any future downgrades could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

***Violence in Mexico has adversely impacted, and could continue to adversely impact, the Mexican economy.***

Mexico has experienced a significant increase in violence in recent years relating primarily to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border, although recently in other states like Guerrero, Guanajuato and Michoacán. This increase in violence has had an adverse impact on economic activity throughout Mexico. In addition, social instability in Mexico or social or political events in the country could adversely

affect our ability to conduct our operations, offer our services and obtain financing. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not increase or will decrease and will have no further adverse effects on Mexico's economy or on our business.

Furthermore, illegal activities have resulted in more detailed and comprehensive anti-money laundering rules and increased supervision of such activities by the competent authorities, which have affected the way in which we conduct our business and has resulted in the need to make important investments to enhance our systems and reinforce our compliance measures.

***The perception of higher risk in other countries, particularly in emerging economies, could adversely affect the Mexican economy and adversely affect the price of the Notes.***

Emerging economies such as Mexico are subject to greater risks than more developed markets, and financial volatility in any emerging market could disrupt business in Mexico and adversely affect the price of the Notes.

Likewise, financial crisis in any important emerging market country could adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. Any increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Mexico and adversely affect the Mexican economy in general.

***The Mexican Supreme Court of Justice has ruled that Mexican judges are entitled to reduce interest rates considered inequitable, at their sole discretion, exposing us to potential losses on our portfolio and to reduced profitability.***

In June 2014, the Mexican Supreme Court of Justice issued a thesis of mandatory application that allows federal judges to determine *ex officio* if an interest rate agreed on a loan is evidently excessive. The elements the judge should take into account to determine if an interest rate is evidently excessive are the type of relationship between the parties, the qualification of the persons intervening and if the activity of the creditor is regulated, the purpose of the credit, the amount of the loan, the term of the loan, the existence of guarantees or collateral for the payment of the loan, the interest rates charged by financial institutions in similar transactions, as a mere reference, the variation of the national inflation index during the term of the loan, market conditions, other issues that may be relevant for the judge. The mandatory, and partly discretionary, application of these criteria in the lawsuits affecting our loan portfolio could have a significant adverse effect on the interest rates we charge and on our operating results.

To date, the Mexican courts have not issued any judgment reducing the interest rates charged by us on our loans. In addition, in November 2016, the Mexican Supreme Court of Justice published a separate thesis setting forth a rebuttable presumption that the interest rates charged on loans made by Mexican banking institutions are not excessive. The thesis was based on the fact that the loans offered to the public by credit institutions are supervised by *Banco de México*, which supervision has the objective of ensuring that their conditions are accessible and reasonable for the public. Additionally, multiple Mexican courts have recently rendered rulings that extended judicial powers regarding loan and credit interest rates reductions, which have established a pattern of limiting freedom of negotiating interest rates and their assessment.

***Our corporate disclosures may be different or less substantial than those of issuers in other countries.***

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See "Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS."

## **Risks Relating to the Notes**

Notes issued under the Program may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in such Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes with principal or interest payable in one or more Specified Currencies, or where the Specified Currency for principal or interest payments is different from the potential investor's usual currency for holding investments;
- understand thoroughly the terms of the relevant Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment in the relevant Notes and its ability to bear the applicable risks.

### ***Risks Related to the Notes Generally***

Set out below is a brief description of certain risks relating to the Notes generally:

***There is no trading market for the Notes; you may be unable to sell your Notes if a trading market for the Notes does not develop.***

Each series of Notes will constitute a new issue of securities with no established trading market. Application has been made to Euronext Dublin for Notes issued under the Program to be admitted to the Official List and trading on the Global Exchange Market although the Bank may, from time to time, issue Notes under the Program that are listed on another exchange. The Bank cannot assure you that an active trading market for the Notes will develop. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Bank's performance and business prospects and other factors.

***There is market price risk associated with an investment in the Notes.***

The market price of each series of Notes depends on various factors, such as changes of interest rate levels, the policy of central banks, overall economic developments, inflation rates or the supply and demand for the relevant type of Note. The market price of each series of Notes may also be negatively affected by an increase in the Bank's credit spreads (*i.e.*, the difference between yields on the Bank's debt and the yield of government bonds or swap rates of similar maturity). The Bank's credit spreads are mainly based on its perceived creditworthiness but also influenced by other factors such as general market trends as well as supply and demand for such series of Notes.

***There is exchange rate risk and risk of exchange controls associated with an investment in the Notes.***

An investment in Notes that are denominated in, or the payment of which is to be or may be made in or related to the value of, a currency or composite currency other than the currency of the country in which the purchaser is a resident or the currency in which the purchaser conducts its business or activities (the "**home currency**") entails significant risks that are not associated with a similar investment in a security denominated in the home currency. Such risks include the possibility of significant changes in rates of exchange between the home currency and the various foreign currencies (or composite currencies) after the issuance of such Note and the possibility of the imposition or modification of foreign exchange controls by governments. Such risks generally depend on economic and political events over which the Bank has no control. In recent years, rates of exchange between certain currencies have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of any Note. Depreciation of the currency in which a Note is denominated against the relevant home currency would result in a decrease in the effective yield of such Note below its coupon rate and, in

certain circumstances, could result in a loss to the investor on a home currency basis. In addition, depending on the specific terms of a currency linked Indexed Note, changes in exchange rates relating to any of the currencies involved may result in a decrease in the effective yield of such currency linked Indexed Note and, in certain circumstances, could result in a loss of all or a substantial portion of the principal of a currency linked Indexed Note to the investor.

Foreign exchange rates can either be fixed by sovereign governments or float. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the U.S. dollar. National governments, however, rarely voluntarily allow their currencies to float freely in response to economic forces. Governments in fact use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency, or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-home currency denominated Notes or currency linked Indexed Notes is that their home currency-equivalent yields could be affected by governmental actions, which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces, and the movement of currencies across borders. There will be no adjustment or change in the terms of such Notes if exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting the U.S. dollar or any applicable Specified Currency.

Governments have imposed from time to time, and may in the future impose, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal and of premium, if any, or interest, if any, on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. dollars would not be available at such Note's maturity. In that event, the Bank would make required payments in U.S. dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as of the most recent practicable date. The relevant provisions applicable to Foreign Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes.

***There is interest rate risk associated with an investment in the Notes.***

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

***Future discontinuance of certain benchmark rates (for example, LIBOR) may adversely affect the value of Floating Rate Notes which are linked to or which reference any such benchmark rate.***

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. In a further speech on July 12, 2018, the Chief Executive of the United Kingdom Financial Conduct Authority emphasized that market participants should not rely on the continued publication of LIBOR after the end of 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences that cannot be predicted.

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions applicable to such Notes. Each applicable Indenture and the Floating Rate Notes will provide for certain fallback arrangements if a published benchmark (including any page on which such benchmark may be published (or any successor service)), such as LIBOR or EURIBOR, becomes unavailable or a LIBOR Event (as described in "Description of the Notes") otherwise occurs.

If the referenced benchmark rate is replaced, as specified in the applicable Pricing Supplement for any series of Notes as being applicable (any such Notes, "**Relevant Notes**") and the circumstances described in the preceding paragraph occur in relation to a benchmark rate at any time when any rate of interest (or component thereof) remains to be determined by reference to such benchmark rate, such fallback arrangements will include the possibility that:

- (a) the relevant rate of interest (or, as applicable, component thereof) could be set or, as the case may be, determined by reference to a successor reference rate or an alternative reference rate (as



applicable) determined by the calculation agent, as directed by the Bank, or, if the Bank determines that there is no alternative reference rate that is consistent with market practice regarding a substitute for debt securities like the Relevant Notes, the Bank may, in its sole discretion, appoint an independent financial advisor to determine an appropriate alternative reference rate; and

- (b) such successor reference rate or alternative reference rate (as applicable) may be adjusted (if required) by the calculation agent, as directed by the Bank, or the independent financial advisor (if applicable), in order to make changes to the terms of the Notes that are necessary in order to follow market practice in relation to the relevant successor reference rate or alternative reference rate and to ensure the proper operation and comparability to the benchmark rate of the relevant successor reference rate or alternative reference rate (as applicable),

In any such case, acting in good faith and in a commercially reasonable manner as described more fully in “Description of the Notes” below.

No consent of the holders of the Notes shall be required in connection with effecting any relevant successor reference rate or alternative reference rate (as applicable) or any other related adjustments and/or amendments described above.

In certain circumstances, the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the relevant screen page. In addition, due to the uncertainty concerning the availability of successor reference rates and alternative reference rates and the involvement of an independent financial adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Bank to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should note that, in the case of Relevant Notes, the Bank, or the relevant independent financial adviser (if applicable), will have discretion to adjust the relevant successor reference rate or alternative reference rate (as applicable) in the circumstances described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each holder of Note, any such adjustment will be favorable to each holder of a Note.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes.

***A rating of the Notes may be lowered or withdrawn depending on various factors, including the rating agencies’ assessment of our financial strength and Mexican sovereign risk.***

Any rating of the Notes addresses the likelihood of payment of principal at their maturity. Such rating also addresses the timely payment of interest on each payment date. Any rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that a rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency’s assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally. See “—Reductions in our credit ratings or those of any of our subsidiaries could increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.”

***Credit ratings may not reflect all risks, and the Bank cannot assure you that such ratings will not be lowered, suspended or withdrawn by the rating agencies.***

One or more independent credit rating agencies may assign credit ratings to the Notes. Where a series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Notes to be issued under the Program. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the credit ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. The Bank cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or

withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any credit ratings assigned to Notes as at the date of this Offering Memorandum are not indicative of future performance of the Bank's business or its future creditworthiness.

***The interest rate on Fixed Reset Notes will reset on each Fixed Reset Date, which can be expected to affect interest payments on an investment in Fixed Reset Notes and could affect the market value of Fixed Reset Notes***

Fixed Reset Notes will initially bear interest at the Initial Fixed Reset Interest Rate (as specified in the applicable Pricing Supplement) until (but excluding) the Fixed Reset Date (as specified in the applicable Pricing Supplement). On the Fixed Reset Date and each Subsequent Reset Date specified in the applicable Pricing Supplement (if any) thereafter, the interest rate will be reset to the Subsequent Reset Rate (each, as defined in "Description of the Notes—Fixed Reset Notes—Rate of Interest"). The Subsequent Reset Rate for any reset period could be less than the Initial Fixed Reset Interest Rate or the Subsequent Reset Rate for prior reset periods and could affect the market value of an investment in the Fixed Reset Notes.

***Changes in law may adversely affect your rights under the Notes or may adversely affect us.***

Changes in law after the date hereof may affect your rights as a holder of the Notes as well as the market value of the Notes. Regulators may, from time to time, propose or consider amendments to law or legislation and rule making which may affect our business, your rights as a holder of the Notes and the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, or changes that could have a significant impact on the future legal entity structure, our management, and use of capital and requirements for our loss-absorbing capacity, which may have an adverse effect on an investment in the Notes.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Notes and therefore affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes could have on the Notes and changes in regulatory rules could increase likelihood of suspension or write-down.

***The Notes are subject to certain transfer restrictions.***

The Notes have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Accordingly, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. See "Transfer Restrictions."

***Holders of Notes may find it difficult to enforce civil liabilities against the Bank or its directors, executive officers and controlling persons.***

The Bank is organized under the laws of Mexico as a multi-purpose bank (*institución de banca múltiple*) with limited liability (*sociedad anónima*). Most of its directors, officers and controlling persons reside outside of the United States.

In addition, all or a substantial portion of the assets of the Bank are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. See "Service of Process and Enforcement of Civil Liabilities."

***The non-payment of funds by any of the Bank's subsidiaries could have a material adverse effect on the Bank's ability to pay amounts due in respect of our debt, including the Notes.***

The Bank's cash flow and its ability to service debt depend in part on the cash flow and earnings of its subsidiaries and the payment of funds by those subsidiaries to the Bank in the form of loans, interest, dividends or otherwise. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the terms of the Notes or to make any funds available for such purpose. Furthermore, claims of creditors of such subsidiaries, including trade creditors of such subsidiaries, will have priority over the Bank's creditors, including the holders of the Notes, with respect to the assets and cash flow of such subsidiaries. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors.

***Mexican law does not require Bank to pay our foreign-currency judgments in a currency other than pesos.***

Although the Bank's obligations to pay U.S. dollars outside Mexico are valid, under Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought in Mexico seeking to enforce in Mexico the Issuer's obligations under the Notes, the Issuer would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Federal Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican judgment currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit the Bank's liability to discharge its obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

Under the Mexican Banking Law, in the event of the revocation of the Bank's license to operate as a bank and consequent liquidation, foreign currency-denominated liabilities would be converted into pesos at the prevailing rate of exchange on the date our license to operate as a bank is revoked.

***If the Bank were declared insolvent by the CNBV, the Bank would be liquidated in a court procedure, and the holders of Notes may find it difficult to collect payment on the Notes.***

Under the Mexican Banking Law, if the CNBV declares the Bank insolvent, the Bank's authorization to be organized and operating as a bank institution will be revoked, and a liquidation procedure before a Mexican federal court will commence, in which, by statute, the IPAB will be appointed as the receiver (*liquidador judicial*). The Bank would be in liquidation as of the date following the notification by the CNBV of the revocation of the authorization to be organized and operating as a bank institution, and the Bank's payment obligations denominated in foreign currencies, including any Notes, would (i) be converted to pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt, (ii) cease accruing interest to the extent such debt is not secured, (iii) be paid at the time claims of creditors are satisfied and (iv) not be adjusted to consider any depreciation of the peso against the U.S. dollar occurring after the liquidation procedure begins. In addition, in the event of the Bank's liquidation, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes, social security claims and secured creditors.

***The Notes will contain provisions which may permit their modification without the consent of all investors and which may permit an assignment of the Notes to a subsidiary of the Bank without the consent of the holders of a Series of Notes, if the Bank remains jointly and severally liable for such obligations.***

The Notes will contain provisions for calling meetings of holders of Notes to consider matters affecting their interests generally. These provisions will permit defined majorities to bind all holders of the Notes of a Series, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority as set forth in "Description of the Notes."

In addition, unless otherwise specified in the applicable Pricing Supplement, the terms of each Series of Notes will permit the Bank to assign its obligations under such Series of Notes and the applicable Indenture to a subsidiary of the Bank so long as the Bank remains jointly and liable for such obligations.

For further information, see "Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Modification of a Subordinated Notes Indenture; Waiver of Covenants" and "Description of the Notes—Certain Terms and Conditions Applicable to Senior Notes—Modification of the Senior Notes Indenture; Waiver of Covenants."

Any such action may have an adverse effect on the Notes of such Series and the holders of such Notes.

***Reliance on DTC, Euroclear and Clearstream procedures.***

Unless issued in definitive form, Notes issued under the Program will be represented on issue by one or more global Notes that may be deposited with or registered in the name of a nominee for a common depositary or a common safekeeper, as the case may be, for Euroclear or Clearstream or may be deposited with or registered in the name of a nominee for DTC. Except in the circumstances described in the applicable global Note, investors in a global Note will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream and their respective direct

and indirect participants will maintain records of the beneficial interests in each global Note held through it. While the Notes are represented by a global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

Except in the case of a Global Note denominated in a specified currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which a participant in DTC has elected to receive any part of such payment in that specified currency, for so long as the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

#### ***Risks Related to Subordinated Notes***

Subordinated Notes present, among others, the following risks:

***Subordinated Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness.***

Subordinated Notes will constitute our subordinated preferred indebtedness (*obligaciones subordinadas preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our senior indebtedness, and will rank *pari passu* without preference among themselves with all our other subordinated preferred indebtedness. No payment of principal (including redemption payments), premium, if any, or interest on the Subordinated Notes may be made at any time when (i) any senior indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (ii) the maturity of any senior indebtedness has been accelerated because of a default. By reason of the subordination of the Subordinated Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Subordinated Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness have been paid in full. As of December 31, 2019, on a consolidated basis, we had an aggregate balance of Ps.62,548 million in senior long-term indebtedness outstanding. The Subordinated Notes Indentures will not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. See “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes.”

***Interest and principal payments to be made by us under the Subordinated Notes will be deferred if any of our Capital Ratios has declined below the Capital Ratios required under the Mexican Capitalization Requirements, or if a Mexican Regulatory Event has occurred and is continuing.***

Under the Rules for Capitalization, capital securities issued by the Bank will be taken into account when assessing its risk-weighted capital adequacy. In order for the Subordinated Notes to qualify as the Bank’s capital, each Subordinated Notes Indenture will provide that interest and principal payments will be deferred, on the correspondent payment dates, if any of our Capital Ratios declines below the minimum percentages required from time to time by the Mexican Capitalization Requirements or if any Mexican Regulatory Event has occurred and is continuing. For details regarding the minimum percentages or the events leading to a Mexican Regulatory Event, see “Description of the Notes—Treatment of Interest and Principal During a Suspension Period.”

Payments of interest due on the Subordinated Notes will be cumulative, so that if payments of interest cease during a Suspension Period, holders of the Subordinated Notes will have the right to receive any amount of unpaid interest at the end of such Suspension Period. See “Description of the Notes—Treatment of Interest and Principal During a Suspension Period.” Notwithstanding the foregoing, there can be no guarantee that holders of the Subordinated Notes will receive payments of interest in respect of the Subordinated Notes that are deferred in connection with a Suspension Period. Any suspension of payments due to the Bank’s failure to maintain Capital Ratios equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements would have a material adverse effect on the Issuer’s ability to make scheduled payments under the Subordinated Notes.

***The U.S. federal income tax consequences of an investment in the Subordinated Notes are uncertain. Holders are urged to read the more detailed discussion of the U.S. federal income tax treatment of the Subordinated Notes under “Taxation—United States Taxation—United States Holders—Subordinated Notes.”***

No statutory, judicial or administrative authority directly addresses the characterization for U.S. federal income tax purposes of the Subordinated Notes or instruments with a similar write-down feature. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Subordinated Notes are not certain. However, we intend, absent a change in law, to treat the Subordinated Notes as our equity (rather than debt) for U.S. federal income tax purposes. Treatment of the Subordinated Notes as debt for U.S. federal income tax purposes may significantly change the tax treatment of the Subordinated Notes in ways that are potentially adverse to holders. See “Taxation—United States Taxation—United States Holders—Subordinated Notes” below. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of an investment in the Subordinated Notes.

***Capital Ratios of the Bank are affected by business decisions made by the Bank and its shareholders and, in making such decisions, these interests may not be aligned with those of the holders of Subordinated Notes.***

The Subordinated Notes will have terms that are affected by the extent to which the Bank is in compliance with Mexican Capitalization Requirements. See “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes.” Our Capital Ratios could be affected by a number of factors, including business decisions taken by the Bank in coordination with its controlling shareholder, GFBB. In this regard, the Bank’s business strategy and operations may depend on the decisions of the BBVA Group relating to its overall business, including its Mexican operations carried on by the Bank, as well as the overall management of the Bank and the BBVA Group’s consolidated capital position. The Bank has no obligation to consider the interests of the holders of any Subordinated Notes (or any other series of our indebtedness that may be outstanding) in connection with overall strategic decisions of the BBVA Group, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event or Suspension Period with respect to the Subordinated Notes. In addition, holders will not have any claim against the Issuer or its shareholders relating to decisions that affect the business and operations of the BBVA Group, including its capital position, regardless of whether they result in the occurrence of any event that causes a suspension or cancellation of amounts due in respect of any Subordinated Notes. In addition, notwithstanding the applicability of any one or more of the conditions set out above that would result in amounts due in respect of any Subordinated Notes not being paid or being paid only in part, there will be no restriction on the Bank paying dividends on its ordinary shares or making pecuniary or other distributions to the holders of its ordinary shares, including its controlling shareholder, GFBB, assuming that the Bank is in compliance with Mexican Capitalization Requirements. Such decisions could cause holders of any Subordinated Notes to lose all or part of the value of their investment in such Subordinated Notes.

***The circumstances surrounding or triggering a Write-Down of Subordinated Notes are unpredictable and may be caused by factors not fully within the Issuer’s control.***

The occurrence of a Trigger Event, and a resulting write-down, is inherently unpredictable and may depend on a number of factors, any of which may be outside of the Issuer’s control. The determination as to whether a Trigger Event has occurred will partially depend on the calculation of our Fundamental Capital ratio and whether such ratio has fallen below 4.5%. For further information, see “Supervision and Regulation—Capitalization” and “Description of the Notes—Trigger Event and Write-Down.” Fluctuations in the Bank’s Fundamental Capital ratio may be caused by changes to the Mexican Capitalization Requirements and applicable accounting rules, among other external factors. Further, the thresholds for a Trigger Event may be changed in the future.

Due to the uncertainty regarding whether a Trigger Event will occur in the future, it will be difficult to predict when, if at all, a write-down may occur. In addition, any disclosure that the Bank’s Fundamental Capital ratio is moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Notes.

***DTC may decide to suspend all clearance and settlement of transfers of Subordinated Notes by holders of Subordinated Notes after its receipt of a Write-Down Notice that causes the principal amount of Subordinated Notes to be reduced to zero, and any transfer of Subordinated Notes that is scheduled to settle after such suspension is expected to be rejected by DTC and will not be settled within DTC.***

DTC may decide to suspend all clearance and settlement of transfers of Subordinated Notes by holders after its receipt of a Write-Down Notice that causes the principal amount of Subordinated Notes to be reduced to zero. With

respect to any issuance of Subordinated Notes, we will agree to provide a Write-Down Notice (as defined in the “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Treatment of Interest and Principal During a Suspension Period”) to holders and to the Trustee via the applicable clearing system on the business day after the occurrence of the Trigger Event. However, the records of DTC will not be immediately updated to reflect the Trigger Event, and a period of time, which may exceed several days, may be required before the clearance and settlement of transfers of Subordinated Notes through DTC are suspended.

Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of the Notes to be reduced to zero. In such circumstances, transferors of such Subordinated Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused the principal amount of the Subordinated Notes to be reduced to zero. In such circumstances, transferees of the Subordinated Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under the Subordinated Notes will thereafter become due, and such transferees will have no rights whatsoever under the relevant Subordinated Notes Indenture or the Subordinated Notes to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of Subordinated Notes following a Trigger Event will be subject to procedures of DTC that are in place at such time.

***If we do not satisfy our obligations under the Subordinated Notes, whether due to a Write-Down or otherwise, your remedies will be limited.***

Payment of principal on Subordinated Notes may be accelerated only in specified instances involving our liquidation or dissolution. There is no right of acceleration in the case of a default in the performance of any of our covenants, including a default in the payment of principal or interest. See “Description of the Notes—Treatment of Interest and Principal During a Suspension Period” and “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Events of Default, Notice and Waiver.”

Even if the payment of principal on the Subordinated Notes is accelerated due to the Issuer’s liquidation or dissolution, the Issuer’s assets will be available to pay those amounts only after:

- all of the Issuer’s senior obligations have been paid in full as described in “Description of the Notes—Certain Terms and Conditions Applicable to Subordinated Notes—Ranking”; and
- the Issuer is actually declared bankrupt or dissolved or put into liquidation for purposes of Mexican law.

As a result, recoveries on the Subordinated Notes may be substantially limited.

***The Subordinated Notes will be subject to redemption in the event of specified changes affecting the treatment of Subordinated Notes under the Rules for Capitalization or changes affecting the tax treatment of the Subordinated Notes.***

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Subordinated Notes or treatment of the Subordinated Notes as capital securities under the Rules for Capitalization, which may occur from time to time, as described under “Description of the Notes— Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes—Special Event Redemption,” the Issuer will have the option under the relevant Subordinated Notes Indenture to redeem the Subordinated Notes, at any time prior to the Maturity Date, in whole or, in certain circumstances, in part, subject to any regulatory requirements, which may be amended from time to time.

#### ***Risks Related to the Structure of a Particular Issue of Notes***

A wide range of Notes may be issued under the Program. Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the relevant Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact such investment will have on the potential investor’s overall investment portfolio. Certain Notes may have features which contain

particular risks for potential investors. Set out below is a description of certain risks associated with the most common such features:

***Notes may be subject to optional redemption by the Issuer.***

Notes with an optional redemption are likely to have a limited market value. During any period when the Issuer may elect to redeem Notes, the market value of such Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Variable rate notes with a multiplier or other leverage factor.***

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

***The application of the net proceeds of SDG Notes as described in “Use of Proceeds” may not meet investor expectations or be suitable for an investor’s investment criteria.***

Prospective investors in any Notes where the “Use of Proceeds” in the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described in “Use of Proceeds” herein (“**Green Notes**,” “**Social Notes**” or “**Sustainability Notes**,” respectively, and, together, “**SDG Notes**”), should have regard to the information in “Use of Proceeds” with respect to the use of the net proceeds of those SDG Notes and must determine for themselves the relevance of such information for the purpose of any investment in such SDG Notes together with any other investigation such investor deems necessary. In particular, no assurance is given by the Bank or the Dealers that the use of such proceeds for any Sustainability Projects (as defined in the “Use of Proceeds” section below) will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply.

Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green,” “social” or “sustainable” or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green,” “social” or “sustainable” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time or that any prevailing market consensus will not significantly change. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Sustainability Projects will meet any or all investor expectations regarding such “green,” “social” or “sustainable” or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Sustainability Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Bank), which may or may not be made available in connection with the issue of any SDG Notes and in particular with any Sustainability Projects to fulfill any environmental, social, sustainability and/or other criteria. Any such report, assessment, opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Offering Memorandum. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Bank, the Dealers or any other person to buy, sell or hold any such SDG Notes. Any such report, assessment, opinion or certification is only current as of the date it was issued. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such report, assessment, opinion or certification for the purpose of any investment in such SDG Notes. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific oversight or regulatory or other regime.

If any SDG Notes are listed or admitted to trading on any dedicated “green,” “environmental,” “social” or “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. Furthermore,

the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such SDG Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the SDG Notes.

While it is the intention of the Bank to apply the net proceeds of any SDG Notes and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described in “Use of Proceeds,” there can be no assurance that the Bank will be able to do this. Nor can there be any assurance that any Sustainability Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer.

Any such event or failure to apply the net proceeds of any issue of SDG Notes for any Sustainability Projects or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an event of default under the relevant SDG Notes or give rise to any other claim of a holder of such SDG Notes against the Bank. The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such SDG Notes no longer being listed or admitted to trading on any stock exchange or securities market, as aforesaid, may have a material adverse effect on the value of such SDG Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

#### ***Inverse floating rate notes.***

Inverse floating rate notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### ***Fixed/Floating rate notes.***

Fixed/floating rate notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer’s ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the fixed/floating rate notes may be less favorable than then prevailing spreads on comparable floating rate notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

#### ***Indexed notes.***

An investment in indexed notes entails significant risks that are not associated with similar investments in a conventional fixed-rate debt security. If the interest rate of a Note is indexed, it may result in an interest rate that is less than that payable on a conventional fixed-rate debt security issued by the Issuer at the same time, including the possibility that no interest will be paid, and, if the principal amount of a Note is indexed, the principal amount payable at maturity may be less than the original purchase price of such indexed note, including the possibility that no principal will be paid (but in no event shall the amount of interest and principal paid with respect to an indexed note be less than zero). The secondary market for indexed notes will be affected by a number of factors, independent of the creditworthiness of the Issuer and the value of the applicable currency, commodity, interest rate or other index, including, but not limited to, the volatility of the applicable currency, commodity, interest rate or other index, the time remaining to the maturity of such indexed notes, the amount outstanding of such indexed notes and market interest rates. The value of the applicable currency, commodity, interest rate or other index depends on a number of interrelated factors, including economic, financial and political events, over which the Issuer has no control.

Additionally, if the formula used to determine the principal amount or interest payable with respect to such indexed notes contains a multiple or leverage factor, the effect of any change in the applicable currency, commodity, interest rate or other index may be increased. The historical experience of the relevant currencies, commodities, interest rate or other indices should not be taken as an indication of future performance of such currencies,



commodities, interest rate or other indices during the term of any indexed note. Accordingly, prospective investors should consult their own financial and legal advisors as to the risks entailed by an investment in indexed notes and the suitability of indexed notes in light of their particular circumstances.

***Notes issued at a substantial discount.***

The market values of securities issued at a substantial discount from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the Notes, the greater the price volatility as compared to conventional interest-bearing Notes with comparable maturities.

## USE OF PROCEEDS

Unless otherwise specified in the applicable Pricing Supplement, the net proceeds from each issue of Notes will be used for the general corporate purposes of the Bank and its subsidiaries. If there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

In addition, where the “Use of Proceeds” section of the applicable Pricing Supplement are stated to be for “green,” “social” or “sustainability” purposes as described in this “Use of Proceeds” section, the net proceeds from each such issue of SDG Notes will be used as so described.

For any SDG Notes, an amount equal to the net proceeds from each issue of SDG Notes will be separately identified and applied by the Bank in financing or refinancing on a portfolio basis Green Projects and/or Social Projects (each as defined below and as will be further described in the Bank’s Sustainable Development Goals (SDGs) Bond Framework that will be published on its website, as described in the applicable Pricing Supplement (as amended, supplemented, restated or otherwise updated on such website from time to time, the **“SDGs Bond Framework”**)) (Green Projects and Social Projects together, the **“Sustainability Projects”**), including the financing of new or future Sustainability Projects, and the refinancing of existing and on-going Sustainability Projects where originally financed within three years of the issue of the relevant Notes, all in accordance with the SDGs Bond Framework. In the case of Green Notes, such financing or refinancing will be of Green Projects, in the case of Social Notes, such financing or refinancing shall be of Social Projects and, in the case of Sustainability Notes, such financing or refinancing will be of Green Projects and Social Projects.

**“Green Projects”** are projects where at least 80% of (i) the principal amount financed is for the financing of activities falling or (ii) the business of the borrower in respect of the relevant project falls, under the “green eligible categories” described in the SDGs Bond Framework of energy efficiency, sustainable transport, water, waste management and/or renewable energy, each as further described in the SDGs Bond Framework, and, at any time, include any other “green” projects in accordance with any update of the ICMA Green Bond Principles at such time.

The **“ICMA Green Bond Principles,”** at any time, are the Green Bond Principles published by the International Capital Markets Association at such time, which as of the date of this Offering Memorandum are the Green Bond Principles 2018 (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles—June-2018-140618-WEB.pdf>).

**“Social Projects”** are projects where at least 80% of (i) the principal amount financed is for the financing of activities falling or (ii) the business of the borrower in respect of the relevant project falls, under the “social eligible categories” described in the SDGs Bond Framework of healthcare, education, SME financing and microfinancing, and/or affordable housing, each as further described in the SDGs Bond Framework, and, at any time, include any other “social” projects in accordance with any update of the ICMA Social Bond Principles at such time.

The **“ICMA Social Bond Principles,”** at any time, are the Social Bond Principles published by the International Capital Markets Association at such time, which as of the date of this Offering Memorandum are the Social Bond Principles 2018 (<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Social-Bond-Principles—June-2018-140618-WEB.pdf>).

The proceeds of any SDG Notes will not be used to finance nuclear power generation, large scale (above 20 megawatt) dam, defense, mining, carbon related or oil and gas activities.

Pending the application of any net proceeds of SDG Notes in financing or refinancing the relevant Sustainability Projects, such proceeds will be applied by the Bank on the same basis as for the management of its liquidity portfolio. The Issuer will endeavor to apply a percentage of the net proceeds of any SDG Notes in financing Sustainability Projects originated in the year of issue of such SDG Notes. If any Sustainability Project to which the net proceeds of any SDG Notes are allocated, ceases or will cease to comply with the relevant categories for such Sustainability Project to constitute a Green Project or a Social Project, as the case may be, the Bank will substitute that Sustainability Project within the relevant portfolio for a compliant Sustainability Project.

Within 12 months of the issue date of each series of SDG Notes and for each year until the maturity or early redemption of those SDG Notes, the Bank will publish a report on its website in respect of that series of SDG Notes as described in the SDGs Bond Framework.

The Bank will obtain an independent verification assessment in respect of the SDGs Bond Framework. This independent verification assessment will be published on the Bank’s website.

The Bank further intends to obtain an independent verification assessment from an external verifier for each benchmark series of SDG Notes that either Issuer may issue and will publish that verification assessment on the Bank's website.

In addition, the Bank may request, on an annual basis starting one year after the issue of each series of SDG Notes and until maturity (or until redemption in full) of such Notes, a limited assurance report of the allocation of the net proceeds of those SDG Notes to Green Projects and/or Social Projects, as the case may be, which may be provided by its external auditor or another suitably qualified provider and published on its website.

Neither the SDGs Bond Framework, nor any of the above reports, verification assessments or contents of any of the above websites are incorporated in or form part of this Offering Memorandum.

## DIVIDENDS

We paid dividends of Ps.31,506 for the year ended December 31, 2019, Ps.26,322 million for the year ended December 31, 2018 and Ps.21,438 million for the year ended December 31, 2017.

At our shareholders' meeting held on February 28, 2020, our shareholders approved the distribution of dividends of Ps.39,100.5 million from our retained earnings for the year ended December 31, 2019, and authorized each of the Chairman, Vice-president and the Secretary of our Board of Directors to, individually, take the following actions: (i) decide on the payment of dividends to shareholders on a pro rata basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates; and (iv) determine the proportion or ratio of dividend payment for each of our outstanding shares.

The declaration, amount and payment of dividends is determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our common voting shares, substantially all of which are owned by GFBB, which, in turn is controlled by BBVA. We may not declare or pay dividends to GFBB unless we meet the capital ratio requirements under the Mexican Capitalization Requirements. See "Supervision and Regulation." At the shareholders' meeting held on February 28, 2019, we had reached this capitalization requirement, and were entitled to declare and pay dividends. Although no assurance can be given, we expect to continue to be in compliance with these capital ratio requirements during 2020.

Under Mexican law, we are required to allocate 10% of our net income (on an unconsolidated basis and after employee profit sharing and other deductions required by Mexican law) to a capital reserve fund until reaching the equivalent of 100% of the paid-in share capital. Such capital reserve fund is not available for distribution except as a stock dividend, until the amount of the legal reserve equals our paid-in capital stock. We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after the allocation to the legal reserve fund. We must fund the reserve fund on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under Mexican Banking GAAP. On December 31, 2019, we were in compliance with the regulations pertaining to our legal reserve. Our subsidiaries are also required to allocate earnings to their respective legal reserve funds before paying dividends to us, provided that their legal reserves must be equal to 5% of their net income until reaching 20% of their paid-in share capital. As of December 31, 2019, our subsidiaries were also in compliance. As of December 31, 2019, we had set aside Ps.6,901 million in legal reserves compared to paid-in capital stock of Ps.24,143 million.

## CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2019.

The following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Use of Proceeds” and our Audited Financial Statements and the notes thereto included elsewhere in this Offering Memorandum.

	As of December 31, 2019 <sup>(1)</sup>	
	Actual	
	(millions of Ps.)	(millions of U.S.\$)
<b>Indebtedness</b>		
Debt securities issued.....	85,852	4,549
Subordinated bonds issued — preferred indebtedness .....	80,911	4,287
Subordinated bonds issued — non-preferred indebtedness .....	14,150	750
Total indebtedness.....	180,913	9,586
<b>Stockholders’ equity</b>		
Subscribed capital <sup>(2)</sup> .....	40,003	2,120
Retained earnings.....	121,029	6,413
Total subscribed capital and retained earnings.	161,031	8,532
Total capitalization.....	341,944	18,118

(1) Except as disclosed in, and as of the date of, this Offering Memorandum, there has been no material change in our capitalization since December 31, 2019.

(2) As of December 31, 2019, our authorized capital stock consisted of 9,107,142,859 Series “F” shares and 8,749,999,999 Series “B” shares. Of these shares, 7,737,078,937 Series “F” shares and 7,433,664,076 Series “B” shares were issued and outstanding.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

*The selected consolidated financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our Audited Financial Statements and other financial information included elsewhere in this Offering Memorandum.*

### Audited Financial Information

The selected annual financial information presented below has been derived from and should be read in conjunction with our Audited Financial Statements included elsewhere in this Offering Memorandum. Such annual financial information, unless otherwise specified, is presented in nominal pesos.

	For the Year Ended December 31,							
	2019 <sup>(1)</sup>		2019		2018		2017	
	(millions of U.S.\$)				(millions of Ps.)			
<b>Income Statement Data:</b>								
Interest income.....	U.S.\$	10,685	Ps.	201,558	Ps.	188,632	Ps.	167,665
Interest expense.....		(3,820)		(72,056)		(65,720)		(54,656)
Net interest income.....		6,865		129,502		122,912		113,009
Allowance for loan losses .....		(1,893)		(35,713)		(32,299)		(34,071)
Net interest income adjusted for loan losses allowance .....		4,972		93,789		90,613		78,938
Commissions and fee income.....		2,479		46,763		43,569		39,361
Commissions and fee expenses .....		(948)		(17,875)		(15,739)		(13,540)
Financial intermediation income .....		339		6,403		3,470		4,627
Other operating income.....		47		884		504		1,251
Administrative and promotion expenses .....		(3,353)		(63,250)		(59,168)		(57,608)
Net operating income.....		3,536		66,714		63,250		53,029
Equity in the income of non-consolidated subsidiaries and associated companies .....		2		31		36		34
Income before income taxes .....		3,538		66,745		63,286		53,063
Current income taxes.....		(1,208)		(22,779)		(18,734)		(13,854)
Deferred income taxes, net.....		280		5,288		1,510		(55)
Income before discontinued operations.....		2,610		49,254		46,062		39,144
Discontinued operations.....		—		—		—		—
Income before non-controlling interest.....		2,610		49,254		46,062		39,144
Non-controlling interest .....		—		—		(2)		(1)
Net income .....	U.S.	\$2,610	Ps.	49,254	Ps.	46,060	Ps.	39,143

	As of or for the Year Ended December 31,							
	2019 <sup>(1)</sup>		2019		2018		2017	
	(millions of U.S.\$)		(millions of Ps., except for percentages)					
<b>Balance Sheet Data:</b>								
Total assets .....	U.S. \$	112,944	Ps.	2,130,588	Ps.	2,068,259	Ps.	1,996,986
Cash and cash equivalents.....		7,865		148,372		232,851		217,126
Margin Accounts.....		972		18,329		10,548		14,359
Investment in securities.....		24,569		463,467		410,261		430,771
Loan portfolio .....		65,917		1,243,478		1,163,593		1,079,079
Allowance for loan losses .....		(1,877)		(35,411)		(31,811)		(31,596)
Deferred income tax and ESPS, net.....		1,113		20,992		16,667		14,931
All other assets.....		14,385		271,360		266,150		272,316
Total funding .....		73,403		1,384,699		1,317,779		1,258,979
Deposit funding (excluding debt securities issued).....		62,646		1,181,768		1,112,727		1,076,353
Debt securities issued.....		4,551		85,852		88,162		86,280
Subordinated bonds issued.....		5,039		95,061		99,029		78,966
Banks and other borrowings .....		1,167		22,018		17,861		17,380

	As of or for the Year Ended December 31,			
	2019 <sup>(1)</sup>	2019	2018	2017
	(millions of U.S.\$)	(millions of Ps., except for percentages)		
All other liabilities .....	28,150	531,023	556,257	562,234
Total liabilities .....	101,553	1,915,722	1,874,036	1,821,213
Total stockholders' equity .....	U.S. \$ 11,391	Ps. 214,866	Ps. 194,223	Ps. 175,773
<b>Profitability and Efficiency:</b>				
Return on average total assets <sup>(2)</sup> .....		2.35%	2.27%	2.00%
Return on average stockholders' equity <sup>(2)</sup> .....		24.08%	24.90%	23.39%
Net interest margin <sup>(3)</sup> .....		6.17%	6.05%	5.79%
Efficiency ratio <sup>(4)</sup> .....		38.18%	38.24%	39.81%
<b>Capitalization:</b>				
Stockholders' equity as a percentage of total assets .....		10.08%	9.39%	8.80%
Tier 1 Capital as a percentage of risk-weighted assets .....				
Total Capital as a percentage of risk-weighted assets .....				
<b>Credit Quality Data:</b>				
Total current loan portfolio .....	64,462	1,216,024	1,140,319	1,056,334
Total past due loan portfolio .....	1,455	27,454	23,274	22,745
Total loans .....	65,917	1,243,478	1,163,593	1,079,079
Loans graded "C1," "C2," "D" and "E" <sup>(5)</sup> .....	4,625	87,251	72,963	73,419
Allowance for loan losses .....	(1,877)	(35,411)	(31,811)	(31,596)
<b>Loan Recovery and Write-offs:</b>				
Past due loans — average balance .....	1,345	25,365	23,010	22,752
Past due loans written-off .....	1,599	30,155	29,847	27,897
Recoveries in respect of past due loans .....	(76)	(1,439)	(1,538)	(907)
Recovered amounts as a percentage of average past due loans .....	—	5.67%	6.68%	3.84%

- (1) Translated at the rate of Ps.18.8642 per U.S.\$1.00, the fixed exchange rate published by *Banco de México* in the Federal Official Gazette on December 31, 2019.
- (2) See "Selected Statistical Information—Average Interest Rate—Return on Average Total Assets and Average Stockholders' Equity."
- (3) Represents net income divided by average total assets. Average total assets are determined on annualized basis, based on the beginning and end of the period.
- (4) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the aggregate of net interest income and non-interest income (commission and fees, plus trading income, plus other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
- (5) See "Selected Statistical Information—Grading of Loan Portfolio."

## Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Audited Financial Statements, together with the notes thereto, and the other financial information included elsewhere in this Offering Memorandum.

	As of or for the Year Ended December 31,		
	2019	2018	2017
<b>Credit Quality Ratios:</b>		(%)	
Allowance for loan losses as a percentage of total loans.....	2.93%	2.73%	2.93%
Allowance for loan losses as a percentage of total past due loans.....	128.98%	136.68%	138.91%
Allowance for loan losses as a percentage of loans graded “C1,” “C2,” “D” and “E” <sup>(1)</sup> .....	40.59%	43.60%	44.87%
Total past due loans as a percentage of total loans.....	2.27%	2.00%	2.11%
Net past due loans (total past due loans less allowance for loan losses) as a percentage of net total loans (net current loans plus net past due loans).....	0.64%	0.74%	0.83%
Net past due loans (total past due loans less allowance for loan losses) as a percentage of stockholders’ equity .....	3.70%	4.40%	5.04%
Provision for loan losses as a percentage of average total loans .....	2.79%	2.83%	2.93%
Charge-offs (net of recoveries) as a percentage of average total loans.....	2.37%	2.86%	2.44%
Loans graded “C1,” “C2,” “D” and “E” as a percentage of total loans <sup>(1)</sup> .....	7.02%	6.27%	6.56%

(1) See “Selected Statistical Information—Grading of Loan Portfolio.”



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The financial information presented in this section should be read in conjunction with our Audited Financial Statements included elsewhere in this Offering Memorandum. Our Audited Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from U.S. GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see "Annex A—Summary of Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Summary of Significant Differences Between Mexican Banking GAAP and IFRS," respectively. No reconciliation of our Audited Financial Statements to U.S. GAAP has been prepared for this Offering Memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Certain Financial and Other Information."*

### Economic Environment

In 2016 and 2017, the Mexican economy was adversely affected by several external factors such as low crude oil prices and Brexit, and most significantly, the election of U.S. president Donald J. Trump, which led to uncertainty about the future of the commercial relationship between the United States and Mexico.

In the year ended December 31, 2017, the Mexican economy grew conservatively by 2.1%, which marked a slowdown compared to the 2.9% growth in GDP during 2016. This was exacerbated by the impact of government budget cuts on construction activity, as well as a series of natural disasters occurring in the third quarter that caused a drop in both crude oil and gas production. As uncertainty surrounding the possible renegotiation of NAFTA grew, rising inflation and higher interest rates negatively affected the country's economic growth, causing the central bank to attempt to respond to mounting price pressures. However, the Mexican economy staged a recovery at the end of the year, expanding 1.0% from the third to fourth quarter to mark its fastest pace of growth for the year. Further, the services industry remained the main driver of growth for the year, increasing by 3.1% from 2016.

In the year ended December 31, 2018, uncertainty surrounding the renegotiation of NAFTA, rising levels of government debt, and volatility in the global financial market contributed to a volatile peso exchange rate, peaking for the year on June 15, 2018 at a rate of Ps.20.8530 per U.S. dollar. Further, Mexico's public debt remained high for the region at 54% of its GDP, which limited space for the government's planned social and infrastructure spending. However, the Mexican economy proved resilient despite economic uncertainty, and grew by 2.0% during 2018 as compared to the previous year.

On November 30, 2018, the presidents of Mexico and the United States and the prime minister of Canada signed the USMCA. Each of the three countries subsequently ratified the USMCA, which is expected to come into force three months after the first notice of approval is submitted by the parties.

During 2019, GDP (on a seasonal adjusted basis) fell by 0.1% in Mexico. This decline was driven by the lackluster performance of investment and a slowdown in private consumption growth. Moreover, in 2019, the growth rate of Mexican manufactured exports decreased as it was affected by lower demand from the U.S. manufacturing sector. In Mexico, in 2018 and 2017, headline inflation was 4.8% and 6.8%, respectively, and core inflation was 3.9% and 4.9%, respectively. In Mexico, in 2019, headline inflation was 2.8% and core inflation was 3.6%. As inflation moved towards acceptable levels, Banco de Mexico began a cycle of cutting rates in 2019. See also "—Effects of Changes in Interest Rates."

On June 5, 2019, Fitch downgraded Mexico's sovereign debt from BBB+ to BBB-, citing increased risk due to PEMEX's deteriorating credit profile and weakness in the macroeconomic outlook due to, among other things, trade tensions. In addition, Moody's changed its outlook on Mexico's A3 rating from "stable" to "negative." Fitch also downgraded PEMEX from BB+ to BBB-, citing insufficient investment to restore declining production. Moreover, on April 3, 2020, Fitch downgraded PEMEX from BB+ to BB, citing the continued deterioration of its stand-alone credit profile amid the downturn in the global oil and gas industry, Fitch's lower oil price assumptions and the weakening credit linkage between Mexico and PEMEX and, on April 15, 2020, Fitch revised its rating of Mexico from BBB to BBB- (stable outlook). Also, on April 17, 2020, Moody's downgraded its ratings of PEMEX's senior unsecured notes, as well as its ratings of PEMEX's guarantee, from Baa3 to Ba2 and, simultaneously, Moody's withdrew PEMEX's Baa3 issuer rating and assigned a Ba2 corporate family rating to PEMEX. Moody's also lowered PEMEX's Baseline Credit Assessment (BCA), which reflects its standalone credit strength, to caa2 from caa1. These rating actions were triggered by PEMEX's higher liquidity and business risk. Simultaneously, on April 17, 2020,

Moody's downgraded the credit ratings for Mexico's sovereign debt from A3 to Baa1 and maintained the negative outlook.

On June 7, 2019, Fitch downgraded our corporate credit ratings from A- to BBB+. On March 27, 2020, S&P downgraded the credit rating for the Bank from BBB+ to BBB. On April 22, 2020, Moody's downgraded its global rating of the Bank from A3 to Baa1. Currently, our credit ratings are BBB+ (negative outlook) by Fitch, Baa1 (negative outlook) by Moody's and BBB (negative outlook) by S&P. A downgrade in our credit ratings or those of our subsidiaries could increase the cost of financing or refinancing and our ability to obtain funds in the capital markets or through private creditors.

On June 7, 2019, Fitch downgraded the credit ratings of our Tier 2 Subordinated Preferred Capital Notes to BB+ from BBB- and our Junior Subordinated Securities to BB from BB+. On April 17, 2020, Fitch downgraded PEMEX's credit rating to BB- from BB.

The COVID-19 pandemic, which originated in China and subsequently spread to other countries in the world, including Mexico, is adversely affecting the global economy as well as the Mexican economy. In addition to the unfortunate loss of human life and the negative impact on the health of people globally, the pandemic has led to emerging support measures being taken in various countries of the world including the shutdown of borders, home safeguards, and the suspension of non-essential business activities to try to mitigate the spread of COVID-19. This has impacted significantly the value production chains, falls in production and demand for various products, which in turn is estimated to have a significant negative impact on global GDP. Mexico is not exempt from these effects, and, accordingly, due to the effect of the pandemic and the lower expectations of global GDP growth, our Economic Studies area has revised downward the expectation of GDP growth for 2020 to negative 7.0%, mainly as a result of the foregoing factors. Likewise, we consider that the current complicated economic environment worldwide, coupled with the lower expectation of growth in Mexico, may have a negative impact on our business and the results of operations. In general, the persistence of the downfall of the economic activities in the short term, as well as any subsequent recovery, remains very uncertain, and, as a result, eventual outcomes may be even more negative.

### **Effect of Tax Legislation**

On November 1, 2013, the Mexican Congress approved several tax reforms that became effective as of January 1, 2014. These reforms included changes to the Income Tax Law (*Ley del Impuesto sobre la Renta*), Value Added Tax (*Ley del Impuesto al Valor Agregado*) and the Mexican Federal Tax Code (*Código Fiscal de la Federación*), as well as the repeal of the Single Rate Corporate Tax Law (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*).

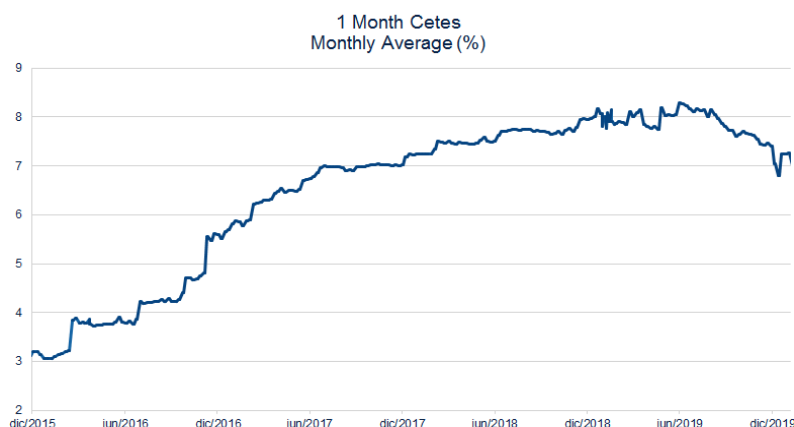
During 2019, 2018 and 2017, the income tax rate applicable to the Bank under the Income Tax Law was 30%, and we cannot predict if changes may occur in the foreseeable future.

Based on financial projections and pursuant to INIF 8 (*Interpretación a las Normas de Investigación Financiera* 8, issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*) in the section entitled "Effects of the new flat rate business tax," we have determined that we will be subject to regular income tax and therefore only recognize deferred regular income tax.

### **Effects of Changes in Interest Rates**

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities in foreign currency carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur between one and three months. Repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities."

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of Cetes, which are Mexican government peso-denominated treasury bills, with 28-day maturities.



Source: Bloomberg.

- During 2017, *Banco de México* raised interest rates by 150 basis points to 7.25%. As inflation unexpectedly increased in November, *Banco de México* raised the reference rate an additional 25 basis points after a five-month monetary pause. After interest rates were raised, 28-day Cetes and 91-day Cetes reached 7.2%, and 7.3%, respectively. In December 2017, 28-day Cetes and 91-day Cetes averaged 6.69% and 6.88%, respectively.
- During 2018, *Banco de México* raised interest rates by 100 basis points to 8.25%. The principal reasons for the increase were concerns regarding inflation, uncertainties generated by the general election in Mexico and increases in the federal funds rate by the Board of Governors of the Federal Reserve System (the “**Federal Reserve Board**”) (100 basis points). In December 2018, 28-day Cetes and 91-day Cetes averaged 7.67% and 7.86%, respectively.
- During 2019, *Banco de México* decreased rates by 100 basis points to 7.25%. Beginning in August 2019, *Banco de México* began a cycle of cutting rates after effecting increases of 525 basis points since January 2016. The main reason for the reduction in rates was the movement of inflation towards acceptable levels. During 2019, the Federal Reserve Board lowered the federal funds rate by 75 basis points. In December 2019, 28-day Cetes and 91-day Cetes averaged 7.84% and 7.93%, respectively.

## Effects of Restructured Credits

Restructured loans remain classified as past due until at least three payments on such loans have been made. Loans restructured under Mexican government support programs are classified as current loans.

When we restructure credits, we reclassify current accrued interest, past due principal and past due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a credit, we may also maintain a smaller allowance for loan loss with respect to such credit and use any excess allowance to reduce the amount of additional provisions on other credits.

The depreciation of the peso in late 1994 and the subsequent economic crisis in Mexico led to the introduction by the Mexican government of debtor support programs that had significant adverse effects on our business at that time. Substantially all of the outstanding debtor support programs were merged at the beginning of 1999 into a single industry-wide program known as *Punto Final*, which was adopted by the Mexican government and the Mexican Banking Association in December 1998 and became effective on January 1, 1999. On July 15, 2010, the Mexican government and certain credit institutions (with the participation of the Mexican Banking Association) entered into an agreement for the early termination of certain debtor support programs (*Convenio para extinguir anticipadamente los programas de apoyo para deudores*). As a result of the international financial crisis in 2008-2010, the average income of Mexican households decreased by 12.3%. The National Household Income and Expenditure Survey reported that the quarterly average household income fell from Ps.39,823 (about U.S.\$3,400) in 2008 to Ps.34,936 (just over U.S.\$2,900) in 2010.

We and many other financial institutions in Mexico created programs to support our respective retail portfolios, particularly mortgage portfolios, by offering alternative payment arrangements to those customers with temporary liquidity problems. With respect to revolving loans, in 2006, we began offering fixed payment plans and amortizing debt maturities based on the repayment capacity of customers. With respect to consumer loans, we extended the remaining balances by up to 60 months.

### **Deferred Tax Assets**

The Bank has recognized deferred tax assets resulting from the temporal differences between the book value and tax value of certain assets and liabilities by applying the correspondent expected income tax rate applicable at the time of the recovery. Based on management projections, we believe that the balance of the Bank's deferred taxes coming from the allowance for loan losses will be recovered in the short-to-medium term.

### **Critical Accounting Policies**

The following is a description of certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of our management, the most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and derivatives, valuation of deferred income tax assets and employee retirement obligations. For a full description of our accounting policies, see Note 3 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

#### ***Allowances for Loan Losses***

Our loan loss reserve levels are calculated in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves established in the General Rules Applicable to Mexican Banks (the “**Loan Classification and Rating Rules**”), which require that the portfolios of commercial, consumer and mortgage loans be rated every month.

Provisions for credit losses for our commercial loan portfolio are calculated mainly based on the most important characteristics of the client and the loan. The Loan Classification and Rating Rules require that we follow a methodology that incorporates an assessment of the client's payment capacity, the period and amount of the loan and the guarantees related to the loan rating analysis to estimate a probable loss and calculate the percentage of necessary reserves. The Loan Classification and Rating Rules allow us to use our own methodology, following certain parameters, to assign a risk rating to each client. Although we have used an internal methodology since May 2014, we apply the methodology of the CNBV to a small group of loans to be able to calculate 100% of the credits, which applies to all loans with a balance equal to or greater than 14,000,000 UDI. Commercial loans must, at the same time, be classified by sector as financial entities, states and municipalities or investment projects, or by volume of sales as small, medium or large corporations. Once we classify these commercial loans according to the above categories, we calculate the expected loss based on the probability of default, the severity of the loss and the exposure to default, according to the established parameters and as approved by the CNBV in the applicable annexes. If our analysis of the classification of a commercial loan changes from one period to another, we adjust the calculation of the amount of our loan loss reserve accordingly.

In the case of loans to individuals, including mortgage loans and other consumer loans, the allowance for credit losses is determined according to a classification based on the default status of such loans and the loan loss rates prescribed for such classifications. Determination of the ratings for these types of loans are made monthly.

The determination of the provision for credit losses requires the judgment of management. The calculation resulting from the use of the estimated and prescribed loan loss percentages is indicative of future losses. The differences between the reserve estimate for credit losses and actual loss will be reflected in our financial statements at the time of cancellation.

We believe our loan loss provision is adequate as of the date hereof to cover all known or knowable losses by our loan and credit portfolio. Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

## ***Securities and Derivatives***

Our consolidated balance sheet reflects certain assets and liabilities related to our securities and derivatives portfolio at their estimated fair value. Such amounts are based on either listed market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. As market conditions change, price vendors generally make adjustments to the fair value of securities and derivatives to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet.

## ***Employee Retirement Obligations***

Our employee retirement obligations include employee pension plans, seniority premium benefits, life insurance payments and severance indemnities. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually, and our assumptions depend on Mexico's economic circumstances.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods recognized immediately in the period when they arise, and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our employees' retirement obligations and our future expenses. See Note 3 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

## **Results of Operations**

### ***Year ended December 31, 2019 Compared to Year Ended December 31, 2018***

#### ***Net Interest Income***

The following table sets forth the components of our net interest income:

	<b>For the Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(millions of Ps.)</b>	
<b>Interest Income:</b>		
Interest and fees on loans .....	153,885	141,791
Interest on securities.....	36,184	35,696
Interest on cash and due from banks.....	5,322	4,912
Interest on repurchase agreements.....	2,776	1,665
Interest on margin accounts.....	228	486
Fees charged on initial loan.....	2,106	1,964
Other .....	1,057	2,119
<b>Total interest income .....</b>	<b>201,558</b>	<b>188,632</b>
<b>Interest Expense:</b>		
Interest on demand deposits .....	11,346	10,135
Interest on time deposits.....	17,648	14,260
Bank bonds.....	6,413	5,817
Interest on interbank loans and loans from other entities.....	1,617	1,690
Interest on subordinated debentures .....	6,193	6,132
Interest on repurchase agreements.....	25,719	25,371
Other .....	3,120	2,315
<b>Total interest expense .....</b>	<b>72,056</b>	<b>65,720</b>
<b>Net interest income .....</b>	<b>129,502</b>	<b>122,912</b>

Net interest income was Ps.129,502 million for the year ended on December 31, 2019, as compared to Ps.122,912 million for the year ended December 31, 2018, an increase of Ps.6,590 million, 5.4%. This increase was primarily attributable to higher volumes of commercial activity.

### ***Interest Income***

Interest income was Ps.201,558 million for the year ended December 31, 2019, compared to Ps.188,632 million for the year ended December 31, 2018, an increase of Ps.12,926 million, or 6.7%. This increase was primarily the result of higher volumes of credit in the commercial and consumer lending portfolios.

Interest and fees on loans was Ps.153,885 million for the year ended December 31, 2019, compared to Ps.141,791 million for the year ended December 31, 2018, an increase of Ps.12,094 million, or 8.5%. This increase was attributable primarily to an increase in the average volumes of loans during the year ended December 31, 2019, particularly in the mortgage and consumer loan portfolios, which increased by 10.9% and 9.9%, respectively, as compared to 2018.

Interest on securities was Ps.36,184 million for the year ended December 31, 2019, compared to Ps.35,696 million for the year ended December 31, 2018, a marginal increase of Ps.478 million compared to the previous year, as lower interest rates offset the increase in securities investments.

Interest on repurchase agreements was Ps.2,776 million for the year ended December 31, 2019, compared to Ps.1,665 million for the year ended December 31, 2018, an increase of Ps.1,111 million, or 66.7%, due to an increase in repo activity.

### ***Interest Expense***

Interest expense was Ps.72,056 million for the year ended December 31, 2019, compared to Ps.65,720 million for the year ended December 31, 2018, an increase of Ps.6,336 million, or 9.6%. This increase was primarily attributable to higher deposit volumes during the year, in particular in respect of the increase in interest paid on time deposits.

Interest on demand deposits, time deposits and bank bonds was Ps.35,407 million for the year ended December 31, 2019, compared to Ps.30,213 million for the year ended December 31, 2018, an increase of Ps.5,194 million, or 17.2%. This increase was primarily attributable to an increase in volumes, but also due to a slight change in the deposit mix to time deposits from demand deposits and bank bonds, driven primarily by higher interest rates applicable to this particular portfolio.

### ***Allowance for Loan Losses***

The allowance for loan losses charged against earnings was Ps.35,713 million for the year ended December 31, 2019, compared to Ps.32,299 million for the year ended December 31, 2018, an increase of Ps.3,414 million, or 10.6%. This increase was due to increased consumer loan volumes that require higher levels of provisioning.

### ***Non-Interest Income***

The following table sets forth the components of our non-interest income:

	<b>For the Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(millions of Ps.)</b>	
<b>Commissions and Fees:</b>		
Account management .....	2,932	2,995
Cash management and fund transfers.....	3,400	3,289
Credit card .....	13,061	11,381
ATMs.....	1,160	1,096
Trust .....	464	410
Mutual fund management <sup>(1)</sup> .....	3,665	3,617
Insurance <sup>(1)</sup> .....	1,891	1,747
Other.....	2,315	3,295
<b>Total commissions and fees.....</b>	<b>28,888</b>	<b>27,830</b>
<b>Trading Income:</b>		
<b>Valuation Result:</b>		
Derivatives.....	(15,452)	9,349
Foreign currency.....	9,013	(2,525)

	For the Year Ended December 31,	
	2019	2018
	(millions of Ps.)	
Securities investments.....	495	(634)
<b>Total valuation result</b> .....	<b>(5,944)</b>	<b>7,458</b>
<b>Purchase-sale result:</b>		
Derivatives.....	3,804	(7,030)
Foreign currency.....	5,691	5,727
Securities investments.....	2,852	(2,684)
<b>Total purchase-sale result</b> .....	<b>12,347</b>	<b>(3,987)</b>
<b>Financial intermediation income</b> .....	<b>6,403</b>	<b>3,471</b>
<b>Other operating income</b> .....	<b>884</b>	<b>504</b>
<b>Total non-interest income</b> .....	<b>36,175</b>	<b>31,805</b>

(1) These are services provided through GFBB affiliates.

Total commissions and fees were Ps.28,888 million for the year ended December 31, 2019, compared to Ps.27,830 million for the year ended December 31, 2018, an increase of Ps.1,058 million, or 3.8%. This increase was mainly the result of favorable trends in commissions from credit and debit cards, resulting, in turn, from higher transaction volumes.

Account management fees were substantially unchanged at Ps.2,932 million for the year ended December 31, 2019, compared to Ps.2,995 million for the year ended December 31, 2018, a decrease of Ps.63 million, or 2.2%. This decrease was the result of a higher number of digital clients, as digital products generally do not charge commissions for operations or services.

Cash management and fund transfer fees totaled Ps.3,400 million for the year ended December 31, 2019, compared to Ps.3,289 million for the year ended December 31, 2018, an increase of Ps.111 million, or 3.3%. This increase was mainly related to higher transaction volumes.

Credit card fees were Ps.13,061 million for the year, ended December 31, 2019, compared to Ps.11,381 million for the year ended December 31, 2018, an increase of Ps.1,680 million, or 14.8%. This increase was due to higher transaction volumes, mainly coming from merchant fees for the use of POS terminals. Credit card fees represented 45.2% of total commissions and fees for the year ended December 31, 2019, as compared to 40.9% for the year ended December 31, 2018.

Financial intermediation income was Ps.6,403 million for the year ended December 31, 2019, compared to Ps.3,471 million for the year ended December 31, 2018, an increase of Ps.2,932 million, or 84.5%, as a result of an increase in gains related to the sale of securities.

Other operating income totaled Ps.884 million for the year ended December 31, 2019, compared to Ps.504 million for the year ended December 31, 2018, an increase of Ps.380 million, or 75.4%, mainly related to recoveries of the loan portfolio, as well as higher income coming from foreclosed assets.

### ***Administrative and Promotional Expenses***

The following table sets forth the components of our administrative and promotional expenses:

	For the Year Ended December 31,	
	2019	2018
	(millions of Ps.)	
Salaries and employee benefits.....	658	563
Administrative and operational expenses.....	41,133	38,216
Rent, depreciation and amortization .....	11,574	10,992
Taxes other than income taxes.....	4,455	4,180
Contribution to IPAB.....	5,430	5,217
<b>Total administrative and promotional expenses</b> .....	<b>63,250</b>	<b>59,168</b>

Administrative and promotional expenses were Ps.63,250 million for the year ended December 31, 2019, compared to Ps.59,168 million for the year ended December 31, 2018, an increase of Ps.4,082 million, or 6.9%. This increase was primarily attributable to higher administrative and operational expenses.

Salaries and employee benefits expenses were Ps.658 million for the year ended December 31, 2019, compared to Ps.563 million for the year ended December 31, 2018, an increase of Ps.95 million, or 16.9%, due to higher contributions to employees' pension plans.

Administrative and operational expenses were Ps.41,133 million for the year ended December 31, 2019, compared to Ps.38,216 million for the year ended December 31, 2018, an increase of Ps.2,793 million, or 7.6%. This increase was primarily due to higher infrastructure expenses.

Rent, depreciation and amortization expenses were Ps.11,574 million for the year ended December 31, 2019, compared to Ps.10,992 million for the year ended December 31, 2018, an increase of Ps.582 million, or 5.3%, reflecting an increase in the rental rates, and in the number of ATMs in operation.

Taxes other than income taxes were Ps.4,455 million for the year ended December 31, 2019, compared to Ps.4,180 million for the year ended December 31, 2018, an increase of Ps.275 million, or 6.6%. This increase was primarily attributable to an increase in VAT tax expenses given higher billing from our subsidiaries.

Expenses related to contributions to the IPAB were Ps.5,430 million for the year ended December 31, 2019, compared to Ps.5,217 million for the year ended December 31, 2018, an increase of Ps.213 million, or 4.1%. This increase was attributable to an increase of 5.6% in the volume of deposits in the year ended December 31, 2019, as compared to 2018.

#### ***Current and Deferred Income Tax***

Current and deferred income tax was Ps.17,491 million for the year ended December 31, 2019, compared to Ps.17,224 million for the year ended December 31, 2018, an increase of Ps.267 million, or 1.6%, as a result of an increase in taxable income. The effective tax rate for the year ended December 31, 2019 was 26.2%, compared to 27.2% during the year ended December 31, 2018. The tax law established a tax rate of 30% for both 2019 and 2018.

#### ***Net Income***

As a result of the factors described above, our net income was Ps.49,254 million for the year ended December 31, 2019, compared to Ps.46,060 million for the year ended December 31, 2018, an increase of Ps.3,194 million, or 6.9%.

#### ***Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***

##### ***Net Interest Income***

The following table sets forth the components of our net interest income:

	<b>For the Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(millions of Ps.)</b>	
<b>Interest Income:</b>		
Interest and fees on loans .....	141,791	128,511
Interest on securities.....	35,696	30,669
Interest on cash and due from banks.....	4,912	4,058
Interest on repurchase agreements.....	1,665	1,198
Interest on margin accounts.....	486	353
Fees charged on initial loan.....	1,964	1,542
Other .....	2,119	1,334
<b>Total interest income .....</b>	<b>188,632</b>	<b>167,665</b>
<b>Interest Expense:</b>		
Interest on demand deposits .....	10,135	6,847
Interest on time deposits.....	14,260	10,801
Bank bonds.....	5,817	5,323



	For the Year Ended December 31,	
	2018	2017
	(millions of Ps.)	
Interest on interbank loans and loans from other entities.....	1,690	1,531
Interest on subordinated debentures .....	6,132	4,724
Interest on repurchase agreements.....	25,371	23,592
Other.....	2,315	1,838
<b>Total interest expense.....</b>	<b>65,720</b>	<b>54,656</b>
<b>Net interest income .....</b>	<b>122,912</b>	<b>113,009</b>

Net interest income was Ps.122,912 million for the year ended December 31, 2018, compared to Ps.113,009 million for the year ended December 31, 2017, an increase of Ps.9,903 million, or 8.8%. This increase was primarily attributable to higher volumes of commercial activity.

### ***Interest Income***

Interest income was Ps.188,632 million for the year ended December 31, 2018, compared to Ps.167,665 million for the year ended December 31, 2017, an increase of Ps.20,967 million, or 12.5%. This increase was primarily the result of an increase in interest and fees on loans.

Interest and fees on loans was Ps.141,791 million for the year ended December 31, 2018, compared to Ps.128,511 million for the year ended December 31, 2017, an increase of Ps.13,280 million, or 10.3%. This result was attributable mainly to an increase in the average volume of loans during 2018, particularly in our commercial, mortgage and consumer loan portfolios, as well as higher interest rates.

Interest on securities was Ps.35,696 million for the year ended December 31, 2018, compared to Ps.30,669 million for the year ended December 31, 2017, an increase of Ps.5,027 million, or 16.4%. This increase was primarily attributed to the effect of higher interest rates on certain of our bond holdings.

Interest on repurchase agreements was Ps.1,665 million for the year ended December 31, 2018, compared to Ps.1,198 million for the year ended December 31, 2017, an increase of Ps.467 million, or 39.0%. The result was due to an increase in interest rates compared to the previous year.

### ***Interest Expense***

Interest expense was Ps.65,720 million for the year ended December 31, 2018, compared to Ps.54,656 million for the year ended December 31, 2017, an increase of Ps.11,064 million, or 20.2%. This increase was primarily attributable to an increase in interests paid on demand, time deposits and bank bonds.

Interest on demand deposits, time deposits and bank bonds was Ps.30,213 million for the year ended December 31, 2018, compared to Ps.22,971 million for the year ended December 31, 2017, an increase of Ps.7,242 million, or 31.5%, due mainly to increased volumes of demand deposits and time deposits as well as higher interest rates. In terms of year-end balances, time deposits as a percentage of total deposits remained stable at 22.36% as of December 31, 2018, compared to 20.44% as of December 31, 2017, while demand deposits also remained stable at 72.0% as of December 31, 2018, compared to 77.9% as of December 31, 2017.

### ***Allowance for Loan Losses***

The allowance for loan losses charged against earnings was Ps.32,299 million for the year ended December 31, 2018, compared to Ps.34,071 million for the year ended December 31, 2017, a decrease of Ps.1,899 million, or 5.2%. This decrease in loan loss provisions was attributable to favorable risk management, which benefited asset quality, despite growth in the loan portfolio.

### ***Non-Interest Income***

The following table sets forth the components of our non-interest income:

	For the Year Ended December 31,	
	2018	2017
	(millions of Ps.)	
<b>Commissions and Fees:</b>		
Account management.....	2,995	2,974
Cash management and fund transfers .....	3,289	2,976

	<b>For the Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(millions of Ps.)</b>	
Credit card.....	11,381	11,094
ATMs.....	1,096	872
Trust.....	410	389
Mutual fund management <sup>(1)</sup> .....	3,617	2,900
Insurance <sup>(1)</sup> .....	1,747	1,893
Other.....	3,295	2,723
<b>Total commissions and fees.....</b>	<b>27,830</b>	<b>25,821</b>
<b>Trading Income:</b>		
<b>Valuation Result:</b>		
Derivatives.....	9,349	(17,512)
Foreign currency.....	(2,525)	15,349
Securities investments.....	(634)	2,573
<b>Total valuation result.....</b>	<b>7,458</b>	<b>410</b>
<b>Purchase-sale result:</b>		
Derivatives.....	(7,030)	2,466
Foreign currency.....	5,727	4,339
Securities investments.....	(2,684)	(2,588)
<b>Total purchase-sale result.....</b>	<b>(3,987)</b>	<b>4,217</b>
<b>Financial intermediation income.....</b>	<b>3,471</b>	<b>4,627</b>
<b>Other operating income.....</b>	<b>504</b>	<b>1,251</b>
<b>Total non-interest income.....</b>	<b>31,805</b>	<b>31,699</b>

(1) These are services provided through GFBB affiliates.

Total commissions and fees were Ps.27,830 million for the year ended December 31, 2018, compared to Ps.25,821 million for the year ended December 31, 2017, an increase of Ps.2,009 million, or 7.8%, due primarily to a higher average volume of assets under management.

Account management fees were substantially unchanged at Ps.2,995 million for the year ended December 31, 2018, compared to Ps.2,974 million for the year ended December 31, 2017, an increase of Ps.21 million, or 0.7%. This increase was the result of a higher number of digital clients, as digital products generally do not charge commissions for operations or services.

Cash management and fund transfer fees totaled Ps.3,289 million for the year ended December 31, 2018, compared to Ps.2,976 million for the year ended December 31, 2017, an increase of Ps.313 million, or 10.5%. This increase was mainly related to higher transaction volumes.

Credit card fees were Ps.11,381 million for the year ended December 31, 2018, compared to Ps.11,094 million for the year ended December 31, 2017, an increase of Ps.287 million, or 2.6%, due to an increase in the volume of credit card transactions, as reflected in the fact that credit card billing grew 10.4% during this period.

Financial intermediation income was Ps.3,471 million for the year ended December 31, 2018, compared to Ps.4,627 million for the year ended December 31, 2017, a decrease of Ps.1,156 million, or 25.0%, as a result of income from a non-recurring significant transaction during the year ended December 31, 2017, relating to a portfolio of bonds linked to inflation.

Other operating income totaled Ps.504 million for the year ended December 31, 2018, compared to Ps.1,251 million for the year ended December 31, 2017, a decrease of Ps.747 million, or 59.07%. In the year ended December 31, 2018, there was a reclassification of certain recoveries due to a change in criteria by the CNBV.

### ***Administrative and Promotional Expenses***

The following table sets forth the components of our administrative and promotional expenses:

	<b>For the Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(millions of Ps.)</b>	
Salaries and employee benefits.....	563	134
Administrative and operational expenses.....	38,216	38,171
Rent, depreciation and amortization.....	10,992	10,420

	<b>For the Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(millions of Ps.)</b>	
Taxes other than income taxes.....	4,180	3,966
Contribution to IPAB.....	5,217	4,917
<b>Total administrative and promotional expenses.....</b>	<b>59,168</b>	<b>57,608</b>

Administrative and promotional expenses were Ps.59,168 million for the year ended December 31, 2018, compared to Ps.57,608 million for the year ended December 31, 2017, an increase of Ps.1,560 million, or 2.7%. This increase was primarily attributable to increases across all items.

Salaries and employee benefits expenses were Ps.563 million for the year ended December 31, 2018, compared to Ps.134 million for the year ended December 31, 2017, an increase of Ps.429 million, or 320.1%, as the result of an increase in contributions to employee pension plans and a higher cost of certain employee benefits.

Administrative and operational expenses were unchanged at Ps.38,216 million for the year ended December 31, 2018, compared to Ps.38,171 million for the year ended December 31, 2017, as a result of higher income before taxes.

Rent, depreciation and amortization expenses were Ps.10,992 million for the year ended December 31, 2018, compared to Ps.10,420 million for the year ended December 31, 2017, an increase of Ps.572 million, or 5.5%. This increase was primarily the result of amortization of certain investments and an increase in the rents of certain branches.

Taxes other than income taxes were Ps.4,180 million for the year ended December 31, 2018, compared to Ps.3,966 million for the year ended December 31, 2017, an increase of Ps.214 million, or 5.4%.

Expenses related to contributions to the IPAB were Ps.5,217 million for the year ended December 31, 2018, compared to Ps.4,917 million for the year ended December 31, 2017, an increase of Ps.300 million, or 6.1%. This increase was attributable to an increase of 3.3% in the volume of deposits in the year ended December 31, 2018 as compared to the year ended December 31, 2017.

### ***Current and Deferred Income Tax***

Current and deferred income tax was Ps.17,224 million for the year ended December 31, 2018, compared to Ps.13,920 million for the year ended December 31, 2017, an increase of Ps.3,305 million, or 23.7%. The effective tax rate for the year ended December 31, 2018 was 27.2%, compared to 26.2% during the year ended December 31, 2017. The tax law established a tax rate of 30% for both 2018 and 2017.

### ***Net Income***

As a result of the factors described above, our net income was Ps.46,060 million for the year ended December 31, 2018, compared to Ps.39,143 million for the year ended December 31, 2017, an increase of Ps.6,917 million, or 17.7%.

## **Financial Position**

The following discussion compares our consolidated financial position as of the years ended December 31, 2019, 2018 and 2017. Unless otherwise specified, the information is presented in nominal pesos.

### ***Assets***

As of December 31, 2019, we had total assets of Ps.2,130,588 million, compared to Ps.2,068,259 million as of December 31, 2018, representing an increase of 3.0%. This increase was explained by a 6.6% increase in our loan portfolio, in particular as a result of higher demand for consumer and commercial loans, and a 13.0% increase in our securities portfolio.

As of December 31, 2018, we had total assets of Ps.2,068,259 million, compared to Ps.1,996,986 million as of December 31, 2017, representing an increase of 3.6%. This increase was primarily attributable to an increase in total loans of 8.0%, in particular as a result of higher demand for commercial loans.

### ***Total Current Loans***

As of December 31, 2019, we had total current loans of Ps.1,216,024 million, compared to Ps.1,140,319 million as of December 31, 2018, an increase of 6.6%. This increase was primarily attributable to an increase in the volumes of our mortgage and consumer loan portfolios of 10.9% and 9.9%, respectively. As of December 31, 2019, current commercial loans represented 56.3% of total current loans, current consumer loans represented 24.7% of total current loans, and current residential mortgage loans represented 19.0% of total current loans.

As of December 31, 2018, we had total current loans of Ps.1,140,319 million, compared to Ps.1,056,334 million as of December 31, 2017, representing an increase of 8.0%. This increase was mainly attributable to an annual increase of Ps.53,676 million, or 8.9% in commercial lending. As of December 31, 2018, commercial loans represented 57.7% of total current loans, consumer loans represented 24.0% of total current loans and mortgages represented 18.3% of total current loans.

### ***Total Past Due Loans***

As of December 31, 2019, we had total past due loans of Ps.27,454 million, compared to Ps.23,274 million as of December 31, 2018, an increase of Ps.4,181 million or 18.0%. This increase was mainly due to an internal change in our accounting policies, which provided that a loan is considered to be past due if it remains unpaid for 90 days, rather than three months. This change was in response to a request from the European Central Bank. In addition, in the second and third quarter of 2019, an additional day of grace period for payments was discontinued. As of December 31, 2019, past due consumer loans represented 0.8% of our total loans, past due mortgage loans represented 0.6% of our total loans, and past due commercial loans represented 0.8% of our total loans. As of December 31, 2019, past due business and commercial loans and past due consumer and residential mortgage loans accounted for Ps.9,518 million and Ps.17,937 million of our total past due loans, respectively.

As of December 31, 2018, we had total past due loans of Ps.23,274 million, compared to Ps.22,745 million as of December 31, 2017, representing an increase of Ps.529 million, or 2.3%. This increase was primarily attributable to an increase of 25.9% in our past due commercial loan portfolio, while our past due consumer lending portfolio decreased by 6.9% and our past due mortgage lending portfolio decreased by 6.8% compared to December 31, 2017. As of December 31, 2018, past due consumer loans represented 0.8% of our total loans, past due mortgage loans represented 0.5% of our total loans and past due commercial loans represented 0.7% of our total loans. As of December 31, 2018, past due business and commercial loans and past due consumer and residential mortgage loans accounted for Ps.8,015 million and Ps.15,259 million of our total past due loans, respectively.

### ***Liabilities***

As of December 31, 2019, we had total liabilities of Ps.1,915,722 million, compared to Ps.1,874,036 million as of December 31, 2018, an increase of Ps.41,688 million, or 2.2%. This increase was mainly attributable to an increase in clients' deposits, in particular demand deposits of Ps.58,540 or 6.8%, and, to a lesser extent, a 3.9% increase in time deposits, as these two items combined represented 66.2% of our total liabilities as of December 31, 2019.

As of December 31, 2018, we had total liabilities of Ps.1,874,036 million compared to Ps.1,821,213 million as of December 31, 2017, an increase of Ps.52,823 million, or 2.9%. This increase was mainly attributable to an increase in the deposit base, mainly in demand deposits, time deposits and, to a lesser extent, in other accounts payables compared to the previous year. Demand deposits and time deposits represented 64.1% of our total liabilities as of December 31, 2018.

### ***Deposits (Including Bank Bonds)***

As of December 31, 2019, we had total deposits (including bank bonds and deposits in global accounts without movements) of Ps.1,267,620 million, compared to Ps.1,200,889 million as of December 31, 2018, an increase of Ps.66,731 million, or 5.6%. This result was attributable primarily to an increase in demand deposits of Ps.58,540 million, or 6.8%, and, to a lesser extent, to a 3.9% increase in time deposits.

As of December 31, 2018, we had total deposits (including bank bonds and deposits in global accounts without movements) of Ps.1,200,889 million, compared to Ps.1,162,633 million as of December 31, 2017, an increase of Ps.38,256 million, or 3.3%. This increase in deposits was primarily the result of an increase in demand deposits of Ps.29,224 million, or 3.5%, due to our ongoing strategy of maintaining a profitable funding mix. Time deposits increased Ps.6,909, or 2.9%.

### ***Bank and Other Borrowings***

As of December 31, 2019, we had bank and other borrowings of Ps.22,018 million, compared to Ps.17,861 million as of December 31, 2018, an increase of 23.3%, or Ps.4,157 million. This increase was the result of higher demand for interbank loans payable on demand. As of December 31, 2019, bank and other borrowings represented 1.1% of our total liabilities.

As of December 31, 2018, we had interbank loans and loans from other entities in Ps.17,861 million, compared to Ps.17,380 million as of December 31, 2017, an increase of Ps.481 million, or 2.8%. The increase resulted from higher balances of interbank loans and loans from other entities, both short- and long-term. As of December 31, 2018, interbank loans and loans from other entities represented 1.0% of our total liabilities.

### ***Subordinated Bonds Issued***

As of December 31, 2019, we had Ps.95,061 million of subordinated bonds issued, which represented 5.0% of our total liabilities, as described below.

On April 22, 2010, we issued U.S.\$1,000 million Non-Cumulative Fixed Rate Subordinated Non-Preferred Notes due 2020 in the international capital markets.

On March 10, 2011, we issued U.S.\$1,250 million 6.50% Subordinated Preferred Notes Tier 2 due 2021 in the international capital markets.

On July 19, 2012, we issued U.S.\$1,000 million 6.75% Subordinated Preferred Notes Tier 2 due 2022 in the international capital markets. On September 28, 2012, we issued an additional U.S.\$500 million 6.75% Subordinated Preferred Notes Tier 2 due 2022, for an aggregate amount of U.S.\$1,500 million in the international capital markets.

On November 12, 2014, we issued U.S.\$200 million 5.35% Subordinated Preferred Notes Tier 2 due 2029 in the international capital markets.

On January 18, 2018, we issued U.S.\$1,000 million 5.125% Subordinated Preferred Notes Tier 2 due 2033 in the international capital markets.

On September 13, 2019, we issued U.S.\$750 million 5.875% Subordinated Preferred Notes Tier 2 due 2034 in the international capital markets.

### ***Stockholders' Equity***

As of December 31, 2019, our stockholders' equity was Ps.214,866 million, compared to Ps.194,223 million as of December 31, 2018, an increase of Ps.20,643 million, or 10.1%. This increase was mainly the result of an increase of 14.9% in accrued net results. Stockholders' equity represented 10.1% of our total assets as of December 31, 2019.

As of December 31, 2018, our stockholders' equity was Ps.194,223 million, compared to Ps.175,773 million as of December 31, 2017, representing an increase of Ps.18,450 million, or 10.5%. This increase was mainly attributable to an increase in accrued earnings and net income. Stockholders' equity represented 9.4% of our total assets as of December 31, 2018.

### ***Liquidity and Funding***

The purpose of liquidity management is to ensure that we have funds available to meet our present and future financial obligations and to respond to business opportunities as they arise. Liquidity needs arise from withdrawals of deposits, repayments on maturity of borrowed funds, extensions of loans or other forms of credit and working capital needs.

We have several funding sources including (i) customer deposits, which are in the form of either checking accounts, both interest bearing and non-interest bearing, *pagarés bancarios*, which are short-term promissory notes and certificate of deposits; (ii) repurchase agreements; (iii) structured notes in the local markets; and (iv) senior and subordinated notes issuances in the local and international markets. Our policy is to price our assets based upon our highest cost source of funds both to ensure that loan pricing reflects our current liquidity conditions and to maximize net interest income.

Customer deposits, which totaled Ps.1,267,620 million as of December 31, 2019, are our most important funding source and are also our least expensive one. Our funding strategy focuses on increasing the sources of low-

cost funding through marketing campaigns and improved customer service to grow the volume of deposits from our existing customers and expand our customer base. *Pagarés bancarios* and certificates of deposit can be issued in the domestic capital markets to manage our short-term funding structure.

We have an active asset and liability management strategy that allows us to manage our various funding sources in order to obtain a sound and balanced structure and minimize our costs. Deposits with no maturity, which come from our large base of clients, are highly stable and strengthen our low cost and core deposits.

In order to carry out our asset and liability management strategy, we have established a transfer pricing process for our funding sources, which incorporates the liquidity and risk associated with the funding source into its price. This strategy enables us to accurately measure the prices of loans and deposits, and provides us flexibility to respond to any climate, while also preserving margin.

We complement our medium and long-term peso funding by issuing securities in the Mexican capital markets. Senior notes are issued through our “*Certificados Bursátiles*” program, which provides for the issuance of peso or UDI denominated notes with tenors of up to 35 years. In April 2016, we updated our “*Certificados Bursátiles*” program and registered it with the CNBV for a five-year period to issue in the Mexican market of Ps.60,000 million of “*certificados bursátiles*,” “*certificados de depósito*” and “*pagarés con rendimiento liquidable al vencimiento*,” denominated in both UDIs and pesos. As of December 31, 2019, we had Ps.120,273 million of notes outstanding, of which Ps.25,212 million were senior notes and Ps.95,061 million were subordinated notes.

To optimize our funding structure, we hold liquid assets that can be used in the short term to cover liquidity risk. As reported to the CNBV, the LCR for the year ended December 31, 2019, was 145.7%. In addition, we have a Contingency Funding Plan and a Recovery Plan should we experience a stress scenario.

### **Foreign Currency Position**

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained from various sources, primarily through deposits of private banking customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market, interbank deposits, fixed-rate notes and subordinated debentures and asset securitizations. In the case of foreign trade transactions, we use trade financing facilities from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on LIBOR.

*Banco de México* regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. As of December 31, 2019, our foreign currency-denominated assets, including derivative transactions, totaled U.S.\$14.8 billion (Ps.264,253 million), representing 12% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S.\$5.1 billion (Ps.96,894 million), representing 5% of our total liabilities. As part of our asset liability management strategy, we closely monitor our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

### **Capital Expenditures**

Capital expenditures have primarily consisted of expenditures for technology and systems. The purpose of our capital expenditures plan is to increase the development of new strategies and programs, enhance long-term productivity, significantly change our processes and develop new business models.

In the year ended December 31, 2019, we made investments in capital expenditures in an aggregate amount of Ps.4,844 million, which primarily consisted of technology and banking infrastructure related expenditures. These expenditures were funded with cash generated from our operations and other sources of liquidity.

### **Risk-Based Capital**

Pursuant to the Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets and credit risk. The Rules for Capitalization and the Mexican Capitalization Requirements set forth the methodology for determining the net capital required relative to market risk, credit risk and operational risk. See “Supervision and Regulation—Capitalization.” Those regulations provide that (1) our investment in subsidiaries that are related to us in accordance with Article 73 of the

Mexican Banking Law, (2) our investment in subsidiaries that do not operate in the financial sector and (3) revaluation surpluses related to the investments referred to in (1) and (2) above must be subtracted from the calculation of Tier 1 Capital. Article 122 of the Mexican Banking Law provides that if a bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, which are (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement applicable to the bank, the bank must implement the corrective measures ordered by the CNBV. As of December 31, 2019, our Capital Ratios were (i) 15.61% in the case of Total Net Capital, (ii) 12.49% in the case of Fundamental Capital and (iii) 12.49% in the case of Tier 1 Capital. The table below presents our risk-weighted assets and Capital Ratios as of December 31, 2019, 2018 and 2017, determined, as required by regulations, on an unconsolidated basis.

	As of December 31,		
	2019	2018	2017
	(millions of Ps., except for percentages)		
Tier 1 .....	207,988	192,852	176,789
Tier 2 .....	51,995	43,807	29,182
Total Capital .....	259,983	236,660	205,971
Risk-weighted assets:			
Credit risk .....	1,100,778	1,095,804	1,001,708
Market risk .....	472,494	366,919	365,580
Operational risk .....	92,544	87,240	77,950
<b>Total risk-weighted assets .....</b>	<b><u>1,665,815</u></b>	<b><u>1,549,963</u></b>	<b><u>1,445,238</u></b>
Capital ratios (credit, market and operational risk):			
Tier 1 Capital to risk-weighted assets .....	12.49%	12.44%	12.23%
Tier 2 Capital to risk-weighted assets .....	3.12%	2.83%	2.02%
Total Capital to risk-weighted assets .....	15.61%	15.27%	14.25%

Source: Banco de México

### Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our Audited Financial Statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in Note 3(aa) to our Audited Financial Statements included elsewhere in this Offering Memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps.632,810 million as of December 31, 2019, Ps.588,114 million as of December 31, 2018 and Ps.566,652 million as of December 31, 2017.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guaranty and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. We may also require comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when we deem it necessary.

## SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Audited Financial Statements, together with the notes thereto, included elsewhere in this Offering Memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Audited Financial Statements and the other financial information with respect to us contained in this Offering Memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See Notes 3 and 16 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Assets and liabilities have been classified by currency of denomination (pesos or foreign currencies), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in pesos or foreign currencies. The U.S. dollar is the principal foreign currency used in our transactions. However, Japanese yen, Swiss francs and euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then expressed in pesos.

Unless otherwise indicated, annual financial information for 2019, 2018 and 2017 is presented in nominal pesos.

Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt investment securities and no tax-equivalence adjustments are considered necessary.

The loan portfolio information provided in this “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this Offering Memorandum, except that the loan portfolio data presented under this “Selected Statistical Information” does not include amounts attributable to accrued interest, which as of December 31, 2019 represented 0.63% of our total loan portfolio. Presentation of the financial and statistical information included in this “Selected Statistical Information” may differ from the manner of presentation required by Mexican Banking GAAP standards for the presentation of our financial statements.

### **Average Balance Sheet and Interest Rate Data**

#### ***Peso-Denominated Average Balances and Interest Income***

Average balances for our peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily peso balances was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

#### ***Foreign Currency-Denominated and UDI-Denominated Average Balances and Interest Income***

Average balances and interest income (expense) for our foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and of the interest income (expense) was determined. Such daily average balances and interest income (expense) are converted into pesos using the closing exchange rate for the applicable month as published by *Banco de México* in the Federal Official Gazette. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

### **Average Interest Rates**

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.



### Average Assets and Interest Rates

The table below presents the average balance of assets, interest income and average annual interest rate for the periods specified.

	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest Income <sup>(1)</sup>	Average Interest Rate (%)	Average Balance	Interest Income <sup>(1)</sup>	Average Interest Rate (%)	Average Balance	Interest Income <sup>(1)</sup>	Average Interest Rate (%)
(millions of Ps., except percentages)									
<b>Deposits in banks:</b>									
Pesos.....	54,753	4,164	7.61	64,102	4,177	6.52	52,653	3,069	5.83
UDIs .....	—	—	—	—	—	—	—	—	—
Foreign currency.....	70,116	2,474	3.53	44,931	2,615	5.82	93,148	1,451	1.56
Subtotal .....	124,869	6,638	5.32	109,033	6,792	6.23	145,801	4,520	3.10
<b>Government securities:</b>									
Pesos.....	307,276	23,715	7.72	326,287	23,435	7.18	276,945	19,062	6.88
UDIs .....	18,311	476	2.60	17,506	929	5.31	9,438	347	3.68
Foreign currency.....	29,243	3,110	10.64	26,413	3,469	13.13	28,397	2,658	9.36
Subtotal .....	354,830	27,301	7.69	370,206	27,833	7.52	314,780	22,067	7.01
<b>Investment in other fixed income securities:</b>									
Pesos.....	16,172	1,659	10.26	13,187	1,490	11.30	23,369	2,042	8.74
UDIs .....	1,904	11	0.58	1,220	41	3.36	2,146	58	2.70
Foreign currency.....	4,784	217	4.54	5,187	89	1.72	6,395	673	10.52
Subtotal .....	22,860	1,887	8.25	19,594	1,620	8.27	31,910	2,773	8.69
<b>Loans:<sup>(1)</sup></b>									
Pesos.....	1,011,921	145,330	14.36	978,674	132,286	13.52	879,526	121,567	13.82
UDIs .....	4,537	345	7.60	5,071	422	8.32	6,625	515	7.77
Foreign currency.....	172,312	10,418	6.05	176,037	11,869	6.74	157,242	10,125	6.44
Fondo Bancario de Protección al Ahorro (“FOBAPROA”) and IPAB notes (pesos).....	—	—	—	—	—	—	—	—	—
Subtotal .....	1,188,770	156,093	13.13	1,159,782	144,577	12.47	1,043,393	132,207	12.67
<b>Creditors from repurchase agreements:</b>									
Pesos.....	40,434	2,716	6.72	50,782	1,667	3.28	18,792	1,190	6.33
UDIs .....	—	—	—	—	—	—	—	5	—
Foreign currency.....	—	—	—	—	—	—	—	—	—
Subtotal .....	40,434	2,716	6.72	50,782	1,667	3.28	18,792	1,195	6.36
<b>Other interest-earning assets:</b>									
Pesos.....	13,757	871	6.33	13,159	910	6.92	11,224	608	5.42
UDIs .....	—	—	—	—	—	—	—	—	—
Foreign currency.....	—	—	—	—	—	—	—	—	—
Subtotal .....	13,757	871	6.33	13,159	910	6.92	11,224	608	5.42
<b>Total interest-earning assets:</b>									
Pesos.....	1,444,313	178,455	12.36	1,446,191	163,965	11.34	1,262,509	147,538	11.69
UDIs .....	24,752	832	3.36	23,797	1,392	5.85	18,209	925	5.08
Foreign currency.....	276,455	16,219	5.87	252,568	18,042	7.14	285,182	14,907	5.23
Subtotal .....	1,745,520	195,506	11.20	1,722,556	183,399	10.65	1,565,900	163,370	10.43

- (1) Interest income includes fees on loans of pesos, origination fees and credit card annual fees. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP and IFRS.

	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)
	(millions of Ps., except percentages)								
Equity investment:									
Pesos.....	5,278			4,365			12,467		
Foreign currency.....	1,493			3,917			4,597		
Subtotal .....	6,771			8,282			17,064		
Cash due from banks:									
Pesos.....	39,149			44,560			42,387		
Foreign currency.....	14,015			16,135			11,736		
Subtotal .....	53,164			60,695			54,123		
Allowance for loan losses:									
Pesos (includes UDIs)...	(32,611)			(30,775)			(29,356)		
UDIs .....	(161)			(125)			(395)		
Foreign currency.....	(726)			(755)			(751)		
Subtotal .....	(33,498)			(31,655)			(30,502)		
Premises and equipment:									
Pesos.....	38,968			40,304			41,527		
Foreign currency.....	5			3			1		
Subtotal .....	38,973			40,307			41,528		
Other non-interest- earning assets:									
Pesos.....	50,017			19,411			(26,958)		
UDIs .....	263			(1,219)			(1,181)		
Foreign currency.....	(38,368)			51,423			104,967		
Subtotal .....	11,912			69,615			76,828		
Total assets:									
Pesos.....	1,545,114	178,455	11.55	1,524,056	163,965	10.76	1,302,576	147,538	11.33
UDIs .....	24,854	832	3.35	22,453	1,392	6.20	16,633	925	5.56
Foreign currency.....	252,874	16,219	6.41	323,291	18,042	5.58	405,732	14,907	3.67
Subtotal .....	1,822,842	195,506	10.73	1,869,800	183,399	9.81	1,724,941	163,370	9.47

### Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the average balance of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods specified.

	For the Year Ended December 31,								
	2019			2018			2017		
	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)	Average Balance	Interest Income	Average Interest Rate (%)
	(millions of Ps., except percentages)								
<b>Demand deposits (checking accounts):</b>									
Pesos .....	350,916	9,860	2.81	376,643	9,199	2.44	303,785	5,964	1.96
UDIs .....	—	—	0.00	—	—	0.00	—	—	0.00
Foreign currency .....	101,816	673	0.66	97,971	211	0.22	112,611	106	0.09
Subtotal .....	452,732	10,533	2.33	474,614	9,410	1.98	416,396	6,070	1.46
<b>Saving deposits:</b>									
Pesos .....	256,447	924	0.36	262,454	778	0.30	217,391	887	0.41
UDIs .....	—	—	0.00	—	—	0.00	—	—	0.00
Foreign currency .....	2,109	24	1.14	2,183	—	0.00	2,789	—	0.00
Subtotal .....	258,556	948	0.37	264,637	778	0.29	220,180	887	0.40
<b>Time deposits:</b>									
Pesos .....	313,557	23,298	7.43	299,923	19,186	6.40	262,401	15,787	6.02
UDIs .....	20,963	1,501	7.16	20,748	2,099	10.12	19,236	804	4.18
Foreign currency .....	133,136	148	0.11	4,711	40	0.85	7,399	43	0.58
Subtotal .....	467,656	24,947	5.33	325,382	21,325	6.55	289,036	16,634	5.75
<b>Short-term borrowings:</b>									
Pesos .....	6,417	402	6.26	5,461	703	12.87	10,436	692	6.63
UDIs .....	—	—	0.00	—	—	0.00	—	—	0.00
Foreign currency .....	79	1	1.27	280	2	0.71	331	2	0.60
Subtotal .....	6,496	403	6.20	5,741	705	12.28	10,767	694	6.45
<b>Long-term debt:</b>									
Pesos .....	14,128	1,360	9.63	15,713	1,407	8.95	15,131	1,168	7.72
UDIs .....	—	—	0.00	—	—	0.00	—	—	0.00
Foreign currency .....	1,257	3	0.24	1,400	15	1.07	1,200	27	2.25
Subtotal .....	15,385	1,363	8.86	17,113	1,422	8.31	16,331	1,195	7.32
<b>Subordinated Notes:</b>									
Pesos .....	—	—	0.00	—	1,060	0.00	—	—	0.00
UDIs .....	—	—	0.00	—	—	0.00	—	—	0.00
Foreign currency .....	110,168	9,448	8.58	112,012	7,426	6.63	92,933	6,704	7.21
Subtotal .....	110,168	9,448	8.58	112,012	8,486	7.58	92,933	6,704	7.21
<b>Debtors from repurchase agreements:</b>									
Pesos .....	248,445	17,522	7.05	222,414	17,653	7.94	256,318	17,589	6.86
UDIs .....	5,612	16	0.29	8,009	22	0.27	—	—	0.00
Foreign currency .....	—	—	0.00	—	—	0.00	—	—	0.00
Subtotal .....	254,057	17,538	6.90	230,423	17,675	7.67	256,318	17,589	6.86
<b>Total interest-bearing liabilities:</b>									
Pesos .....	1,189,910	53,366	4.48	1,182,608	49,986	4.23	1,065,462	42,087	3.95
UDIs .....	26,575	1,517	5.71	28,757	2,121	7.38	19,236	804	4.18
Foreign currency .....	348,565	10,297	2.95	218,557	7,694	3.52	217,263	6,882	3.17
Subtotal .....	1,565,050	65,180	4.16	1,429,922	59,801	4.18	1,301,961	49,773	3.82
<b>Non-interest-bearing liabilities:</b>									
Pesos .....	146,583	—	—	142,281	—	—	63,178	—	—
UDIs .....	(1,720)	—	—	(6,305)	—	—	(2,606)	—	—
Foreign currency .....	(95,720)	—	—	104,730	—	—	188,468	—	—
Subtotal .....	49,143	—	—	240,706	—	—	249,040	—	—
<b>Stockholders' equity:</b>									
Pesos .....	208,642	—	—	199,169	—	—	173,938	—	—
UDIs .....	—	—	—	—	—	—	—	—	—
Foreign currency .....	7	—	—	3	—	—	2	—	—
Subtotal .....	208,649	—	—	199,172	—	—	173,940	—	—
<b>Total liabilities and stockholders' equity</b>									
Pesos .....	1,545,135	53,366	3.45	1,524,058	49,986	3.28	1,302,578	42,087	3.23
UDIs .....	24,855	1,517	6.10	22,452	2,121	9.45	16,630	804	4.83
Foreign currency .....	252,852	10,297	4.07	323,290	7,694	2.38	405,733	6,882	1.70
Total .....	1,822,842	65,180	3.58	1,869,800	59,801	3.20	1,724,941	49,773	2.89

## Changes in Net Interest Income and Expense

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for the year ended December 31, 2019, compared to the year ended December 31, 2018, and the year ended December 31, 2018 compared to the year ended December 31, 2017. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average balances of interest-earning assets and average balances of interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

### Interest-Earning Assets

	2019/2018			2018/2017		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(millions of Ps.)					
<b>Deposits in banks:</b>						
Pesos .....	(711)	698	(13)	746	362	1,108
UDIs .....	—	—	—	—	—	—
Foreign currency .....	889	(1,030)	(141)	(2,806)	3,970	1,164
Subtotal .....	178	(332)	(154)	(2,060)	4,332	2,272
<b>Government securities:</b>						
Pesos .....	(1,467)	1,747	280	3,543	828	4,371
UDIs .....	21	(474)	(453)	428	153	581
Foreign currency .....	301	(660)	(359)	(261)	1,072	811
Subtotal .....	(1,145)	613	(532)	3,710	2,053	5,763
<b>Fixed income securities:</b>						
Pesos .....	306	(137)	169	(1,150)	598	(552)
UDIs .....	4	(34)	(30)	(31)	14	(17)
Foreign currency .....	(18)	146	128	(21)	(563)	(584)
Subtotal .....	292	(25)	267	(1,202)	49	(1,153)
<b>Loans:<sup>(1)</sup></b>						
Pesos .....	4,775	8,269	13,044	13,401	(2,683)	10,718
UDIs .....	(41)	(36)	(77)	(129)	36	(93)
Foreign currency .....	(225)	(1,226)	(1,451)	1,266	477	1,743
FOBAPROA and IPAB notes .....	—	—	—	—	—	—
Subtotal .....	4,509	7,007	11,516	14,538	(2,170)	12,368
<b>Creditors from repurchase agreements:</b>						
Pesos .....	(695)	1,744	1,049	1,050	(573)	477
UDIs .....	—	—	—	—	—	—
Foreign currency .....	—	—	—	—	—	—
Subtotal .....	(695)	1,744	1,049	1,050	(573)	477
<b>Other interest-earning assets:</b>						
Pesos .....	38	(77)	(39)	134	168	302
UDIs .....	—	—	—	—	—	—
Foreign currency .....	—	—	—	—	—	—
Subtotal .....	38	(77)	(39)	134	168	302
<b>Total interest-earning assets:</b>						
Pesos .....	2,246	12,244	14,490	17,724	(1,300)	16,424
UDIs .....	(16)	(544)	(560)	268	203	471
Foreign currency .....	947	(2,770)	(1,823)	(1,822)	4,956	3,134
Subtotal .....	3,177	8,930	12,107	16,170	3,859	20,029

- (1) Interest income includes fees on loans of Ps.2,055 million for the year ended December 31, 2019, Ps.1,930 million for the year ended December 31, 2018 and Ps.1,532 million for the year ended December 31, 2017, which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include origination fees and credit card annual fees.

### Interest-Bearing Liabilities

	2019/2018			2018/2017		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(millions of Ps.)					
<b>Demand deposits</b>						
<b>(checking accounts):</b>						
Pesos .....	(723)	1,384	661	1,779	1,456	3,235
UDIs .....	—	—	—	—	—	—
Foreign currency .....	25	437	462	(32)	137	105
<b>Subtotal .....</b>	<b>(698)</b>	<b>1,821</b>	<b>1,123</b>	<b>1,747</b>	<b>1,593</b>	<b>3,340</b>
<b>Saving deposits:</b>						
Pesos .....	(22)	168	146	134	(243)	(109)
UDIs .....	—	—	—	—	—	—
Foreign currency .....	(1)	25	24	—	—	—
<b>Subtotal .....</b>	<b>(23)</b>	<b>193</b>	<b>170</b>	<b>134</b>	<b>(243)</b>	<b>(109)</b>
<b>Time deposits:</b>						
Pesos .....	1,013	3,099	4,112	2,400	999	3,399
UDIs .....	15	(613)	(598)	153	1,142	1,295
Foreign currency .....	143	(35)	108	(23)	20	(3)
<b>Subtotal .....</b>	<b>1,171</b>	<b>2,451</b>	<b>3,622</b>	<b>2,530</b>	<b>2,161</b>	<b>4,691</b>
<b>Short-term borrowings:</b>						
Pesos .....	60	(361)	(301)	(640)	651	11
UDIs .....	—	—	—	—	—	—
Foreign currency .....	(3)	2	(1)	—	—	—
<b>Subtotal .....</b>	<b>57</b>	<b>(359)</b>	<b>(302)</b>	<b>(640)</b>	<b>651</b>	<b>11</b>
<b>Long-term debt:</b>						
Pesos .....	(153)	106	(47)	52	187	239
UDIs .....	—	—	—	—	—	—
Foreign currency .....	—	(12)	(12)	2	(14)	(12)
<b>Subtotal .....</b>	<b>(153)</b>	<b>94</b>	<b>(59)</b>	<b>54</b>	<b>173</b>	<b>227</b>
<b>Subordinated Notes:</b>						
Pesos .....	—	—	—	—	—	—
UDIs .....	—	—	—	—	—	—
Foreign currency .....	(158)	2,180	2,022	1,265	(543)	722
<b>Subtotal .....</b>	<b>(158)</b>	<b>2,180</b>	<b>2,022</b>	<b>1,265</b>	<b>(543)</b>	<b>722</b>
<b>Debtors from repurchase agreements:</b>						
Pesos .....	1,836	(1,967)	(131)	(2,691)	2,755	64
UDIs .....	(7)	1	(6)	22	—	22
Foreign currency .....	—	—	—	—	—	—
<b>Subtotal .....</b>	<b>1,829</b>	<b>(1,966)</b>	<b>(137)</b>	<b>(2,669)</b>	<b>2,755</b>	<b>86</b>
<b>Total interest-bearing liabilities:</b>						
Pesos .....	327	3,053	3,380	4,951	2,948	7,899
UDIs .....	(125)	(479)	(604)	702	615	1,317
Foreign currency .....	3,841	(1,238)	2,603	46	766	812
<b>Total .....</b>	<b>4,043</b>	<b>1,336</b>	<b>5,379</b>	<b>5,699</b>	<b>4,329</b>	<b>10,028</b>
<b>Total net change:</b>						
Pesos .....	1,919	9,191	11,110	12,773	(4,248)	8,525
UDIs .....	109	(65)	44	(434)	(412)	(846)
Foreign currency .....	(2,894)	(1,532)	(4,426)	(1,868)	4,190	2,322
<b>Total .....</b>	<b>(866)</b>	<b>7,594</b>	<b>6,728</b>	<b>10,471</b>	<b>(470)</b>	<b>10,001</b>

### *Interest-Earning Assets—Yield and Yield Spread*

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (which include loan origination fees and credit card fees) in net interest income has been included. For purposes of this presentation, as required under Mexican Banking GAAP, loan fees are recognized as interest income at the time the related loan is made.

	For the Year Ended December 31,		
	2019	2018	2017
	(millions of Ps., except percentages)		
<b>Total average earning assets:</b>			
Pesos .....	1,444,313	1,446,191	1,262,509
UDIs .....	24,752	23,797	18,209
Foreign currency .....	276,455	252,568	285,182
<b>Total .....</b>	<b>1,745,520</b>	<b>1,722,556</b>	<b>1,565,900</b>
<b>Historical not including loan fees:</b>			
Net interest income:			
Pesos .....	123,228	113,979	103,968
UDIs .....	(685)	(729)	121
Foreign currency .....	5,853	10,348	7,976
<b>Total .....</b>	<b>128,396</b>	<b>123,598</b>	<b>112,065</b>
Gross yield: <sup>(1)</sup>			
Pesos .....	12.36%	11.34%	11.57%
UDIs .....	3.23%	5.85%	5.08%
Foreign currency .....	5.88%	7.14%	5.21%
<b>Weighted-average rate .....</b>	<b>11.21%</b>	<b>10.65%</b>	<b>10.34%</b>
Net yield: <sup>(2)</sup>			
Pesos .....	8.53%	7.88%	8.24%
UDIs .....	(2.77)%	(3.06)%	0.66%
Foreign currency .....	2.12%	4.10%	2.80%
<b>Weighted-average rate .....</b>	<b>7.36%</b>	<b>7.18%</b>	<b>7.16%</b>
Yield spread: <sup>(3)</sup>			
Pesos .....	7.85%	7.11%	7.62%
UDIs .....	(2.48)%	(1.53)%	0.90%
Foreign currency .....	3.00%	3.62%	2.04%
<b>Weighted-average rate .....</b>	<b>7.04%</b>	<b>6.46%</b>	<b>6.51%</b>
<b>Historical including loan fees:</b>			
Net interest income:			
Pesos .....	125,089	113,979	105,451
UDIs .....	(685)	(729)	121
Foreign currency .....	5,922	10,348	8,025
<b>Total .....</b>	<b>130,326</b>	<b>123,598</b>	<b>113,597</b>
Gross yield: <sup>(1)</sup>			
Pesos .....	12.36%	11.34%	11.69%
UDIs .....	3.23%	5.85%	5.08%
Foreign currency .....	5.88%	7.14%	5.23%
<b>Weighted-average rate .....</b>	<b>11.21%</b>	<b>10.65%</b>	<b>10.43%</b>
Net yield: <sup>(2)</sup>			
Pesos .....	8.66%	7.88%	8.35%
UDIs .....	(2.77)%	(3.06)%	0.66%
Foreign currency .....	2.14%	4.10%	2.81%
<b>Weighted-average rate .....</b>	<b>7.47%</b>	<b>7.18%</b>	<b>7.25%</b>
Yield spread: <sup>(3)</sup>			
Pesos .....	7.85%	7.11%	7.74%
UDIs .....	(2.48)%	(1.53)%	0.90%
Foreign currency .....	3.00%	3.62%	2.06%
<b>Weighted-average rate .....</b>	<b>7.04%</b>	<b>6.46%</b>	<b>6.61%</b>

(1) Gross yield represents interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets.

(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

### ***Return on Average Total Assets and Average Stockholders' Equity***

The following table presents certain selected financial data and ratios for the periods indicated.

	For the Year Ended December 31,		
	2019	2018	2017
	(millions of Ps., except percentages)		
Net income .....	49,254	46,060	39,143
Average total assets .....	1,822,842	1,869,800	1,724,941
Average stockholders' equity .....	208,649	199,172	173,940
Return on average assets .....	2.70%	2.46%	2.27%
Return on average equity .....	23.61%	23.13%	22.50%
Average stockholders' equity as a percentage of average total assets .....	11.45%	10.65%	10.08%

### **Interest Rate Sensitivity of Assets and Liabilities**

#### ***Interest Rates***

*Banco de México's* regulations mandate that Mexican banks base their interest rates on loans with an amount of 5 million UDI or less on a fixed rate or a single reference rate published regularly by official sources and that the agreements for such loans specify the factor used to determine the interest rate and, if applicable, the minimum and maximum spread over the reference rate. Currently, we base the interest rates on most of our peso-denominated loans on the interbank equilibrium interest rate ("TIE") calculated by *Banco de México*.

In accordance with *Banco de México's* regulations, our policy with respect to foreign currency-denominated loans, which are principally in U.S. dollars, is generally to price such loans on the basis of LIBOR with repricing intervals of one, three or six months. Spreads over LIBOR are determined in accordance with our marginal cost of funding in currencies other than pesos. Interest on loans to Mexican borrowers paid to our Houston branch is subject to the withholding tax. The established rate is 4.9% for the year ended December 31, 2019, and future periods. The cost of this withholding tax is reflected in the determination of the overall cost of the loan to the customer. No withholding tax is applicable on loans to Mexican borrowers obtained from approved export credit agencies. Under *Banco de México's* regulations, an amount equivalent to a portion of our foreign currency-liabilities must be invested in low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." The cost associated with funding this reserve is also included in determining the cost to customers of foreign currency-denominated loans.

#### ***Interest Rate Sensitivity***

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A positive repricing gap normally means that an increase in interest rates would result in an increase in net interest income, while a decrease in interest rates would result in a decrease in net interest income.

Our interest rate sensitivity strategy takes into account, among other things, the rates of return and the underlying degree of risk, liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios (inapplicable to peso lending), withdrawal and maturity deposits, capital cost and additional demands for funds. We monitor our rate and maturity mismatches and positions, which are managed within established limits.

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2019. Fixed-rate instruments were classified in this table according to their final maturity and other instruments based on their interval of repricing.

As of December 31, 2019						
	0-30 days	31-90 days	91-180 days	181-365 days	Non-rate sensitive or over one year	Total
	(millions of Ps., except percentages)					
<b>Assets:</b>						
Variable-rate commercial loans.....	391,332	63,381	9,722	238	31,728	496,401
Consumer loans, mortgage loans and lease receivables .....	63,013	60,279	11,201	31,229	383,729	549,451
Fixed-rate commercial loans .....	12,823	11,148	10,707	7,375	155,573	197,626
<b>Total loans .....</b>	<b>467,168</b>	<b>134,808</b>	<b>31,630</b>	<b>38,842</b>	<b>571,030</b>	<b>1,243,478</b>
Securities .....	161,301	99,530	104,180	32,973	102,078	500,062
Debtors from repurchase agreements .....	—	—	—	—	—	—
Borrowed securities .....	—	—	—	—	—	—
Creditors from repurchase agreements .....	(218,617)	(742)	—	—	—	(219,359)
Reverse repurchase agreements.....	—	—	—	—	—	—
<b>Total interest-earning assets.....</b>	<b>409,852</b>	<b>233,596</b>	<b>135,810</b>	<b>71,815</b>	<b>673,108</b>	<b>1,524,181</b>
Equity securities.....	—	—	—	—	2,063	2,063
Cash, property and other non-interest earning assets .....	—	—	—	—	235,146	235,146
Less: Allowance for loan losses .....	(35,411)	—	—	—	—	(35,411)
<b>Total assets .....</b>	<b>374,441</b>	<b>233,596</b>	<b>135,810</b>	<b>71,815</b>	<b>910,317</b>	<b>1,725,979</b>
<b>Liabilities and stockholders' equity:</b>						
Notes sold through intermediaries.....	17,762	—	—	—	51	17,813
Notes sold through branches .....	758	308	26	570	234,595	236,257
Demand deposits.....	563,776	—	—	51,433	307,982	923,191
<b>Total deposits .....</b>	<b>582,296</b>	<b>308</b>	<b>26</b>	<b>52,003</b>	<b>542,628</b>	<b>1,177,261</b>
Short-term debt.....	2,027	—	14	5	4,994	7,040
Long-term debt .....	33,946	4,030	1,661	9,089	41,633	90,359
Subordinated debt.....	—	—	19,911	—	75,150	95,061
Other liabilities .....	—	—	—	—	120,285	120,285
Stockholders' equity .....	—	—	—	—	214,865	214,865
<b>Total liabilities and stockholders' equity.....</b>	<b>618,269</b>	<b>4,338</b>	<b>21,612</b>	<b>61,097</b>	<b>999,555</b>	<b>1,704,871</b>
Interest rate sensitivity gap.....	(272,678)	229,258	114,198	10,718	(89,238)	(7,742)
Cumulative interest rate sensitivity gap.....	(272,678)	(43,420)	70,778	81,496	(7,742)	
Cumulative gap as percentage of total interest-earning assets.....	(18.24)%	(2.90)%	4.73%	5.45%	(0.52)%	

As of December 31, 2019, interest-earning assets totaled Ps.1,495,331 million. Of these assets, 25.48% repriced every thirty days or less and were comprised of the following: 58.23% of commercial loans, 11.47% of consumer and mortgage loans, 32.26% of investment securities and derivatives (excluding equity investments) and 0% of credits from repurchase agreements. The interest rates for 6.35% of interest-earning assets, comprising mostly commercial loans, are reset periodically every 31 to 180 days.

Non-interest rate sensitive assets and assets that are not repriced within a period of 365 days include, among others, cash, real and personal property and equity investments. Investments in the foregoing assets amounted to Ps.874,906 million as of December 31, 2019, which represented 51.55% of total assets.

Of our total liabilities as of December 31, 2019, 79.01% consisted of deposits, totaling Ps.1,177,261 million, of which 49.46% reprice every 30 days or less, and 0.03% every 31 to 180 days. The remaining 20.99% of our liabilities totaled Ps.312,745 million as of December 31, 2019 and consisted of Ps.7,040 million of short-term borrowings, Ps.185,420 million of long-term debt, subordinated debt, funding from the *Fondo de Operación y Fomento Bancario de la Vivienda*, the Mexican government's fund for low-income housing assistance, and Ps.120,285 million of other liabilities. Of our total liabilities, as of December 31, 2019, 11.50% reprice every 30 days or less, 8.19% every 31 to 180 days, 2.91% every 181-365 days, and the remaining 77.40% reprice at periods exceeding a year.

### Interest-Bearing Deposits with Other Banks

*Banco de México's* regulations require us to maintain a minimum liquidity coefficient of certain foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities." Accordingly, a substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

*Banco de México* requires that we hold open positions in foreign currency (short or long) no greater than a specified level with respect to our total Tier 1 Capital. As of December 31, 2019, the limit established for foreign



currency-denominated liabilities was U.S.\$18,581 million. On the same date, our position in foreign currency-denominated liabilities was U.S.\$8,824 million, below the limit imposed by *Banco de México*.

Our foreign exchange risk management involves a very close monitoring of exposure to foreign currencies, to neutralize the effect of the currency exchange in our income, as well as perform daily estimates and projections for liquidity in foreign currency, to ensure regulatory compliance, and monitor the Bank's internal guidelines on liquidity.

## Securities

As of December 31, 2019, we held securities in the amount of Ps.462,301 million, representing 21.70% of our total assets as of that date. The following table presents our portfolio of securities at the dates indicated, including securities under repurchase and resale agreements.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
<b>Peso-denominated:</b>			
Mexican government securities:			
Cetes (federal treasury securities) .....	39,659	63,603	3,553
Special Cetes (federal treasury securities).....	17,107	15,809	14,664
Bonds (federal government development bonds).....	63,757	2,535	15,105
BPAs (floating rate bonds issued by IPAB) .....	96,887	85,530	134,056
<i>Bono Tasa Fija</i> (fixed-rate bond).....	150,970	156,012	173,847
BREMs (monetary regulation bonds).....	—	—	—
<b>Total Mexican government securities</b> .....	<b>368,380</b>	<b>323,489</b>	<b>341,225</b>
Non-government securities:			
Bank bonds and certificates .....	9,942	12,569	17,040
Commercial paper .....	626	—	139
Other fixed-income securities .....	71	—	—
<b>Total non-government securities</b> .....	<b>10,639</b>	<b>12,569</b>	<b>17,179</b>
Equity securities:			
Listed .....	6,443	888	4,899
Unlisted.....	—	—	—
Investment in subsidiaries .....	66	65	67
Investment in affiliated companies.....	749	469	1,168
Constancia Bursatilizada Invox.....	—	—	—
<b>Total Equity Securities</b> .....	<b>7,258</b>	<b>1,422</b>	<b>6,134</b>
<b>Total peso-denominated</b> .....	<b>386,277</b>	<b>337,480</b>	<b>364,538</b>
<b>UDI-denominated:</b>			
Udibonos (Federal government development bonds)	25,282	20,785	14,100
Promissory notes issued for highway program.....	16,845	15,027	7,876
CBICs .....	—	—	—
Bank bonds and certificates .....	1,838	1,383	1,631
<b>Total UDI-denominated</b> .....	<b>43,965</b>	<b>37,195</b>	<b>23,607</b>
<b>Foreign currency-denominated:</b>			
Government securities:			
Mexican government securities issued abroad .....	22,804	30,337	25,201
U.S. Treasury securities .....	1,503	1,421	1,329
Government securities from other countries .....	—	—	—
<b>Total government securities</b> .....	<b>24,307</b>	<b>31,758</b>	<b>26,530</b>
Euronotes .....	6,370	—	10,632
Investment trusts .....	—	—	—
Commercial paper .....	—	—	—
Other fixed-income securities .....	—	—	—
Equity securities (listed):			
Listed .....	1,382	3,156	5,176
Unlisted.....	—	—	—
Investment in subsidiaries.....	—	—	—
Investment in affiliated companies.....	—	—	—

	As of December 31,		
	2019	2018	2017
		(millions of Ps.)	
Total foreign currency-denominated .....	32,059	34,914	42,338
Total securities .....	462,301	409,589	430,483

## Securities – Maturities and Average Yields

The following table analyzes by currency, as of December 31, 2019, remaining maturities and weighted-average yields of securities held by us that have a specific date of maturity without the mark-to-market effect on securities.

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
(millions of Ps., except percentages)																	
<b>Peso-denominated:</b>																	
Mexican government securities:																	
Cetes (federal treasury securities).....	5,050	7.29%	30,417	7.28%	5,889	7.22%	—	—	—	—	—	—	—	—	—	—	41,356
Special Cetes (federal treasury securities) .....	—	—	—	—	—	—	—	—	15,693	7.93%	—	—	—	—	1,308	7.92%	17,001
Bondes (federal government development bonds).....	33	7.31%	13,939	6.69%	2,310	7.33%	9,353	6.85%	2,742	7.48%	1,002	7.21%	28,923	6.86%	5,475	7.44%	63,777
BPAs (floating rate bonds issued by IPAB) .....	15	7.33%	3	7.30%	59	7.30%	42,941	7.25%	34,869	7.25%	604	7.39%	7,861	7.39%	9,932	7.32%	96,284
Bono Tasa Fija (fixed-rate bond) .....	—	—	51,867	6.66%	(1,874)	—	29,238	6.70%	867	6.66%	2,000	6.77%	17,054	6.74%	47,887	7.08%	147,039
BREMs (monetary regulation bonds) .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total Mexican government securities .....</b>	<b>5,098</b>	<b>7.29%</b>	<b>96,226</b>	<b>6.86%</b>	<b>6,384</b>	<b>9.38%</b>	<b>81,532</b>	<b>7.01%</b>	<b>54,171</b>	<b>7.45%</b>	<b>3,606</b>	<b>7.00%</b>	<b>53,838</b>	<b>6.90%</b>	<b>64,602</b>	<b>7.16%</b>	<b>365,457</b>
Non-government securities:																	
Bank bonds and certificates.....	1,482	7.93%	101	7.87%	1,115	7.85%	1,294	8.56%	2,187	7.56%	1,109	7.97%	978	8.28%	5,699	8.37%	13,965
Commercial paper.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other fixed-income securities .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total peso-denominated .....</b>	<b>6,580</b>	<b>7.43%</b>	<b>96,327</b>	<b>6.86%</b>	<b>7,499</b>	<b>9.15%</b>	<b>82,826</b>	<b>7.03%</b>	<b>56,358</b>	<b>7.45%</b>	<b>4,715</b>	<b>7.23%</b>	<b>54,816</b>	<b>6.92%</b>	<b>70,301</b>	<b>7.26%</b>	<b>379,422</b>
<b>UDI-denominated:</b>																	
Udibonos (federal government development bonds).....	—	—	—	6.35%	22,664	3.51%	—	—	404	3.63%	—	—	—	—	2,236	3.51%	25,304
Promissory Notes issued for highway program .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
CBICs.....	—	—	—	—	—	—	4,241	2.24%	—	—	—	—	—	—	11,767	3.10%	16,008
Banks bonds and certificates .....	539	4.88%	—	—	—	—	—	—	—	—	—	—	—	—	1,299	4.81%	1,838
<b>Total UDI-denominated .....</b>	<b>539</b>	<b>4.88%</b>	<b>—</b>	<b>—</b>	<b>22,664</b>	<b>3.51%</b>	<b>4,241</b>	<b>2.24%</b>	<b>404</b>	<b>3.63%</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>15,302</b>	<b>3.31%</b>	<b>43,150</b>
<b>Foreign currency-denominated:</b>																	
Government securities:																	
Mexican government securities issued abroad.....	425	5.00%	—	—	39	2.65%	2,772	3.70%	478	4.76%	8,698	2.75%	5,803	3.42%	7,247	4.34%	25,462
U.S. Treasury securities .....	—	—	1,217	1.61%	—	—	189	1.75%	94	1.63%	—	—	—	—	—	—	1,500
Commercial paper.....	—	—	—	—	204	3.90%	—	—	1,069	4.64%	—	—	509	4.88%	743	7.26%	2,525
Government securities from other countries .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total Government securities .....</b>	<b>425</b>	<b>11.19%</b>	<b>1,217</b>	<b>1.61%</b>	<b>243</b>	<b>3.70%</b>	<b>2,961</b>	<b>3.58%</b>	<b>1,641</b>	<b>4.50%</b>	<b>8,698</b>	<b>2.75%</b>	<b>6,312</b>	<b>3.54%</b>	<b>7,990</b>	<b>4.61%</b>	<b>29,487</b>
Euronotes .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Investment trusts .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Commercial paper.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other fixed-income securities.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total foreign currency-denominated.....</b>	<b>425</b>	<b>11.19%</b>	<b>1,217</b>	<b>1.61%</b>	<b>243</b>	<b>3.70%</b>	<b>2,961</b>	<b>3.58%</b>	<b>1,641</b>	<b>4.50%</b>	<b>8,698</b>	<b>2.75%</b>	<b>6,312</b>	<b>3.54%</b>	<b>7,990</b>	<b>4.61%</b>	<b>28,487</b>
<b>Total securities (excluding equity securities) .....</b>	<b>7,544</b>	<b>7.46%</b>	<b>97,544</b>	<b>6.80%</b>	<b>30,406</b>	<b>4.90%</b>	<b>90,028</b>	<b>6.69%</b>	<b>58,403</b>	<b>7.34%</b>	<b>13,413</b>	<b>4.32%</b>	<b>61,128</b>	<b>6.57%</b>	<b>93,593</b>	<b>6.39%</b>	<b>452,059</b>

## Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of total current and total past due loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms “total loans” and “total loan portfolio” include total current loans plus total past due loans. The terms “net total loans” and “net total loan portfolio” refer to net total current loans plus net past due loans.

As of December 31, 2019, our loan portfolio amounted to Ps.1,243,478 million, an increase of 6.86% as compared to December 31, 2018. This increase was a result of a 4.13% increase in commercial and corporate loans, which was due to increased activity in small and medium-sized companies and micro-businesses, a 11.18% increase in mortgage loans and a 10.05% increase in credit cards and other consumer loans.

### Loans by Type and by Borrower

The following table illustrates our loan portfolio by loan type. Total loans reflect the sum of the total current loan portfolio and the total past due loan portfolio. For a breakdown of past due loans by loan type, see “—Past Due Loan Portfolio” below as well as Note 9 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
<b>Current loans:<sup>(1)</sup></b>			
<b>Commercial and corporate loans:<sup>(2)</sup></b>			
Secured or guaranteed by:			
Real estate <sup>(3)</sup> .....	13,157	10,080	9,055
Fixed assets .....	1,904	1,558	1,355
Inventory .....	3,314	3,215	3,236
Other <sup>(4)</sup> .....	1,434	2,359	22,349
<b>Subtotal .....</b>	<b>19,809</b>	<b>17,212</b>	<b>35,995</b>
<b>Unsecured:</b>			
Term loans .....	45,957	32,621	36,720
Revolving credits .....	585,595	575,306	495,243
Original issue discounts .....	24,033	24,338	26,871
<b>Subtotal .....</b>	<b>655,585</b>	<b>632,265</b>	<b>558,834</b>
<b>Total commercial and corporate loans .....</b>	<b>675,394</b>	<b>649,477</b>	<b>594,829</b>
	97.1%	97.3%	93.9%
<b>Consumer loans:</b>			
Residential mortgage .....	230,549	207,987	193,190
Credit card .....	111,274	105,761	104,050
Other consumer credits .....	185,524	164,311	150,748
<b>Total consumer loans .....</b>	<b>527,347</b>	<b>478,059</b>	<b>447,988</b>
Leasing credit .....	6,503	6,390	6,118
<b>Total current loans .....</b>	<b>1,209,244</b>	<b>1,133,926</b>	<b>1,048,935</b>
<b>Total past due loans .....</b>	<b>26,322</b>	<b>22,346</b>	<b>21,872</b>
<b>Total loans .....</b>	<b>1,235,566</b>	<b>1,156,272</b>	<b>1,070,807</b>
FOBAPROA and IPAB notes .....	—	—	—
<b>Total loans and FOBAPROA and IPAB notes .....</b>	<b>1,235,566</b>	<b>1,156,272</b>	<b>1,070,807</b>

(1) The loan amounts set out in the above table do not include accrued interest (except in respect of the FOBAPROA and IPAB notes).

(2) Includes loans to government entities and financial entities.

(3) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.

(4) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant, equipment otherwise not included above) and loans guaranteed by third parties.

### Loans by Currency

Foreign currency-denominated loans increased as a percentage of the total loan portfolio from 14.71% as of December 31, 2018 to 13.51% as of December 31, 2019. Foreign currency-denominated loans totaled

Ps.166,981 million as of December 31, 2019, a decrease of 1.86% from Ps.170,143 million as of December 31, 2018, each as measured in constant pesos as of such date.

The following table presents the peso- and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in pesos in accordance with the methodology described in the introduction to the table under “— Average Balance Sheet and Interest Rate Data” above.

	As of December 31,					
	2019		2018		2017	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
Total loans excluding FOBAPROA						
Peso-denominated loans.....	1,068,585	86.49%	986,129	85.29%	905,921	84.60%
Foreign currency-denominated loans .....	166,981	13.51%	170,143	14.71%	164,887	15.40%
<b>Total loans.....</b>	<b>1,235,566</b>	<b>100.00%</b>	<b>1,156,272</b>	<b>100.00%</b>	<b>1,070,808</b>	<b>100.00%</b>
	(8.16)%		(4.44)%		1.41%	
FOBAPROA and IPAB notes <sup>(1)</sup> .....	—		—		—	
<b>Total loans and FOBAPROA and IPAB notes<sup>(2)</sup>.....</b>	<b>1,235,566</b>		<b>1,156,272</b>		<b>1,070,807</b>	

(1) FOBAPROA and IPAB notes are substantially peso-denominated.

(2) The loans amount set out in the above table do not include accrued interest (except with respect to the FOBAPROA and IPAB notes).

### Loans to the Public and Private Sectors

As of December 31, 2019, our loans to the public sector totaled Ps.141,974 million, accounting for 11.49% of our total loan portfolio. As of December 31, 2018, our loans to the public sector amounted to Ps.127,084 million, accounting for 10.99% of our total loan portfolio.

Loans to individuals are comprised of loans to sole business owners, residential mortgage loans, credit card loans and other consumer loans. As of December 31, 2019, loans to individuals totaled Ps.544,442 million, representing 44.06% of our total loan portfolio, a 10.53% increase from our total in 2018. This increase in loans to individuals as of December 31, 2019, compared to December 31, 2018, was primarily the result of greater loan origination.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors.

	As of December 31,					
	2019		2018		2017	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
Public sector <sup>(1)</sup> .....	141,974	11.49%	127,084	10.99%	121,780	11.37%
Private sector:						
Businesses.....	540,888	43.78%	526,575	45.54	475,402	44.40
Individuals <sup>(2)</sup> .....	544,442	44.06%	492,553	42.60	463,849	43.32
Other private sector <sup>(3)</sup> .....	8,262	0.67%	10,060	0.87	9,776	0.91
<b>Total private sector loans .....</b>	<b>1,093,592</b>	<b>88.51%</b>	<b>1,029,188</b>	<b>89.01%</b>	<b>949,027</b>	<b>88.63%</b>
<b>Total loans .....</b>	<b>1,235,566</b>	<b>100.00%</b>	<b>1,156,272</b>	<b>100.00%</b>	<b>1,070,807</b>	<b>100.00%</b>
FOBAPROA and IPAB notes .....	—		—		—	
<b>Total loans and FOBAPROA and IPAB notes .....</b>	<b>1,235,566</b>		<b>1,156,272</b>		<b>1,070,807</b>	

(1) Includes loans supported by the full faith and credit of the federal government of Mexico.

(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.

(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

### ***Current Commercial Loans***

As of December 31, 2019, current commercial and corporate loans totaled Ps.675,394 million, reflecting an increase of 3.99% from December 31, 2018. This increase was attributable primarily to a 3.69% increase in the total balance of unsecured term loans by Ps.23,320 million.

As of December 31, 2018, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the federal government of Mexico) represented 19.9% of our total loans outstanding. The largest single loan exposure as of December 31, 2019 accounted for 121% of our paid-in capital. As of December 31, 2019, of our 25 largest outstanding loans, 24 loans were rated “A1” and one loan was rated “B1.” As of December 31, 2019, all 10 of our 10 largest outstanding loans, representing 14.2% of our total outstanding loans, were rated “A1.”

As of December 31, 2019, 98.0% of our bridge loan portfolio in the housing development segment, which is included in the commercial portfolio, was secured with collateral. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis process and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process. The additional risk from originating unsecured commercial loans is generally accounted for through larger spreads to cover possible losses. The fact that a loan is unsecured is among several factors considered when we grade the portfolio and, depending on the results of this grading, an appropriate allowance for loan losses is created.

### ***Current Consumer and Residential Mortgage Loans***

As of December 31, 2019, current consumer loans (including residential mortgage loans) totaled Ps.527,347 million, an increase of 10.31% from December 31, 2018. As of December 31, 2018, current consumer totaled Ps.478,059 million, an increase of 6.71% from December 31, 2017. The preferred lending products for this market segment have been first residential mortgage loans and other consumer credits.

Our current residential mortgage loan portfolio totaled Ps.230,549 million as of December 31, 2019, an increase of 10.85% from December 31, 2018. This increase was primarily attributable to an increase in loan origination by 24.36% in the year ended December 31, 2019. Our residential mortgage loan portfolio totaled Ps.207,987 million as of December 31, 2018, an increase of 7.66% from December 31, 2017.

Substantially all mortgage loans that we originate are recorded on our books, excluding certain mortgage loans granted under government programs for low-income housing.

As of December 31, 2019, our current credit card portfolio totaled Ps.111,274 million, an increase of 5.21% from December 31, 2018. As of December 31, 2018, our current credit card portfolio totaled Ps.105,761 million, an increase of 1.64% from December 31, 2017. The increase in our current credit card portfolio for each of these years was attributable to increased customer transactions.

Our robust risk analysis platform allows to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. Our support program also helps strengthen the credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of service and the loyalty of clients.

### ***Loans by Economic Activity***

In recent years, we have focused our lending activities towards those sectors of the Mexican economy that we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loan portfolio among a greater number of customers and within a larger geographic area in Mexico.

As of December 31, 2019 our mortgage loans totaled Ps.237,870 million, our credit card loans totaled Ps.115,525 million and our commercial loans totaled Ps.177,205 million. In the year ended December 31, 2019, we granted approximately 36,823 mortgages directly to individuals and approximately 20,056 mortgages to housing developers, an increase of 16.37% and a decrease of 10.38% respectively, each as compared to the year ended December 31, 2018.

During 2019, our loans to the commercial sector increased by 11.16% as compared to 2018. Our credit card loans increased by 5.07% as compared to 2018, reflecting an increase in the use of credit lines. Our loans to major economic sectors (social and community services and manufacturing) increased by 17.08% and loans to the services sector decreased by 5.14%, each as compared to 2018. The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity.

	As of December 31,					
	2019		2018		2017	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)					
<b>Economic Activity:</b> <sup>(1)</sup> .....						
Residential mortgages .....	237,870	19.25%	213,967	18.50%	199,609	18.64%
Social and community services <sup>(2)</sup> .....	194,089	15.71	163,029	14.10	134,659	12.58
Manufacturing .....	95,523	7.73	84,337	7.29	84,233	7.87
Construction and real estate development .....	28,004	2.27	26,394	2.28	27,180	2.54
Commercial <sup>(3)</sup> .....	177,205	14.34	159,415	13.79	169,503	15.83
Credit card .....	115,525	9.35	109,955	9.51	108,573	10.14
Services <sup>(4)</sup> .....	14,676	1.19	15,472	1.34	25,248	2.36
Energy and utilities .....	63,249	5.12	58,668	5.07	53,166	4.97
Other .....	309,425	25.04	325,035	28.11%	268,636	25.09
<b>Total loans</b> .....	<b>1,235,566</b>	<b>100.00%</b>	<b>1,156,272</b>	<b>100.00%</b>	<b>1,070,807</b>	<b>100.00%</b>
FOBAPROA and IPAB notes .....	—		—		—	
<b>Total loans and FOBAPROA and IPAB notes</b> <sup>(1)</sup> .....	<b>1,235,566</b>		<b>1,156,272</b>		<b>1,070,807</b>	

(1) The loan amounts set out in the above table do not include accrued interest amounts (except with respect to the FOBAPROA and IPAB notes).

(2) Includes loans to the public sector.

(3) Includes loans for commercial activities not directly related to manufacturing as well as loans related to tourism.

(4) Includes credit extended to financial institutions.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loan balances. Also, the Mexican economy has historically seen large increases in economic activity during the second half of the year, resulting in significant demand for working capital and inventory financing during the period from September through November and for consumer loans during November and December.

### ***Maturity Composition of the Commercial and Leasing Loan Portfolio***

The following table sets forth an analysis with reference to the time remaining to maturity of our current commercial and leasing loan portfolio as of the dates indicated.

	As of December 31,					
	2019		2018		2017	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except for percentages)					
Due within 1 year .....	175,130	25.68%	272,767	41.59%	71,396	11.88%
Between 1 and 5 year .....	244,560	35.86	217,614	33.18	283,196	47.12
Over 5 years .....	262,207	38.45	165,486	25.23	246,355	40.99
<b>Total</b> .....	<b>681,897</b>	<b>100.00%</b>	<b>655,867</b>	<b>100.00%</b>	<b>600,947</b>	<b>100.00%</b>

As of December 31, 2019, the total balance of our current commercial loans and leases was Ps.681.897 million. Of these loans, 25.68% were scheduled to mature within one year and were generally intended to cover the borrower's working capital requirements, the purchase of inventory or the financing of foreign commercial transactions.

Loans with maturities of more than one year were generally intended for the renovation of manufacturing plants and purchase of equipment, as well as the construction of factories.

### ***Interest Rate Sensitivity of Outstanding Loans***

The majority of our peso-denominated loans have rates that are reset at least every 28 days. All rates are determined either by reference to a marginal variable rate or the higher of several reference rates. We began using the TIIE as a reference rate following its establishment in 1995.

The following table sets forth our fixed-rate and variable rate current loan portfolio.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
Commercial and corporate loans:			
Fixed-rate .....	197,624	191,143	186,906
Variable rate <sup>(1)</sup> .....	493,437	472,471	420,216
<b>Total</b> .....	<b>691,061</b>	<b>663,614</b>	<b>607,122</b>
FOBAPROA and IPAB notes .....	—	—	—
<b>Total loans and FOBAPROA and IPAB notes<sup>(2)</sup></b> .....	<b>691,061</b>	<b>663,614</b>	<b>607,122</b>
<b>Total past due commercial loans</b> .....	<b>9,164</b>	<b>7,747</b>	<b>6,175</b>
Allowances for loan losses .....	(8,810)	(7,732)	(6,621)

(1) Includes loans that mature or reprice every 30 or fewer days, which we consider to be effectively variable rate loans.

(2) Loan amounts do not include accrued interest (except in respect of the FOBAPROA and IPAB notes).

### ***Past Due Loan Portfolio***

In assessing the performance of our loan portfolio, we review both the outstanding balance of our past due loan portfolio as well as the Loan Classification and Rating Rules.

The outstanding balance of past due loans is recorded as past due as follows:

- When there is evidence that the customer has been declared bankrupt.
- When payments have not been fully settled according to contractual terms, considering that:
  - Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.
  - Loans for which the principal is payable in a single installment with periodic interest payments are considered past due three months after the total of the principal and interest was due.
  - Loans for which the payment of principal and interest had been agreed to in scheduled payments are considered past due three months after the first installment is past due.
  - In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 or more calendar days following maturity.
  - Customer bank accounts showing overdrafts are reported as past due loans at the time the overdraft occurs.

Interest is recognized in income when accrued. The accrual of interest is suspended when loans become past due. Interest accrued during the period in which the loan was considered past due is not recognized as income until collected.

Furthermore, when a number of loans granted to the same borrower are consolidated into a single loan, the treatment applicable to the lowest rated loan involved in the restructuring or renewal is applied to the principal balance of the resulting loan.

Restructured overdue loans are not considered as current until there is evidence of sustained payment, which is considered to have occurred when the Bank has received full and timely payment of three consecutive monthly installments, or the payment of an installment in those cases where the installment covers periods in excess of 60 days and it is evidenced that the borrower is able to pay.



Non-performing loans which are restructured or renewed remain in our non-performing loan portfolio until there is evidence of sustained payment. We deem “sustained payment” to have occurred when the borrower makes required payments on a timely basis in the total amount of principal and interest then due for at least three consecutive scheduled amortization dates or, in the case of loans with amortization periods longer than 60 calendar days, the timely payment of one installment of principal. For loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or upon maturity, we deem a sustained payment to have occurred when any of the following occur:

- the borrower has repaid at least 20% of the original amount of the loan at the time of restructuring or renewal, or
- the accrued interest is paid according to the payment plan for restructuring or renewal corresponding to a 90-day term.

In addition, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the term of the loan are classified as non-performing until there is evidence of sustained payment. These non-performing loans include those for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, 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 for which interest is capitalized. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When interest on non-performing loans is collected, it is recognized directly in net interest income for the relevant period. With regards to ordinary uncollected accrued interest on loans that are classified as non-performing, an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to the non-performing portfolio is created.

Accrued interest recorded as past due and included in income becomes part of our total classifiable credit portfolio and is subject to the loan loss reserve requirements of the credit portfolio grading system described under “—Grading of Loan Portfolio” below. The amount of the loan loss allowance for possible credit risks is based upon the grade assigned to the underlying loan.

The past due loan portfolio may include credits that our management views as involving different levels of risk and that are accordingly graded for regulatory purposes in categories “A 1” to “E.” See “—Grading of Loan Portfolio.”

As of December 31, 2019, our total balance of past due loans was Ps.27,451 million, or 2.22% of total loans. Of this amount, Ps.1,132 million, or 4.12% of total past due loans, represented past due accrued interest. Total past due loans increased by Ps.4,180 million, or 18.00%, in the year ended December 31, 2019, as compared to 2018, as the total balance of past due consumer credit card loans decreased by Ps.57 million, or 1.36%, mainly due to a change in the write-off policy imposed by new regulations.

As of December 31, 2018, the total balance of our past due loans was Ps.23,271 million, or 2.01% of the balance of our total loans. Of this amount, Ps.925 million, or 3.97% of total past due loans, represented past due accrued interest. Total past due loans increased by Ps.526 million, or 2.31%, in the year ended December 31, 2018, compared to 2017, as the total balance of past due consumer credit card loans decreased by Ps.329 million, or 7.27%, mainly due to a change in the write-off policy imposed by new regulations.

The following table sets forth an analysis of past due loans by type of loan at the dates indicated.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
Past due loans:			
Commercial and corporate loans:			
Unsecured .....	5,508	6,493	5,582
Secured.....	3,573	1,241	564
Consumer loans:			
Residential mortgage.....	7,321	5,980	6,419
Credit card.....	4,251	4,194	4,523
Other consumer credits .....	5,586	4,425	4,756

	As of December 31,		
	2019	2018 (millions of Ps.)	2017
Leasing receivables .....	83	13	29
Past due interest.....	1,132	925	873
<b>Total past due loans .....</b>	<b>27,454</b>	<b>23,271</b>	<b>22,745</b>
Allowance for loan losses.....	(35,411)	(31,811)	(31,596)
<b>Total past due loan portfolio net of allowance for loan losses .....</b>	<b>(7,957)</b>	<b>(8,540)</b>	<b>(8,851)</b>

## Grading of Loan Portfolio

### *Business and Commercial Loans*

For the groups within the commercial loan portfolio classified as “Large Companies” (defined as companies with annual sales over U.S.\$50 million) and “Companies” (defined as companies with annual sales over Ps.60 million and below U.S.\$50 million), the CNBV approved, in official communications 121- 1/116843/2014 y 121-1/116844/2014, dated April 21, 2014, the Bank’s application of internal rating models to determine the allowance for loan losses under an advanced approach. The models are reviewed annually pursuant to the Regulation.

By means of official communications 121-1/118708/2016 and 121-1/118709/2016, dated February 5, 2016, the CNBV approved the re-estimation (calibration) of the internal models for the commercial loan portfolio groups of Large Companies and Companies.

As the Bank classifies the commercial credit loan portfolio into Large Companies and Companies, it uses an expected loss model for the next 12 months, based on the following variables:

- Probability of Default (“**PD**”), which is estimated based on scores of a rating model pursuant to a master scale calculated using the companies’ financial information; for a past due portfolio, this variable is assumed to be 100%;
- Loss Given Default (“**LGD**”), which is estimated through discounting the projected cash flows to be collected, adjusted based on any guarantees and the period of time during which the borrower has been non-compliant; and
- Exposure at Default (“**EAD**”), which is determined based on the amount of the loan’s drawn-down balance at the end of each month, *plus* a percentage on the undrawn balance of the loan.

### *Commercial Loans Other Than for Large Companies and Companies*

For rating the commercial portfolio, other than the portfolio corresponding to Large Companies and Companies, the Bank considers the PD, LGD and EAD factors, 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:

$R_i$  = The amount of the allowance for loan losses to be created for the loan.

$PD_i$  = The probability of default of the loan.

$LGD_i$  = The severity of the loss on the loan.

$EAD_i$  = The exposure to default on the loan.

The probability of default of each loan ( $PD_i$ ) is calculated according to the following formula:

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

For the purpose of the above, the total credit score of each borrower is obtained by applying the following formula:

$$Total\ Credit\ Score_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

*Quantitative Credit Score<sub>i</sub>* = the score obtained for the borrower when evaluating the risk factors according to the Regulation.

*Qualitative Credit Score<sub>i</sub>* = the score obtained for the borrower when evaluating the risk factors according to the Regulation.

$\alpha$  = the relative weight of the quantitative credit score.

### **Unsecured Loans**

The LGD<sub>i</sub> of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral, is:

- (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; and
- (c) 100% for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The EAD<sub>i</sub> is determined based on the following:

- (a) 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:

$$EAD_i = S_i$$

- (b) For other credit lines:

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

Where:

$S_i$  = The outstanding balance of the loan at the rate date (principal 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; *provided* that the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet of the Bank for loans classified within the past due loan portfolio.

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

Pursuant to Article 2 bis 73 of the *Circular Unico de Bancos* issued by the CNBV, the Bank may recognize the security interests in real property, personal or credit-derived collateral in the estimate of the LGD with the aim of decreasing the reserves derived from the portfolio classification. Acceptable collateral may be financial and non-financial. Likewise, collateral is recognized only if it complies with the requirements established by the CNBV in the Regulation.

### ***Portfolio of States and their Municipalities (Governments)***

For rating states and municipalities, the Bank determines the amount of the allowance for loan losses for each loan based on the PD, LGD and EAD factors, as follows:

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

Where:

$R_i$  = The amount of the allowance for loan losses to be created for the loan.

$PD_i$  = The probability of default of the loan.

$LGD_i$  = The severity of the loss of the loan.

$EAD_i$  = The exposure to default of the loan.

The  $PI_i$  is determined according to the following formula:

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

For such purpose, the total credit score of each borrower is calculated by applying the following formula:

$$Total\ Credit\ Score_i = \alpha \times (Quantitative\ Credit\ Score_i) + (1 - \alpha) \times (Qualitative\ Credit\ Score_i)$$

Where:

$Quantitative\ Credit\ Score_i = IA + IB + IC$

$Qualitative\ Credit\ Score_i = IIA + IIB$

$\alpha = 80\%$

$IA$  = The average days in arrears with banking institutions (“**IFB**”) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.

$IB$  = The number of rating agencies, which rate the State or Municipality.

$IC$  = The 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 capital market.

### ***Unsecured Loans***

The  $LGD_i$  of the loans granted to states, municipalities and public sector borrowers which are not covered by security interests in real property, or personal or credit-derived collateral is:

- (a) 45% for Preferred Positions; and

- (b) 100% for Subordinated Positions or for loans which are 18 months or more in arrears for the amount due and payable under the original terms of the loan.

The EAD<sub>i</sub> is determined based on the following formula:

$$EAD_i = S_i * \text{Max} \left\{ \left( \frac{S_i}{\text{Authorized credit line}} \right)^{-0.5754}, 100\% \right\}$$

Where:

$S_i$  = The outstanding balance of the loan at the classification date, (principal 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. The amount subject to the classification may not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within the past due portfolio.

*Authorized Credit Line*: The maximum authorized amount of the credit line at the classification date. The Bank 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, pursuant to the accounting criteria.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the CNBV are recognized.

The allowances for loan losses from the commercial loan portfolio created by the Bank as a result of the rating of each loan are classified in accordance with the following percentages:

<b><u>Risk Level</u></b>	<b><u>Percentage Ranges</u></b> <b><u>Loss Reserves</u></b>	
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%	

### ***Mortgage Loan Portfolio***

By means of official communication 121-1/1813/2018, dated November 16, 2018, the CNBV approved the Bank's application to apply the internal measurement models for the determination of the mortgage loan portfolio allowance for loan losses under an advanced approach. As of December 31, 2019, for rating the mortgage loan portfolio, the Bank used an expected loss model for the next 12 months based on the following variables:

- PD, which is 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, which is estimated through the discounted cash flow of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee, the product, and period of time of non-compliance by the borrower; and
- EAD, which is determined based on the amount of the drawn down loan balance at the end of each month.

The Bank's allowance for losses on mortgage loans is classified according to the following risk levels and percentages:

<u>Level of Risk</u>	<u>Allowance Percentage Range for Loan Losses</u>		
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%

Until November 30, 2018, the Bank determined the allowance for loan losses based on a methodology using the PD, LGD and EAD factors. The allowance for each loan was determined by applying the following formula:

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

Where:

$R_i$  = The amount of the allowance for loan losses to be created for the  $i$ th loan.

$PD_i$  = The probability of default of the loan.

$LGD_i$  = The severity of the loss on the loan.

$EAD_i$  = The exposure to default on the loan.

For rating the residential mortgage portfolio, the Bank used a loss model based on the following factors:

- PD, which was assumed to be 100% if a portfolio had four or more defaults. However, if the portfolio had fewer than four defaults, a different percentage was used, which was calculated based on risk coefficients with specific values reflecting the borrower's payment behavior variables within the Bank and other entities of the Mexican financial system. Separate considerations apply to loans in the mortgage loan portfolio that were used for housing remodeling or improvements and had guarantees.
- LGD, which was based on the loan recovery rate. For loans with delays equal to or greater than 60 days, the LGD was assumed to be 100%. However, for loans with delays of less than 60 days, a different percentage was calculated depending on cure coefficients with specific values reflecting variables such as unemployment insurance, the borrower's payment behavior and guarantees for the property. Separate considerations apply to loans in the mortgage loan portfolio that were used for housing remodeling or improvements and had guarantees.
- EAD, which corresponded to the principal and interest balance of each loan that was part of the mortgage loan portfolio.

The allowance for mortgage loans determined under the previously mentioned methodology as of December 31, 2019 was U.S.\$1,896 million.

### ***Non-Revolving Consumer Loan Portfolio***

The CNBV issued a resolution on January 6, 2017, regarding changes to the methodology applicable to non-revolving consumer loan portfolio. Starting July 1, 2017, the Bank determines reserves for the non-revolving consumer loan portfolio under the new methodology, which considers the PD, LGD and EAD factors, as described below.

The amount of the allowance for each loan is calculated using 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 for the loan.

$PD_i^x$  = The probability of default of the loan, which is classified as ABCD (B), automobile (A), payroll (N), personal (P) or other (O).

$LGD_i^x$  = The severity of the loss on the loan, which is classified as ABCD (B), automobile (A), payroll (N), personal (P) or other (O).

$EAD_i^x$  = The exposure to default of the loan.

$x$  = A super index that indicates the loan type and can be either ABCD (B), automobile (A), payroll (N), personal (P) or other (O).

For rating the non-revolving consumer loan portfolio, the Bank uses a loss model based on the following factors:

- PD, which is determined based on the loan type classification (B, A, N, P or O), depending on the delays, and reflects the risk coefficients for each loan type and the borrower's payment behavior variables within the Bank and other entities of the Mexican financial system;
- LGD, which is determined based on the loan type classification (B, A, N, P or O), depending on the delays, and reflects a percentage for the severity of the loss in the observed delays at the rating date; and
- EAD, which corresponds to the principal and interest balance of each non-revolving consumer loan upon the portfolio rating.

The allowance for consumer loan losses, which does not include credit card transactions, set up by the Bank as a result of the loan rating, is classified according to the following risk levels and percentages:

<u>Level of Risk</u>	<u>Allowance Percentage Range for Loan Losses</u>		
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%

### ***Consumer Credit Card Loan Portfolio***

The CNBV, through Document 111-1/69930/2009, dated June 22, 2009, approved the Bank's request to apply an internal rating model under an advanced approach for purposes of determining the allowance for credit card loan losses.

By means of official communication 121-1/775/2017, dated February 13, 2017, the CNBV approved the Bank's use of an internal rating system for revolving consumer loans that uses information through 2015 for the estimation of parameters. The Bank has applied this model since February 2017.

For rating the revolving consumer loan portfolio, the Bank uses an expected loss model for the next 12 months.

### ***Additional Reserves***

Until November 30, 2018, additional allowances for losses on mortgage loans set up by the Bank addressed the differences between the models established by the CNBV in the accounting criteria and the internal models that applied specific percentages for the PD and LGD variables, which were based on an expected loss model.

### ***Restructuring and Renewal Processes***

A restructuring process is a transaction derived from any of the following situations:

- (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 accounting 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 transactions 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), that are restructured or renewed prior to when at least 80% of the original credit period has lapsed 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 any of the conditions described in the preceding paragraph is not fulfilled, loans are classified as past due from their restructuring or renewal date until evidence of sustained payment is obtained. Current 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 current 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 any of the conditions described in the preceding paragraph are not fulfilled, loans are classified as past due from their restructuring or renewal date until evidence of sustained payment is obtained.

Loans with a single principal payment and the payment of interest periodically or at maturity and which are restructured prior to maturity or renewed at any time, are classified as part of the past due portfolio until evidence of sustained payment is obtained.



Loans which are initially classified as revolving and which are restructured or renewed prior to maturity only considered as current 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, and it can be established that it is highly likely that the borrower will settle the outstanding payment.

### ***Securitization with Transfer of Ownership***

When securitizing the mortgage loan portfolio with transfer of ownership, the Bank transfers the financial assets through a securitization vehicle (the "**Trust**"), enabling the Trust to issue securities, which represent the right to the returns or the proceeds generated from the securitized financial asset, through an intermediary for placement among small investors. As consideration, the Bank receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

On December 17, 2007, the CNBV authorized the Bank, through Document 153/1850110/2007, registered in the RNV of the Share Certificate Issuance Program, to issue up to U.S.\$20,000 or the equivalent in UDIs with an effective term of five years (computed as of the authorization date) on a revolving basis.

The Bank recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the CNBV that 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 Bank derecognized the securitized assets held by the Trusts, which were subsequently consolidated on the balance sheet of the Bank. Accordingly, these items are recorded as assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the CNBV, applicable as of that date.

The benefit valuation methodology applied to the securitized transaction residual as follows:

- The Bank 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 positions recorded by the Bank 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 Bank's constant historical prepayment rate computation, the mortality rate, credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Bank has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752 and 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 trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 12 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

	As of December 31,					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
	(millions of Ps., except for percentages)					
<b>Total graded loans:</b>						
A1 .....	985,252	74.78%	910,306	73.33%	826,507	72.27%
A2 .....	77,284	5.87	100,371	8.09	102,001	8.92
B1 .....	72,169	5.48	77,602	6.25	69,658	6.09
B2 .....	59,461	4.51	47,943	3.86	44,326	3.88
B3 .....	36,045	2.74	32,125	2.59	30,754	2.69
C1 .....	28,749	2.18	21,892	1.76	20,912	1.83
C2 .....	21,602	1.64	20,018	1.61	20,527	1.79
D .....	15,136	1.15	14,795	1.19	13,267	1.16
E .....	21,766	1.65	16,257	1.31%	15,704	1.37%
<b>Total .....</b>	<b>1,317,464</b>	<b>100.00%</b>	<b>1,241,309</b>	<b>100.00%</b>	<b>1,143,657</b>	<b>100.00%</b>
Allowances grading of our loans .....	34,396		30,839		29,478	
Charge-offs applied after the grading .....	—		—		—	
Past due interest .....	989		881		769	
Excess over minimum regulatory requirements .....	—		—		1,259	
Bank allowance .....	35,385		31,720		31,506	
Mercury Bank allowance .....	—		—		—	
Securitization Trust 881 allowance .....	26		33		27	
Bank Financial Holding allowance .....	—		—		—	
Financiera Ayudemos allowance .....	—		58		62	
<b>Total allowance for loan losses .....</b>	<b>35,411</b>		<b>31,811</b>		<b>31,596</b>	
<b>Allowance as a percentage of:</b>						
Graded loans .....		2.69%		2.56%		2.76%
<b>Total loans plus interest<sup>(1)</sup> .....</b>		<b>2.85</b>		<b>2.73</b>		<b>2.93</b>
<b>Total past due amount .....</b>	<b>128.98</b>		<b>136.70</b>		<b>138.91</b>	
<b>Total past due as a percentage of total loans plus interest<sup>(1)</sup> .....</b>		<b>2.21</b>		<b>2.00</b>		<b>2.11</b>
<b>Total net past due loans (past due amounts less allowances) as a percentage of net total loans plus interest<sup>(1)</sup> .....</b>		<b>(0.66)%</b>		<b>(0.75)%</b>		<b>(0.84)%</b>

(1) Interest includes past due and outstanding interest.

As of December 31, 2019, the aggregate outstanding principal amount of our 25 largest loans (excluding loan exposures to a single corporate group or to an agency of the Mexican government) represented 9.6% of the total balance of our loans outstanding, all of which are rated “A1.” As of December 31, 2019, our 10 largest loans, all of which were rated “A1,” made up 5.0% of the total balance of our loans.

## Allowance for Loan Losses

### General

We provide for possible loan losses in accordance with the regulations of the CNBV and are in compliance with regulatory loan loss allowance requirements. The grading of loans determines the amount of the allowance for loan losses required to be set aside. See “—Grading of Loan Portfolio” above. The amount reserved for loan losses is held in a separate account on our balance sheet and all charge-offs for uncollectible loans are made against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to charge off loans. In addition, Mexican banks are required to inform the CNBV after such charge-offs have been recorded. For a discussion of our charge-off policy, see “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Significant Differences Between Mexican Banking GAAP and IFRS.”

As of December 31, 2019, we recorded loan loss provisions charged against earnings totaling Ps.37,180 million. Our allowance for loan losses amounted to 128.98% of total past due loans as of December 31, 2019, as compared to 136.70% as of December 31, 2018. As of the date hereof, we believe that our current loan loss allowance is adequate for all known or knowable losses on our assets.

### Analysis of Allowance for Loan Losses

The following table analyzes our loan loss allowances and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses.

	For the Year Ended December 31,		
	2019	2018	2017
		(millions of Ps.)	
Balance at beginning of period.....	31,811	31,596	30,005
Increase:			
Provision charged against earnings .....	37,180	32,299	34,071
Recoveries <sup>(1)</sup> .....	—	265	—
Provisions charged against equity .....	7	151	1,341
Exchange rate revaluation .....	84	7	871
Inflation revaluation of the UDI program .....	4	1,278	(774)
<b>Subtotal</b> .....	<b>37,275</b>	<b>34,000</b>	<b>35,509</b>
Decrease:			
Exchange rate revaluation .....	123	161	97
Other charge-off.....	33,552	33,624	33,821
<b>Subtotal</b> .....	<b>33,675</b>	<b>33,785</b>	<b>33,918</b>
<b>Balance at the end of period</b> .....	<b>35,411</b>	<b>31,811</b>	<b>31,596</b>

- (1) We may continue our recovery efforts with respect to certain past due loans after the date on which such loans are formally written off. We do not generally maintain a threshold time limit in respect of past due loans, following the expiration of which such loans are automatically charged off.

### *Allocation of Allowance for Loan Losses by Category*

	As of December 31,					
	2019		2018		2017	
	Allowance	%	Allowance	%	Allowance	%
	(millions of Ps., except for percentages)					
Commercial, financial and agriculture .....	8,768	24.77%	7,712	24.25%	6,595	20.88%
Residential mortgages .....	3,927	11.08	3,220	10.12	2,443	7.73
Credit Card.....	9,599	27.11	9,846	30.96	10,437	33.04
Other consumer loans.....	12,086	34.13	10,132	31.85	10,064	31.85
Leases.....	42	0.11	20	0.06	26	0.08
Excess over minimum regulatory requirements.....	—	0.00	—	0.00	1,261	3.99
Past due interest .....	989	2.79%	881	2.76%	769	2.43%
<b>Total</b> .....	<b>35,411</b>	<b>100.00%</b>	<b>31,811</b>	<b>100.00%</b>	<b>31,595</b>	<b>100.00%</b>

### *Foreclosed Real Estate and Other Assets*

As of December 31, 2019, the book value of our foreclosed real estate and non-real estate assets, net of allowances, totaled Ps.1,438 million and Ps.0 million, respectively. As of December 31, 2018, the book value of our foreclosed real estate and non-real estate assets, net of allowance, totaled Ps.1,758 million and Ps.1 million, respectively. This decrease from December 31, 2018 to December 31, 2019 was mainly due to the sale of real estate properties from our housing developers, which totaled Ps.1,033 million, net of allowances.

Under CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the amount set at the auction. Real estate assets received by the bank in a negotiated settlement with the borrower must be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. In addition, although time limits to sell foreclosed real estate assets or real estate assets received by the bank in negotiated settlements have not been eliminated from the regulations, as a general practice such time limits have been waived by the CNBV in order to allow banks to sell such assets, subject to market conditions and liquidity requirements.

We operate a specialized unit that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of such properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at December 31, 2019, 2018 and 2017.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
Real estate			
Rural land.....	199	260	270
Urban land.....	1,273	1,349	1,464
Family houses .....	2,435	2,808	3,341
Condominium.....	438	424	356
Industrial plants.....	204	96	66
Commercial building.....	114	201	223
Other .....	42	51	176
<b>Subtotal real estate.....</b>	<b>4,705</b>	<b>5,189</b>	<b>5,896</b>
Allowance for real estate.....	(3,267)	(3,431)	(3,295)
<b>Total real estate, net.....</b>	<b>1,438</b>	<b>1,758</b>	<b>2,601</b>
Non-real estate .....	22	23	22
Allowance for non-real estate.....	(22)	(22)	(21)
<b>Total non-real estate .....</b>	<b>—</b>	<b>1</b>	<b>1</b>
Property type .....	4,727	5,212	5,918
Allowance .....	(3,289)	(3,453)	(3,316)
<b>Total .....</b>	<b>1,438</b>	<b>1,759</b>	<b>2,602</b>

### Other Restructuring Programs

We operate a central workout unit in Mexico City, as well as four smaller credit recovery units operating throughout Mexico. These units handle debt recovery for borrowers with loans in excess of Ps.2.0 million in past due principal. Recovery prospects are measured by reference to a scale of 1 through 8, with a loan ranked 1 deemed to have the best recovery prospect and a loan ranked 8 deemed to have the worst recovery prospect. The credit recovery units are automatically engaged in the recovery of past due loans ranked 6 or higher.

If a credit recovery unit is unable to reach an agreement with a borrower in respect of past due loan amounts and the borrower fails to propose terms for an alternative satisfactory restructuring agreement, the unit submits the loan to our litigation department for the initiation of an action to recover the loan. Foreclosure procedures on collateral in Mexico can take a long period of time. These procedures require the filing of a written petition with a Mexican court requesting the court's authorization to complete the foreclosure. This petition and its approval process are generally subject to significant delays. Accordingly, the value of the collateral may be impaired during the foreclosure process as a result of delays or other factors. As a result, there can be no assurance that the rate of past due loan recoveries will not decrease in the future. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation are charged-off.

### Short-Term Borrowings and Repurchase Agreements

The following table sets forth our short-term borrowings and securities sold under agreements to repurchase for the periods indicated.

	As of December 31,					
	2019		2018		2017	
	Amount	Rate	Amount	Rate	Amount	Rate
	(millions of Ps., except percentages)					
<b>Short-term borrowings:</b>						
At end of period .....	7,415	5.43%	39,500	1.76%	39,500	1.76%
Daily average indebtedness during period.....	6,496	6.20	5,741	12.09	10,767	6.45
Maximum month-end balance.....	7,415		46,915		46,915	
<b>Debtors from repurchase agreements:</b>						
At end of period .....	226,861	7.73	264,492	6.65	226,526	7.76
Daily average indebtedness during period.....	254,057	6.90	230,423	7.63	256,318	6.86
Maximum month-end balance.....	252,915		319,959		319,959	
<b>Total:</b>						
At end of period .....	234,276	7.66	303,992	6.01	266,026	6.87

	As of December 31,					
	2019		2018		2017	
	Amount	Rate	Amount	Rate	Amount	Rate
	(millions of Ps., except percentages)					
Daily average indebtedness during period.....	260,553	6.89%	236,164	7.74%	267,085	6.85%
Maximum month-end balance.....	<u>260,330</u>		<u>366,874</u>		<u>366,874</u>	

## Deposits

The following table presents the components of our deposit base for the periods indicated.

	As of December 31,		
	2019	2018	2017
	(millions of Ps.)		
<b>Interest-bearing demand deposits:</b>			
Peso-denominated .....	660,754	627,931	557,815
Foreign currency-denominated .....	98,707	97,722	115,727
Subtotal.....	<u>759,461</u>	<u>725,653</u>	<u>673,542</u>
<b>Non-interest-bearing demand deposits:</b>			
Peso-denominated .....	111,901	79,355	98,061
Foreign currency-denominated .....	50,991	58,947	63,271
Subtotal.....	<u>162,892</u>	<u>138,302</u>	<u>161,332</u>
<b>Saving deposits:</b>			
Peso-denominated .....	—	—	—
Foreign currency-denominated .....	117	244	(5)
Subtotal.....	<u>117</u>	<u>244</u>	<u>(5)</u>
<b>Time deposits:</b>			
Peso-denominated .....	299,097	292,749	274,172
Foreign currency-denominated .....	43,076	40,848	50,857
Subtotal.....	<u>342,173</u>	<u>333,597</u>	<u>325,029</u>
<b>Total.....</b>	<u><b>1,264,643</b></u>	<u><b>1,197,796</b></u>	<u><b>1,159,898</b></u>

## THE TEXAS AGENCY

### General

On June 2, 2003, the Texas Agency was issued a license by the commissioner of the Texas Department of Banking under the Texas Finance Code (the “**Commissioner**”). Through the Texas Agency, we are a foreign bank licensed to transact business in the State of Texas under the Texas Finance Code. The Texas Agency’s registered office is located at 5075 Westheimer Road, Suite 1260W, Houston, Texas, United States of America; the Texas Agency’s telephone number is 713-341-8200; and the Texas Agency’s charter number is 5030-03.

A licensed foreign bank agency in the State of Texas has the powers outlined in the Texas Finance Code, including, but not limited to, the power to (i) borrow and lend money with or without property as security and (ii) buy or acquire and sell or dispose of a bill of exchange, draft, note, acceptance or other obligation for the payment of money. The Texas Agency may not accept deposits from citizens or residents of the United States, other than credit balances that are incidental to or arise out of the exercise of other lawful banking powers, but may accept deposits from persons who are neither citizens nor residents of the United States.

### Activities

The Texas Agency is not an entity separate and distinct from BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. The Texas Agency is required to keep the assets of our business in the State of Texas, including the assets of the Texas Agency, separate and apart from the assets of our business outside of the State of Texas. Our depositors and creditors arising out of transactions with, and recorded on the books of, the Texas Agency are entitled to absolute preference and priority over the depositors and creditors of our offices located outside of the State of Texas with respect to our assets located in the State of Texas. The majority of transactions of the Texas Agency are performed under our direction and involve issuing debt on our behalf, booking loans originated at our home office and accepting deposits from non-United States corporations, government agencies, or persons who reside, are domiciled, and maintain their principal place of business in a foreign country.

### Regulation of the Texas Agency

Under Mexican law, the Texas Agency’s obligations are our obligations. The Texas Agency is subject to regulations issued by the CNBV and *Banco de México*, including liquidity requirements as well as applicable regulations issued by the Texas Department of Banking and the Federal Reserve Board. See “Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.”

The Texas Agency is examined by the Texas Department of Banking and is generally subject to all of the laws of the State of Texas that are applicable to a Texas state bank. The Texas Agency is required to keep on deposit with unaffiliated banks in the State of Texas certain money and securities pledged to the Commissioner, and such required amount is subject to the conditions and limitations the Commissioner considers necessary or desirable for the maintenance of a sound financial condition, the protection of the creditors and depositors of the Texas Agency’s business in the State of Texas, the public interest in the State of Texas, and the support of public confidence in the business of the Texas Agency. At this time, the Commissioner has not imposed upon the Texas Agency any requirement to maintain a specific ratio of assets to liabilities appearing on the books, accounts and records of the Texas Agency or liquidity requirements. However, the Commissioner has the discretion to impose such requirements as may be necessary or desirable to reflect differences among Texas agencies because of (i) the financial condition of the Texas agency offices of the foreign bank, (ii) the financial condition of the branch or agency offices of the foreign bank located in other states, (iii) the general economic conditions prevalent in the home country of the foreign bank, or (iv) the financial condition of the foreign bank itself, including the financial condition of branches or agencies in other countries, the financial condition of its affiliated bank and non-bank subsidiaries in the United States and the financial condition of the foreign bank on a worldwide consolidated basis or in its home country.

The Texas Agency is required to disclose that deposits and credit balances in the Texas Agency’s offices are not insured by the Federal Deposit Insurance Corporation.

The Texas Finance Code authorizes the Commissioner to take enforcement actions to revoke the license of a foreign bank agency or to seize the assets that are located in Texas of a non-United States bank for a variety of offenses, including but not limited to, if the Commissioner by examination or other credible evidence finds that the foreign bank (i) has refused to permit the Commissioner to examine its books, papers, accounts, records or affairs, (ii) has failed to

make a report required or made a material false or misleading statement in the report, (iii) has misrepresented or concealed a material fact in the original application for license, or (iv) conducts business in an unsafe and unsound manner. If the Commissioner finds that certain conditions have been met, including consideration of the foregoing factors and others established by statute, and that it is necessary for the protection of the interests of creditors of the foreign bank's business in the State of Texas or for the protection of the public interest, the Commissioner may initiate a variety of enforcement measures, including, without limitation, the following: (i) the Commissioner may issue, without notice and hearing, an order suspending or revoking the license of the foreign bank for a period of up to ninety (90) days, pending investigation or hearing, or (ii) the Commissioner may by order immediately take possession of the property and business of the foreign bank in the state of Texas and as soon as practicable thereafter initiate a receivership proceeding to liquidate the property and business of the foreign bank in the State of Texas, under circumstances and using procedures similar to those used to liquidate a Texas state bank, except that the depositors and creditors of a Texas agency, arising out of transactions with and recorded on the books of a Texas agency, would have an absolute preference and priority over the creditors of the foreign bank located outside of the State of Texas. Upon issuing a final order revoking the license of a foreign bank, such foreign bank must immediately cease all activity in the State of Texas requiring a license. After the Commissioner (or other receiver) completes the liquidation of the property and business of the foreign bank in the State of Texas, the Commissioner is required to transfer any remaining assets to the foreign bank or to the liquidators of the foreign bank's offices in other states if such proceedings were pending in other states in accordance with the applicable court order.

In addition to being subject to Texas banking laws and regulations, the Texas Agency is also subject to federal regulation primarily but not limited to the International Banking Act of 1978, as amended (the "**IBA**"), and the amendments to the IBA made pursuant to the Foreign Bank Supervision Enhancement Act of 1991 ("**FBSEA**"), and to examination by the Board of Governors of the Federal Reserve Board. Under the IBA, as amended by FBSEA, all United States branches and agencies of foreign banks, such as the Texas Agency, are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by United States bank holding companies.

Among other things, FBSEA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally licensed branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. A state branch or agency must also comply with the same single borrower lending limits applicable to national banks. These limits are based on the capital of the entire foreign bank. In addition, FBSEA authorizes the Federal Reserve Board to halt the activities of a United States branch or agency of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country or there is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in unsafe banking practice in the United States, and as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the banking laws.

## THE BANK

### Overview

We are a limited liability company (*sociedad anónima*) authorized to operate as a multi-purpose bank, offering our services to 21.5 million clients. As of December 31, 2019, we had total assets of Ps.2,130,588 million, total deposits of Ps.1,267,620 million and stockholders' equity of Ps.214,866 million. For the year ended December 31, 2019, our net income was Ps.49,254 million. As of December 31, 2019, based on total assets, loans and deposits, we were the largest bank in Mexico according to data from the CNBV.

We are the principal subsidiary of GFBB, which is authorized under Mexican law to operate as a subsidiary financial group of BBVA. BBVA, a leading Spanish bank and the controlling entity of a global financial group, controls, and owns the majority of the capital stock of, GFBB. As of December 31, 2019, the Bank accounted for 90.2% of GFBB's total assets and 86.4% of GFBB's net income for the year then ended.

We are principally focused on distributing our banking products and services efficiently. As of December 31, 2019, we distributed products and services in Mexico through a nationwide network of 1,860 branches, as well as an agency located in Houston, Texas. At that same date, we operated 13,170 ATMs and 463,644 POS terminals, and we offered a wide range of products and services through mobile phone apps and internet banking. As of December 31, 2019, channels other than a teller window were used in approximately 88% of our banking transactions (excluding those completed at POS terminals). We are present in all 32 Mexican states.

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's GDP, which grew by 1.3% from 2017 to 2019 according to data from *Banco de México*. From 2017 to 2019, the compounded annual growth rate for our total current loan portfolio and for our total deposits (including demand and time deposits) was 7.3% and 3.9%, respectively, while our asset quality remained stable. Our current loan portfolio balance grew by 6.6% in the year ended December 31, 2019, by 7.9% in 2018 and by 5.7% in 2017, in each case, compared to the previous year. Total past due loans as a percentage of total loans was 2.2% at December 31, 2019, 2.0% at December 31, 2018 and 2.1% at December 31, 2017.

As of December 31, 2019, the total balance of our current commercial loan portfolio, which includes loans to companies as well as financial and governmental entities, represented 56% of our total current loan portfolio, while the total balance of our consumer loan portfolio represented 25% of our total current loan portfolio balance and our mortgage loan portfolio balance represented the remaining 19%.

Our net income increased by 6.9% in the year ended December 31, 2019, by 17.7% in 2018 and by 17.5% in 2017, each as compared to the previous year.

We are continuously focused on evolving and improving the customer experience and expanding our range of products and services offered both through traditional and digital channels. One of the main elements of the Bank's business model is customer segmentation, enabling it to tailor its services to each customer segment. To approach the different customer segments, the Bank operates through the following business units:

- **Retail Network:** Caters to all retail segments through an extensive branch network. This business unit focuses on providing banking and insurance services to retail customers and to small businesses.
- **Government and Business Banking:** Focuses on providing banking services to medium-sized companies, government entities, housing developers and distributors in the automobile market.
- **Corporate and Investment Banking:** Focuses on providing banking services to institutional and large corporate investors, including global customers, offering them a wide range of investment products. Recently the activities of this unit consolidated with our global markets unit, which, together with our affiliate brokerage firm, offer sophisticated products to individuals and enterprises.

The business units are supported by staff units, which contribute to the consistent performance of our business, and offer an integrated management structure that promotes the creation of synergies aimed to achieve our continued growth goals.



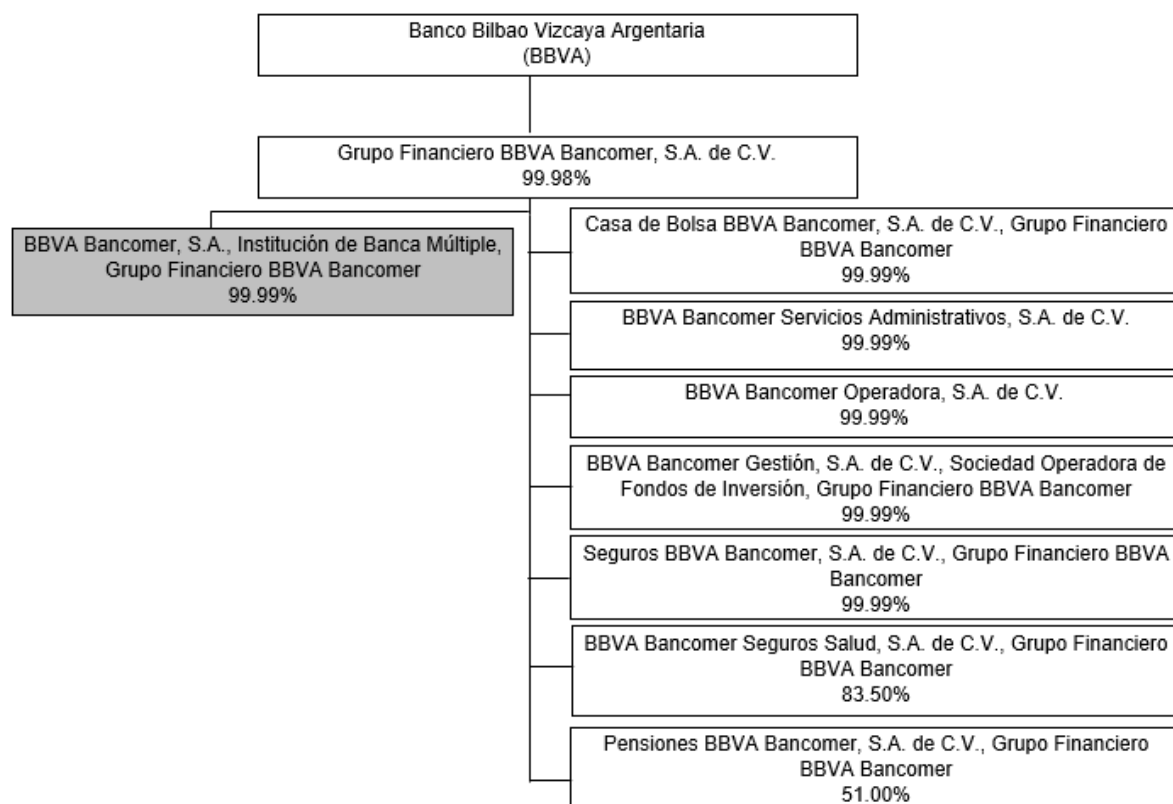
## Organizational Structure

We are the principal subsidiary of GFBB, a holding company authorized under Mexican law to establish and operate a financial group.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates that are not our subsidiaries, including:

- bank insurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer;
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero BBVA Bancomer;
- pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer; and
- health insurance products on behalf of BBVA Bancomer Seguros Salud, S.A. de C.V., Grupo Financiero BBVA Bancomer.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this Offering Memorandum:<sup>(1)</sup>



<sup>(1)</sup> See the Audited Financial Statements for a list of our subsidiaries.

## Our History

### General

The Bank was incorporated under the name “El Nuevo Mundo, S.A.,” on October 8, 1945 in Mexico City. The Bank’s name was changed in 1951 to “Industria y Crédito, S.A.” and then to “Financiera Bancomer, S.A.” in

1957. The duration of the Bank is indefinite. Our principal offices are located in Paseo de la Reforma No. 510, Colonia Juárez, Alcaldía Cuauhtémoc, Mexico City, México, C.P. 06600. The phone number of our central offices is +52 (55) 5621-3434.

In 1977, various institutions that made up the network of the Sistema de Banco de Comercio, among which were Banco de Comercio, S.A. and Hipotecaria Bancomer, S.A. merged, with Financiera Bancomer S.A. as the surviving entity. Financiera Bancomer S.A. changed its corporate name to Bancomer, S.A.

The Bank, like most other Mexican commercial banks, was nationalized in 1982. At the end of the 1980s, a series of measures were implemented to deregulate the Mexican financial system. This process of deregulation resulted in the re-privatization of commercial banks, including the Bank.

As part of the subsequent privatization process, in 1991, a group of Mexican investors consisting of the major shareholders of Valores Monterrey Aetna, S.A. de C.V. acquired 56% of the outstanding shares of the Bank. GFBB was incorporated in December 1991, having as its object to acquire and maintain control of the shares of the Bank and other financial institutions. GFBB subsequently increased its ownership of the shares representative of the Bank through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in the Bank for shares of GFBB's capital stock, which gave GFBB control of nearly 100% of the Bank's outstanding capital.

In July 2000, BBVA Parent acquired control of GFBB, as a result of which GFBB's name changed to Grupo Financiero BBVA Bancomer, S.A. de C.V.

In August 2000, as part of this transaction, Grupo Financiero BBV-Probursa, S.A. de C.V. (BBV-Probursa), owner of the majority stake of another commercial bank, BBV-Mexico (Banco Bilbao Vizcaya-Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero BBV-Probursa), merged, with GFBB as the surviving entity.

Prior to the completion of the merger, BBVA Parent made a cash contribution to BBV-Probursa's capital and as a result of such contribution, BBVA Parent obtained approximately 30% stake in the capital of GFBB, while maintaining the operational control of GFBB.

In August 2000, the merger of GFBB and BBV-Probursa became effective, and that same month GFBB acquired Banca Promex, S.A., Institución de Banca Múltiple (Promex), a bank based in the city of Guadalajara, Jalisco. The merger was completed in October 2000, with Bancomer as the surviving entity.

In November 2000, at the extraordinary general meeting of shareholders of the Bank and BBV-México, S.A., their respective spin-off and merger agreements were approved, and these agreements became fully effective in December 2000. As a result, the two credit institutions both remained part of the BBVA Group, with different but complementary purposes. Subsequently, in 2001, their respective shareholders approved the change of name of Bancomer, S.A. to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and that of BBV-México, S.A. to BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.

In 2001, a merger took place among the Bank, as the surviving entity, with Inmobiliaria Bancomer, S.A. de C.V., Inmobiliaria Promex, S.A. de C.V., Inmobiliaria Procorp, S.A. de C.V., Properiférico, S.A. de C.V., and Inmobiliaria Pro Río San Ángel, S.A. de C.V.

The general extraordinary shareholders' meeting of the Bank held on October 3, 2001 approved the conversion of the Bank into a multiple banking institution subsidiary of GFBB, conducting the corresponding revisions to its bylaws, which also reflected certain reforms to the Mexican Banking Law published in the Federal Official Gazette on June 4, 2001. The conversion was authorized by the SHCP on May 30, 2003. On May 9, 2002, GFBB obtained the authorization to operate as a subsidiary holding company of BBVA International Investment Corporation ("BBVAIIC"), through an indirect investment by BBVAIIC in 51% of the capital stock of GFBB. At such time, BBVAIIC was wholly owned by BBVA. The Bank's conversion was formalized when these changes were registered in the Public Registry of Property and Commerce of the Federal District in 2003.

In 2009, with the receipt of corresponding authorizations, BBVA increased its direct ownership participation in the capital stock of GFBB to 99.98%.

In August 2009, after having obtained the necessary authorizations, the merger of the Bank, as the surviving entity, with BBVA Bancomer Servicios, S.A. was completed. As a result of this merger, the Bank carries out all of

the business activities previously performed by BBVA Bancomer Servicios, S.A., including its trust and ATM services.

In January 2013, we completed the sale of Afore Bancomer, S.A. de C.V. to Afore XXI Banorte, S.A. de C.V. On June 6, 2016, we completed the sale of our subsidiary Bancomer Transfer Services Inc. (“BTS”) for Ps.1,249 million.

In February 2017, after having received the necessary authorizations, the merger of BBVA Bancomer, as the surviving entity, with Hipotecaria Nacional, S.A. de C.V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero BBVA Bancomer, Desitel Tecnología y Sistemas, S.A. de C.V. and BETESE, S.A. de C.V., was approved.

On April 24, 2019, BBVA Parent announced the global unification of the brand in all the geographies in which the BBVA Group operates. Accordingly, the Bank decided to change its brand from “BBVA Bancomer” to “BBVA.” On June 10, 2019, the Bank announced its brand change to the public, advertising the unique brand and new logo in order to continue advancing in the transformation under the new digital age. The “BBVA” brand is owned by BBVA Parent and the Bank uses it under a license agreement entered into by both entities.

On January 27, 2020, a filing for the authorization of the modification of the corporate name of GFBB, the Bank and other subsidiaries of GFBB was submitted to the SHCP and the CNBV. We expect to receive such authorization during the course of 2020.

## Strategy

Since 2013, the Bank has made significant progress in its transformation. In 2017, we defined our purpose – “to bring the age of opportunity to everyone,” the values that guide us, and our strategic priorities.

The values that guide us include:

- *the customer comes first* - prioritizing our customers’ experience and needs;
- *we think big* - we want to help our customers achieve their most valuable goals, being more than a bank that enables opportunities, so we can have a positive impact on people’s lives and on the business activities of companies; and
- *we are one team* - we encourage everyone at the Bank to actively participate, so that everyone works towards the same common objectives.

In an effort to continue with our transformation during 2019, we redefined our value proposition to focus on our customers’ real needs, as well as on our strategic priorities.

Thus, we aim to further strengthen our relationship with our customers, taking into consideration our objectives of providing (1) quality financial counseling to help customers make the best financial decisions; (2) clear, straightforward and trustworthy solutions on fair terms; and (3) a transparent and convenient experience, via digital channels or direct human interaction.

Along with the foregoing, to fully respond to major trends in the financial industry, as well as to the competitive environment in which we operate, our customers’ expectations and behavior and our commitment to sustainability and data privacy, we created three new core principles and implemented six new strategic priorities:

- Our value proposition that defines us and distinguishes us from our competitors:
  - Strengthen our customers’ financial health
  - Guide our customers to a sustainable future
- Leverage our existing assets to create distinctive performance:
  - Increase number of total customers
  - Promote operational excellence
- Our utilization of boosters to help us achieve our main goals:
  - Utilize our best and most committed team
  - Be technology and data driven

### ***New Standards in Customer Experience***

The focus of the BBVA Group is to offer the best customer experience, distinguished by its simplicity, transparency and speed, to increase customers' level of attention and to offer them personalized advice. Its customer-centric business model offers a differential service with a very ambitious goal: to be leaders in customer satisfaction in all the areas where it operates.

Since 2015, we have been implementing a franchise model called "*Experiencia Única*" (Unique Experience). This model seeks to standardize the interactions of our clients with us from the moment they enter a branch or access our online services. As part of Unique Experience, we generate an internal certification model that allows the continuous improvement of our service, and we have successfully implemented it across our entire branch network.

We also use the Net Promoter Score (IRENE) methodology, a measure that we believe is capable of predicting growth based on customer satisfaction and willingness to recommend our services. This system detects opportunities by allowing us to identify the causes of satisfaction and dissatisfaction among our clients and prioritize critical areas that require improvements. We measure the quality within our branches and seek to increase the quality of our service and, therefore, improve customer satisfaction by classifying our retail branches, based on the quality of service provided based on the results of customer surveys.

Our business model focuses on customer segmentation and specialized products and services to customers within each segment. We have divided our customer base into different segments according to their profiles: on one hand, we cater to enterprises categorizing them as corporate, medium-sized companies, government entities, small businesses and micro-businesses, and, on the other hand, we cater to individuals, including high net-worth customers or *privada*, upper affluent customers or *patrimonial*, affluent customers or *personal*, upper mass customers or *bancario*, and lower mass customers or *express*.

### ***Digital Sales***

In the current environment in Mexico it is essential to develop digital products and services so that customers have easy access to financial services. Information through the internet and on mobile platforms has disrupted our industry and generated changes in the customers' needs and behaviors. Customer demand for faster customized service has led us to increase digital sales.

Since 2015, interaction with our customers through digital channels has been encouraged. Several digital products and solutions for all customer segments were launched and our offering of digital products increased from six as of December 31, 2014, to 71 at the end of December 2019. At December 31, 2019, we had 10.1 million customers who used at least one digital platform (mobile or web), which represented a 41% increase from December 31, 2018.

We believe we have been the leading institution in Mexico in this regard, as reflected in the widespread launches of our digital apps and services, including:

- BBVA app, a new application that has launched globally. We believe the BBVA app is one of the most complete applications among the BBVA Group as well as relative to our peers, and it has the same features as Bancomer Móvil, but a more intuitive and simple design. Through the BBVA app, customers can perform transfers to the Bank's accounts and to other banks, 24 hours a day, 365 days a year; check their balances and movements for the last three months; pay for services such as electricity, telephone and gas; and pay their credit cards bills, including those from third parties and from other banks. It also has the functionality to withdraw money at the Bank's ATMs without the need for a card. In this application, customers receive personalized credit offers that they can accept with one click.
- BBVA Wallet, which allows customers to check balances and transactions for their debit and credit cards and to generate digital cards for secure online shopping, which use a different security code for each purchase. BBVA Wallet also permits customers to make payments via mobile phone wirelessly in the POS terminals of the Bank.
- BBVA Send, a mobile application that allows customers to send money to their mobile phone contacts, without the user needing to have an account or card number to send money. Money can be sent and received through BBVA Send in three ways: (1) by deposit to one's debit account, (2) by transfer to another bank or (3) by withdrawal from any Bank ATM.

- BBVA Plan, an application that helps customers achieve their savings goals, allows customers to have full control over their savings and permits customers to withdraw money whenever they decide.
- In 2019, we launched “Blue,” a virtual assistant in the BBVA app that enables interaction with customers. “Blue” assists customers to perform simple transactions, such as transfers, other movements and consulting balances, as well as other banking operations, via voice or text messages. “Blue” has been programed to constantly improve by learning from interactions with customers through artificial intelligence.

For the year ended December 31, 2019, our digital sales represented 55.2% of total sales, compared to 37.0% for the year ended December 31, 2018.

### ***Optimize Profitability Through Capital Allocation***

We are constantly improving the profitability and sustainability of our business by simplifying and focusing on the most relevant activities. In order to achieve this goal, we are attempting to make our processes more efficient and to utilize internal tools and metrics that allow a more efficient use of our capital, while complying with the requirements of local and global regulators. The objective is to maximize return on capital steadily over time. We aim to do so through: (i) the use of suitable management-oriented metrics which also incorporate the customers’ needs and seek to maximize the overall profitability of certain client relationships, (ii) efficient allocation of resources, (iii) the assessment of our business model in different economic scenarios and (iv) the continuation of our universal banking model, which is focused on diversification in terms of geography, customers and products and which has contributed to our steady growth over time.

### ***Unrivaled Efficiency***

Efficiency has become an essential priority in BBVA’s transformation plan. This priority involves building a new model of organization that is as agile, simple and automated as possible. Consistent with the objective of the BBVA Group globally, we seek to streamline our operations through the use of new technologies, product development, customer service quality metrics and methodologies that allow us to simplify the banking experience for our customers.

We have one of the most competitive efficiency ratios in the Mexican financial system according to the CNBV, and we continue to seek to improve efficiencies through enhancing external processes linked to customers and internal processes in order to improve our cost-to-benefit ratio. We offer specialized trainings for our personnel and have increased our use of automated data. As of December 31, 2019, the Bank’s efficiency ratio was 38.2%, which remained unchanged as compared to December 31, 2018 and 190 basis points better than 40.1% reported as of December 31, 2017.

The enhancement of digital channels has been critical to the recent improvement in our efficiency ratio. The increase in the number and types of digital channels offered by us has led to a decrease in the number of transactions made through teller windows. During 2019, customers completed 509 million transactions through digital channels, compared to 366 million transactions in 2018, and 330 million transactions in 2017.

### ***First Class Workforce***

People are the key to the success of our business and we seek to create a workforce dedicated to the needs of our customers. The talent and culture division constantly seeks to renew and enhance the process of collaborators’ development and recognize the importance of recruiting new talent. For the latter, several programs have been implemented, including internships for young talents that target different age groups, with a wide range of university degrees to enrich teams and add new talents with diverse skills. In addition, incentives for equal opportunities have been widely promoted, as well as initiatives to include people with disabilities as part of the team.

This cultural transformation considers the following five-dimension model, which seeks to positively influence the people who form our organization by:

- promoting shared values;
- seeking employee satisfaction;

- managing talent and developing leaders;
- improving performance; and
- aligning our global strategy with that of our holding company.

### ***Corporate Responsibility***

As an institution, we are fully committed to supporting the development of Mexico's educational system, in particular through Fundación BBVA Bancomer, A.C., which primarily supports education in Mexico through various social and development projects. During 2019, Ps.540 million was used to fund Fundación BBVA Bancomer, A.C.

The foundation's most important scholarship project, "*Becas BBVA para Chavos que inspiran*," focuses on supporting education through our scholarship program for young people with economic need and talent to continue their studies.

By 2018, the program had reached 22 states and 167 municipalities in Mexico. By 2019, the program had achieved nationwide presence, and applications can now be submitted via the internet or through other digital channels, providing opportunities for young people across the country to become scholarship holders of the foundation.

Since its creation in 2002, 278,000 scholarships have been granted and, currently, in the 2018-2019 school year, we had more than 32,000 active scholarship recipients in high schools and universities.

We have also focused on increasing financial education in Mexico through the program "*BBVA Educación Financiera*," which provides participants with guidance on banking products and services. Various workshops are held to educate participants on savings, credit cards and mortgage loans. These workshops have been held at our retail branches, through mobile classrooms and electronic channels such as our website. Since this project was launched in 2008, we have provided financial education courses to approximately 5.4 million beneficiaries of the program as of December 31, 2019.

### ***Continually Seeking to Improve Risk Management Policies***

Another important aspect of our strategy is continually assessing and updating our risk management policy, which we believe contributes to our profit growth and controlled risk. We consider risk management to be a central part of our strategy, which differentiates us from our competitors and functions as a tool for future growth and profitability.

We have been using internal credit risk models and have developed advanced risk modeling tools that are intended to accurately measure credit risk. Our risk indicators include factors such as the cost of risk, which is equal to the allowance for loan losses divided by average loan portfolio. The risk premium was 3.0% for the year ended December 31, 2019, 2.9% for the year ended December 31, 2018 and 3.2% for the year ended December 31, 2017.

We seek to control credit risk, asset quality and costs in all stages of the credit cycle (origination, follow-up and recovery) through the implementation of advanced tools and methodologies. We have been able to generate granular, targeted credit ratings for different segments of the population that enable us to offer specialized products and prices. We have a clear objective to effectively manage operational risk through structures based on tracking and reliable management of processes. In addition, we have introduced extensive internal risk management and control systems that aim to involve all personnel and areas of the institution. Such programs focus on measuring, identifying and preventing potential risks and preventing the performance of transactions with illicit proceeds and financing of terrorist activities.

### **Market Information**

The following table provides comparative information with respect to the Bank and certain selected leading banks in Mexico as of December 31, 2019 (unless otherwise indicated). This comparison is for illustrative purposes only.

	<b>The Bank<sup>(1)</sup></b>	<b>Citibanamex</b>	<b>Banorte</b>	<b>Santander</b>	<b>HSBC</b>	<b>Scotiabank</b>
	<b>(millions of Ps., except for percentages)</b>					
Total loan portfolio.....	<b>1,243,478</b>	655,812	756,143	713,680	400,531	413,731
Total deposits portfolio.....	<b>1,267,620</b>	774,016	756,631	775,334	542,235	421,236
Market share (total loans).....	<b>22.95%</b>	12.13%	13.99%	13.20%	7.41%	7.65%
Total assets .....	<b>2,130,588</b>	1,234,493	1,149,534	1,392,920	791,071	585,448
Total loan portfolio / total assets	<b>58.36%</b>	53.12%	65.78%	51.24%	50.63%	70.67%
Total loan portfolio / total deposits funding.....	<b>98.10%</b>	84.73%	99.94%	92.05%	73.87%	98.22%
Total stockholders' equity .....	<b>214,866</b>	160,816	114,258	138,381	66,244	53,196
Net income .....	<b>49,254</b>	20,122	27,493	21,264	7,374	4,949
Return on assets (ROA) <sup>(2)</sup> .....	<b>2.37%</b>	1.54%	2.34%	1.54%	0.93%	0.89%
Return on equity (ROE) <sup>(3)</sup> .....	<b>23.71%</b>	12.66%	23.98%	15.83%	11.42%	9.59%
Cost of funding <sup>(4)</sup> .....	<b>2.80%</b>	2.30%	3.26%	3.50%	4.40%	5.70%
Delinquency ratio <sup>(5)</sup> .....	<b>2.21%</b>	2.18%	1.64%	2.28%	1.96%	2.37%
Operating efficiency ratio <sup>(6)</sup> .....	<b>38.18%</b>	57.45%	42.25%	45.37%	58.81%	58.30%
Branches .....	<b>1,860</b>	1,465	1,182	1,045	951	553

(1) Data for the Bank is derived from the Bank's 2019 Financial Statements. Data for other financial institutions is derived from information reported by the CNBV.

(2) ROA is equal to net income for the year divided by total average assets for the year.

(3) ROE is equal to net income for the year divided by average stockholders' equity for the year.

(4) Source: *Banco de México*.

(5) Delinquency ratio is equal to total non-performing loans divided by total loans.

(6) Operating efficiency is equal to (x) administrative and promotional expenses divided by (y) net interest income plus net commissions plus other operating income (expenses) plus financial intermediation income for the year.

## Our Values

In July 2017, the BBVA Group published a set of values to guide the BBVA Group in achieving its purpose and the strategic priorities. We strive to act in accordance with these values to achieve our objectives but cannot assure you that we will, or will be able to do so, in all cases. Our values are the following:

### *Customer Comes First*

This value is our highest priority, as the customer is at the center of our business. We aspire to take a holistic customer vision, not just financial. To us, this means working in a way that is empathetic, agile and with integrity, among other things. Our priorities can be stated as follows:

- **We are empathetic:** We aim to consider the customer's viewpoint from the outset, and put ourselves in their shoes to better understand their needs.
- **We have integrity:** We strive to act in a manner which is legal, publishable and morally acceptable to society. We aim to always put our customers' interests first.
- **We meet their needs:** We strive to be swift, agile and responsive in resolving the problems and needs of our customers and in overcoming any difficulties we encounter.

### *We Think Big*

We believe that it is not about innovating for our own sake, but rather to have a positive impact on people's lives and enhance their opportunities. We believe that, as part of the BBVA Group, we are ambitious, constantly seek to improve and do not settle for doing things reasonably well, but instead seek excellence as standard. We aspire to conform to the following standards:

- **We are ambitious:** We set ambitious and aspirational goals in order to improve people's lives.
- **We break the mold:** We aim to question everything we do to discover new ways of doing things, and to learn through innovating and testing new ideas.
- **We amaze our customers:** We aim for excellence in everything we do in order to provide excellent service to our customers and create unique experiences and solutions.

## ***We Are One Team***

The BBVA Group believes that people are what matters most, and we strive to have all of our employees share responsibility in this endeavor. The message we transmit to our employees is “We are all BBVA.” The values we foster for our employees are:

- **I am committed:** I am committed to my role and my objectives and I feel empowered and fully responsible for delivering them, working with passion and enthusiasm.
- **I trust others:** I trust others and am committed to fostering a collaborative work environment.
- **I am BBVA:** I work to align my objectives with the Bank’s in order to work purposefully toward shared goals.

## **Business Units**

We are a bank in constant transformation, aiming to evolve every day in order to improve customer experience, the offer of traditional products and to innovate through the digital offering of products and services. One of the main elements of our business model is customer segmentation, which allows us to provide specialized attention to each of our customers through our business units, which are dedicated to developing products and services focused on our customers’ specific needs. Our business units benefit from our support units, which provide support to all of our networks, striving to generate a better experience for our customers, with the objective of maintaining adequate business recurrence and integral management, as well as achieving synergies that enable continuous growth.

### ***Retail Network***

Our Retail Network unit serves all segments of individuals through our wide infrastructure network. Additionally, this unit works together with the Business Development Unit, in charge of the commercial strategy design, product development and implementation of the digital offer, thus helping to complement the offer of products on our Retail Network, inside and outside our branches, to enhance added value to customers. In this sense, significant investments have been made to increase cross-selling opportunities and, at the same time, increase customer loyalty. During 2019, the number of customers using our digital channels has increased by 41% to more than 10.1 million customers as of December 31, 2019.

In addition, the insurance business promotes the supply of products in our Retail Network, complementing our offering of retail products and allowing the Bank to be a market leader in the retail sector.

Our Retail Network offers services to a variety of individual customers: ultra-high net-worth banking, private banking, high net worth banking, personal banking as well as express banking. Through the wide network of branches, our Retail Network also serves micro and small businesses. Our Retail Network caters to more than 20 million clients. Aiming to provide the best customer experience, our structure of branches was redesigned by adding larger self-service spaces in order to improve customer experience, by enhancing the flow of customers within branches, encouraging the use of self-service facilities for low-value transactions and adding ATMs that enable customers to obtain consumer loans or make cash deposits or payments.

The Business Development Unit, which supports our Retail Network, is in charge of developing new businesses, technologies and digital channel strategies, aiming to guarantee our leadership position in the Mexican market. In this regard, there have been significant investments to develop alternative digital channels that support sales within the branches with the main objective of increasing opportunities to cross-sell to customers, and, at the same time, increasing customer loyalty.

The Bank has also launched various mobile applications to encourage the use of digital financial services in rural areas. Since December 31, 2018, there has been a 41% annual increase in digital customers, and, as of December 31, 2019, there were approximately 10.1 million customers that used at least one digital platform.

### ***Government and Business Banking***

Our Government and Business Banking unit serves medium-sized companies, government entities, automotive developers and distributors through a network of 135 branches.

The Bank offers a broad range of products that are tailored to meet business customers’ needs regarding cash management and collection solutions. Within our Government and Business Banking unit, the Strategy and Solutions



unit is in charge of defining and designing the offer of products and services based on our comprehensive vision of providing for all of our customers' needs. For example, we have promoted mortgage lending through agreements with developers and we have improved the size of our auto loans portfolio through alliances with automakers and car dealers. The Bank thus creates an end-to-end value chain, aiming to meet the needs of different customer segments.

This unit has specialized offices for attending to the needs of the federal, state and municipal governments of Mexico and other governmental bodies. Among the wide range of products offered by this unit are "multipayments," which provides for the payment for several services, and "CIE on-line," which provides for online tax collection.

Our Government and Business Banking unit also provides a wide range of products and services dedicated to leasing, foreign trade and factoring that complement the other products and services that the Bank provides to customers.

### ***Corporate and Investment Banking***

Our Corporate and Investment Banking unit integrates our various wholesale banking businesses. Through this unit we serve global clients, including institutional investors and large corporate entities, offering them a wide range of investment products. This unit also includes the Global Markets area, which, together with our brokerage firm, offers more sophisticated products for individuals and companies.

For corporate and institutional clients, the Bank offers loan products and services, mergers and acquisitions services, market transaction (shares and fixed income) services, cash management services, custody arrangements, electronic banking services and various investment products, among others.

As result of the performance of the Global Markets area, the Bank has topped the ranking of market makers published by the SHCP and *Banco de México* since July 2012. The Global Markets area, in partnership with our brokerage firm (*casa de bolsa*), offers more sophisticated products and services to both individuals and companies, such as debt and equity placements, issuances and structured financing, among others. As a market maker, the Bank is committed to play an active role in the fixed rate government securities market and bids in primary auctions for these securities, and in the secondary market to make purchase and sale offers to guarantee the liquidity of the customers and the exchange market.

We also offer our customers origination, structuring, distribution and risk management of market products, such as interest rate and foreign exchange, equity with primary and secondary placements, derivatives and structured products, which can be linked to stock market indices or prices, private placements and portfolio trading and block operations and credit.

Our Corporate and Investment Banking unit is focused on helping customers to achieve their objectives through sophisticated products and services, including credits, corporate finance, global markets (debt and equity), cash management, online banking and investment products. As of December 31, 2019, this unit had a total of approximately 528 clients, including multinational corporations located in Mexico and institutional clients. We strive to ensure that clients receive the best possible service, constantly developing new products tailored to customers. Some examples of the products offered by this unit are:

- "BBVA Net Cash," a global electronic banking solution that allows corporations, enterprises and government organizations to efficiently and securely execute their banking transactions through one platform that is remotely accessible at any time; and
- "BBVA Trader," a platform that allows investors to carry out their own online trading transactions in real time.

This unit also offers market information, analysis, news and technical tools, which can be customized according to customers' needs, to help them make financial decisions.

## Financial Performance of the Business Units

### *Retail Network*

#### *General*

Our Retail Network is our major operating business unit and includes sub-units for providing banking products and services and originating credit and debit cards, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our vast network of retail branches and ATMs, as well as alternative distribution channels. As of December 31, 2019, the aggregate balance of our Retail Network lending portfolio was comprised of 44% mortgages, 35% consumer loans and 21% credit cards.

As of December 31, 2019, we had 1,860 branches and 13,170 ATMs located throughout Mexico, as well as distribution channels outside of these networks, including 463,644 active POS terminals and our internet portal. As of December 31, 2019, our Retail Network unit accounted for 49.3% of the balance of our total loan portfolio, 58.0% of the balance of our demand and time deposits, 67.1% of our net interest income and 78.3% of our income for the year.

We have divided the customer base served by this unit into the following classifications: (i) for individuals based on deposit size: ultra-high net-worth, high net-worth, upper affluent, affluent, upper mass and lower mass and (ii) for small businesses, including micro and small enterprises.

The unit focuses on increasing the value of the customer base and increasing cross selling. We believe that payroll loans are a key product in which entry by other Mexican banks has been limited and where considerable potential exists for increasing customer loyalty and promoting cross-selling while offering our customers additional benefits. We are also focused on delivering banking products and services to unbanked and underserved segments of the Mexican population, including through the enrolment of our customers in the CoDi® platform. This platform was designed by *Banco de Mexico* and launched in September 2019, with the goal of simplifying payments by using electronic transfers through smart phones.

Our Retail Network unit also emphasizes increasing productivity by reducing branch traffic through the installation of electronic payment systems at our branches and offering mobile and internet banking solutions to our customers. This is part of the new customer service model that has been implemented throughout our entire branch network.

#### *Deposits*

Our deposit base has traditionally been one of our strengths and represents an area of strategic importance. Our strategy is aimed at increasing our deposit base, while maintaining a competitive funding cost. We support this strategy through marketing campaigns and seek to increase both the balance of existing savings accounts and the number of new savings accounts opened.

As of December 31, 2019, the balance of demand deposits originated from this unit was Ps.478,243 million, which represented 55.9% of our total demand deposits. This level of demand deposits reduces our cost of funding, which, in turn, results in a favorable performance of our net interest income. As of December 31, 2019, balances in time deposits and mutual funds originated from our Retail Network were Ps.155,813 million and Ps.389,121 million, respectively, which represented 77.5% of our total time deposits and mutual fund balances.

#### *Credit Cards*

We are one of the leading bank issuers of credit cards in Mexico and we maintain a strong relationship with Visa and MasterCard. Revenues from credit card operations are derived primarily from customer transactions. We originated more than 1.4 million credit cards during the year ended December 31, 2019, more than 950,000 credit cards in the year ended December 31, 2018 and 1.2 million credit cards in the year ended December 31, 2017. As of December 31, 2019, total credit card loans outstanding were Ps.108,010 million, while aggregate credit card billing for the year ended December 31, 2019, totaled Ps.377,640 million.

We offer a wide array of different credit cards depending on the customer's monthly income and needs. Our credit card offerings include "BBVA Azul," "BBVA Oro," "BBVA Platinum" and "BBVA Infinite," which are accepted by merchants in Mexico and abroad. We also offer "Vida BBVA," a customer loyalty program which uses a credit card with an embedded intelligent microchip running proprietary software that was developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants.

Our robust risk analysis platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. This support program also helps us strengthen our credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of our service and the loyalty of our clients.

### ***Consumer Loans***

The consumer loan portfolio consists largely of unsecured personal loans, used mainly for the purchase of consumer goods. Consumer lending, excluding credit card loans, reached Ps.189,418 million as of December 31, 2019, representing a Ps.21,927 million, or 13.1%, increase from Ps.167,491 million as of December 31, 2018.

“*Creditón Nómina*” is a credit program collected through payroll deductions that offers customers the ability to borrow up to four months of salary and repay that balance over the course of three years. During the year ended December 31, 2019, we originated more than 1.1 million payroll loans and more than 250,000 personal loans, and for the year ended December 31, 2018, we granted more than 830,000 payroll loans and more than 255,000 personal loans.

Digital innovation has also allowed us to increase sales through multi-channel distribution, by permitting us to offer products through the internet, mobile applications and ATMs, in addition to our traditional distribution method of physical branches. For example, 66.6% of new consumer loans were granted through a digital channel as of December 31, 2019.

### ***Residential Mortgages***

We grant residential mortgages through our Retail Network unit. As of December 31, 2019, we maintained our leadership position in the residential mortgage market, holding a 28.0% market share in the total number of new loans, with 36,823 loans granted with a principal amount totaling Ps.50,120 million. During 2018, we granted 31,643 loans with a principal amount of Ps.40,018 million. As of December 31, 2019, our mortgage loan portfolio totaled Ps.238,808 million.

### ***Customer Classifications Inside Our Retail Network***

Our business model focuses on customer segmentation and specialized products and services to customers within each segment. By following the main strategic priority of the BBVA Group, “Customer comes first,” we strive to offer customers the best experience during any interaction they have with the Bank.

The customer attention model in the retail unit is structured as follows:

- *Ultra high net-worth:* We cater to high net-worth individuals by offering differentiated products and services aimed to satisfy their specific needs.
- *High net-worth:* We provide personalized financial and investment services to these customers with our relationship officers, who are familiar with the customer’s individual needs and who can recommend and provide access to specialized products and services.
- *Upper affluent:* We cater to this segment through our upper affluent officers, who provide specialized products and tailored solutions for customers’ financial needs, rather than offering generic products and services.
- *Affluent:* This segment was created in 2011 to offer certain customers specialized attention and tailor-made products. These customers have specialized account executives within our retail branches.
- *Upper mass:* This segment is our largest retail customer segment based on number of customers, with more than 10.6 million customers as of December 31, 2019. We provide products and services to individuals in the upper mass segment through commercial executives and our retail distribution network throughout Mexico.
- *Lower mass:* This segment is dedicated to serving the low-income population without adequate access to financial services. We offer low-cost transactional accounts that allow customers to use our banking services. The Bank’s correspondent network is useful for these customers, and, as of December 31, 2019,

these partnerships enabled us to expand our network and hours of operation at approximately 463,644 POS.

- *Micro and small businesses:* We also service small businesses through our retail branches. The maximum amount extended is usually limited to Ps.15 million, all of which is generally secured. As of December 31, 2019, we had approximately 543,149 customers in this classification.

### ***Government and Business Banking***

We offer products and services tailored to the specific needs of the Government and Business Banking segment. As of December 31, 2019, this unit's lending portfolio was comprised of 71.0% to middle-market, 23.6% to government entities and 5.2% to homebuilders.

The middle-market loan portfolio reached Ps.274,388 million as of December 31, 2019 and represents 44.0% of our total commercial loan portfolio. The quality of this portfolio has not been negatively impacted by its growth. As of December 31, 2019, the ratio of past due loans was 1.4%.

Our middle-market customers are also an important source of deposits, as they mostly use cash management and savings products. We offer a wide array of products designed to meet these customers' needs for cash management and collection solutions. Some of the unit's more popular products are: (i) *Tesorería Integral Bancomer*, which provides easier and faster operation of our customers' financial transactions through the installation of high-technology software through our website, and (ii) *Multipagos*, which is a software application that optimizes the collection process.

### ***Consumer Finance***

In 2013, the consumer finance business segment was created to offer financial services including credit for the distribution and purchasing of vehicles. This is a specialized business unit that works along the middle-market segment and allows us to service automobile dealers.

As of December 31, 2019, the outstanding balance of our automobile loans reached Ps.54,326 million, an increase of 13.4% from December 31, 2018. During the year ended December 31, 2019, we granted 141,957 automobile loans, compared to 124,643 automobile loans during the year ended December 31, 2018.

### ***Housing Developers***

This segment caters to housing developers who need bridge loans for construction. As of December 31, 2019, our portfolio of loans to housing developers totaled Ps.20,252 million. During the year ended December 31, 2019, we provided loans to finance the construction of 20,056 housing projects for a total of Ps.22,177 million. During the year ended December 31, 2018, we granted loans for the construction of 22,379 housing projects for a total of Ps.21,798 million.

### ***Government Entities***

The Government and Business Banking segment serves Mexican federal agencies, states and municipalities. We have enhanced our relationships with our government entity customers, which has resulted in us becoming one of the market leaders in this segment. We offer several specialized products to our government customers, such as payroll for government employees and checking accounts and tax collection solutions for states and municipalities. In addition, we offer "*Multipagos*" and "*CIE en línea*" for tax collections.

As of December 31, 2019, the government segment loan portfolio amounted to Ps.143,725 million and accounted for 21.0% of our total current commercial loan portfolio and 12.2% of our total demand and time deposits.

### ***Corporate and Investment Banking***

Corporate and Investment Banking is focused on helping clients reach their objectives through sophisticated products and services in lending, corporate finance, global markets and transaction banking. We provide, among other things, products and services in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management, e-banking and money markets.

The Corporate and Investment Banking unit serves Mexico's major corporate and institutional customers through originating, distributing and managing loans and providing moneymarket and investment products and tailored financial solutions. In addition, this group provides financial advice and structuring and assures, originates and syndicates complex financing structures including project finance, trade finance and syndications.

As of December 31, 2019, our Corporate and Investment Banking unit provided services to approximately 528 multinational companies located in Mexico as well as institutional clients. As of December 31, 2019, our Corporate and Investment Banking portfolio was Ps.234,437 million, which accounted for 37.8% of our total current loan portfolio, and 17.2% of our total demand and time deposits.

This unit strives to better serve our customers through the development of new products tailored to their needs. Some of our new products include BBVA Net Cash and BBVA Trader.

### ***Business Through Subsidiaries and Affiliates***

*BBVA Bancomer USA, Inc.* In June 2016, we completed the sale of BTS for Ps.1,249 million.

*Hipotecaria Nacional, BETESE and Desitel.* In January 2017, the merger of Hipotecaria Nacional, S.A. de C.V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero BBVA Bancomer, as surviving entity, and BETESE, S.A. de C.V. and Desitel Tecnología y Sistemas, S.A. de C.V. was approved. The merger took effect in February 2017.

### **Competition**

#### ***General***

The Mexican financial sector is highly competitive. We face strong domestic competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with other large Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. We also compete with certain non-Mexican banks, primarily based in the United States, for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as for providing financings in U.S. dollars. Additionally, we compete with other banks that have recently obtained banking authorizations. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

Trends in associated markets are also shaping the competitive environment, such as entry by new players on digital platforms, including fintech companies, which have demonstrated high concentrations in payments, lending and enterprise financial management. There are approximately 394 new players in this new fintech sector in Mexico. Furthermore, the Mexican banking industry in general has experienced increasing competition in recent years, partly due to the entry of new players. In addition, we have noticed a trend of investments by key banks updating their retail networks and growing their digital platforms and big data processing capabilities.

Commercial banks in Mexico have historically competed in the retail market with limited-purpose financial institutions, or *Sofoles*, which offered mortgage, consumer and commercial loans mainly for low- and middle-income individuals. Since the Mexican economic crisis in 2009, most *Sofoles* were affected by liquidity problems as a result of difficulties experienced in obtaining funding, and many have either disappeared or are in financial restructuring. Due to these restructurings, in July 2013, the CNBV declared the previous authorizations for *Sofoles* invalid in order to encourage these entities to move to another form of organization, such as *Sofomes*. *Sofomes* compete in both the commercial and retail loan portfolios, mainly in middle-market and SMEs portfolio, as well as in consumer finance.

As of December 31, 2019, the Mexican banking system was comprised of 51 private-sector banks, of which 56.9% are principally Mexican-owned and 43.1% are foreign-owned. Our largest competitors among the private-sector banks are Citibanamex, Santander, Banorte, HSBC and Scotiabank, which, together with the Bank, accounted for 74.6% of total assets of Mexican private sector banks as of December 31, 2019.

We believe that we have several advantages over many foreign banks and smaller Mexican banks that allow us to compete more effectively. For example, we continuously seek to improve our products and services in order to address greater competition in recent years. The following table sets forth certain statistics relating to the Mexican commercial banking system as of December 31, 2019, except as otherwise indicated:

As of December 31, 2019								
	Assets		Loans		Deposits <sup>(1)</sup>		Stockholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
Domestic private-sector banks.....	3,113,787	25.20%	1,821,293	26.90%	2,014,812	27.30%	376,348	27.80%
Foreign-owned banks .....	6,646,707	53.80%	3,584,334	52.90%	4,012,066	54.30%	702,427	51.80%
Private-sector total.....	9,760,494	79.0%	5,405,627	79.7%	6,026,878	81.5%	1,078,775	79.6%
Public-sector banks.....	2,117,848	17.1%	995,592	14.7%	991,045	13.4%	176,518	13.0%
Total banking system.....	11,878,342	96.1%	6,401,220	94.4%	7,017,923	94.9%	1,255,293	92.6%
Non-banking institutions* .....	480,443	3.9%	380,001	5.6%	374,771	5.1%	100,467	7.4%
<b>Financial system total...</b>	<b>12,358,785</b>	<b>100.0%</b>	<b>6,781,221</b>	<b>100.0%</b>	<b>7,392,694</b>	<b>100.0%</b>	<b>1,355,759</b>	<b>100.0%</b>

\* Source: CNBV, includes *Sofomes*, *Sociedades Financieras Populares* (SOFIPOs), Currency Exchange Centers, Credit Unions, General Bonded Warehouse as of August 31, 2019.

(1) Deposits include demand deposits, term deposits, bank bonds and Interbank loans and loans from other entities.

### Deposits

As of December 31, 2019, we had deposits in an aggregate amount of Ps.1,289,638 million. Our 21.4% market share for deposits, including borrowings from domestic financial institutions, ranks first among commercial banks in Mexico according to data from the CNBV. As of December 31, 2019, Ps.923,191 million of our total deposits were demand deposits, representing a 25.9% market share, and Ps.254,070 million of our total deposits were time deposits, representing a 14.6% market share. As of December 31, 2019, the next two largest banks in terms of total deposits, Santander and Citibanamex, had deposits in an aggregate amount of Ps.775,334 million and Ps.774,016 million, respectively.

The following table sets forth the market shares in terms of deposits for the six Mexican commercial banks with the largest market shares as of December 31 of each of the last three years:

	Bank Deposits As of December 31,		
	2019	2018	2017
		(%)	
The Bank .....	21.4%	21.3%	22.4%
Santander.....	12.9%	13.6%	13.5%
Banorte .....	12.6%	13.9%	12.5%
Citibanamex.....	12.8%	13.4%	13.6%
HSBC .....	9.0%	8.1%	7.7%
Scotiabank .....	7.0%	6.7%	6.3%
<b>Six main banks.....</b>	<b>75.6%</b>	<b>77.0%</b>	<b>76.0%</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements). Market share includes commercial banks regulated by CNBV.

### Loans

As of December 31, 2019, we had the largest total loan portfolio among commercial banks in Mexico, with a total loan portfolio balance of Ps.1,208,067 million. Our total loan portfolio represented 23.0% of the commercial bank market for loans. As of December 31, 2019, Ps.694,027 million of our total loan portfolio balance consisted of commercial loans, representing a 20.4% market share; Ps.310,643 million consisted of consumer loans, representing a 28.4% market share; Ps.517,140 million consisted of corporate loans, representing a 19.6% market share; and Ps.238,808 million consisted of mortgage loans, representing a 25.9% market share. Despite the adverse macroeconomic environment and improved performance from our major competitors, our total loan portfolio balance experienced an annual growth rate of 6.9% between December 31, 2018, and December 31, 2019. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of December 31 of each of the last three years.

<b>Bank Loans</b>			
<b>As of December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
		<b>(%)</b>	
<b>The Bank</b> .....	23.0%	22.4%	22.7%
Banorte .....	14.0%	14.8%	13.0%
Santander .....	13.2%	13.2%	13.0%
Citibanamex .....	12.1%	13.0%	14.1%
Scotiabank .....	7.7%	7.1%	6.7%
HSBC .....	7.4%	7.3%	6.7%
<b>Six main banks</b> .....	<b>77.3%</b>	<b>77.8%</b>	<b>76.1%</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).  
Market share includes commercial banks regulated by CNBV.

### **Stockholders' Equity**

As of December 31, 2019, the Bank had a market share of 19.9% in terms of stockholders' equity according to data from the CNBV. We maintain a strong solvency position, despite dividend payouts, increasing equity through recurrent income and organic capital generation.

The following table sets forth the level of stockholders' equity for the six largest commercial banks in Mexico (measured by stockholders' equity) as of December 31 of each of the last three years.

<b>Bank's Equity</b>			
<b>As of December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>The Bank</b> .....	214,825.97	194,184.46	175,736.97
Citibanamex .....	160,815.56	159,925.45	163,713.67
Santander .....	138,380.57	125,629.77	116,135.28
Banorte .....	114,258.04	108,400.32	86,062.20
HSBC .....	66,244.02	59,714.83	55,782.93
Scotiabank .....	53,195.72	49,776.69	48,352.30
<b>Six main banks</b> .....	<b>747,719.88</b>	<b>697,631.52</b>	<b>645,783.36</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).  
Market share includes commercial banks and the rest of the financial institutions regulated by CNBV.

### **Other Indicators**

The Bank continues to maintain the lead in profitability among commercial Mexican banks and maintain a well-positioned and diversified loan portfolio. Based on publicly available information, as of December 31, 2019, our Total Net Capital ratio was 15.6%, as compared to 16.4% for Santander and 18.5% for Banorte.

The following chart provides information regarding us and selected leading banks in the region with respect to our capitalization levels.

## Capitalization Levels



Source: Information for Santander, Banorte, the Bank, Itaú Unibanco Holding S.A., Banco Bradesco S.A., Bancolombia S.A., Banco de Chile and Santander Chile Holding S.A. ("Santander Chile") based on data as reported by each country's regulator, unless otherwise noted. Information for figures for Santander, Banorte and the Bank sourced from the CNBV and Quarterly Reports as of December 31, 2019; for Itaú Unibanco Holding S.A. and Banco Bradesco S.A. sourced from 4Q Reports as of December 31, 2019; for Bancolombia S.A. sourced from 4Q Reports as of December 31, 2019; and for Banco de Chile and Santander Chile sourced from 4Q Reports as of December 31, 2019. Accordingly, this tabular comparison is for illustrative purposes only and we do not purport to assert that the above information is actually comparable.

### Properties

We are domiciled in Mexico and our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600. As of December 31, 2019, the Bank conducted its operations in 2,137 properties, 479 of which the Bank owned. The rest of the properties in which our operations are conducted were leased or granted in bailment. As of the date of this Offering Memorandum, all the personnel is installed in the three new buildings, the headquarters located in *Paseo de la Reforma*, the operations center located in Parques Polanco and the operations center of the financial group.

We also own a data processing center called the *Centro de Procesamiento de Datos BBVA*, which is 6,082 square meters and houses our back-up computer facilities. The facility provides computer services to our branches and operational centers in more than 500 regions in Mexico.

### Employees

The following table shows our full-time, permanent employees at the dates indicated:

	As of December 31,		
	2019	2018	2017
The Bank .....	33,680	32,230	30,825
Overseas branches and representative offices .....	24	25	24
Subsidiaries .....	—	—	—
<b>Total .....</b>	<b>33,704</b>	<b>32,255</b>	<b>30,849</b>

As of December 31, 2019, we had 33,704 employees, of which approximately 38.01% were unionized. All management positions are held by non-unionized employees.



The collective relationships of the Bank involve 38.01% of its workforce and a collective bargaining agreement has been concluded with the Sindicato Nacional BBVA Bancomer de Empleados de los Servicios de la Banca y Crédito y Actividades Relacionadas (SNAEBB).

We are party to a single collective bargaining agreement, which is renewed every two years. The current agreement was executed on January 31, 2019 and will expire on January 31, 2021.

The relationship with the Bank's union representation is maintained in a framework of collaboration, communication and consultation, which supports the achievement of its objectives and the development of its employees.

The use of temporary employee hiring figures is carried out as part of our initial training strategy, pursuant to the applicable legal provisions; their number and temporary nature do not negatively interfere with the Bank's operation.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects, as well as participation in external seminars.

As required by Mexican law, we must make severance payments to employees whose employment is terminated under certain circumstances, as well as seniority premiums in cases of employees who have worked with us for at least 15 years and decided to terminate their employment with the Bank. In addition, we offer pension funds to retired employees based on seniority, including life and disability insurance for all those who qualify for this benefit. All of our employees have the right to receive a productivity bonus. The benefits that we grant our employees include benefits and incentive programs in addition to those established by the Mexican Labor Law (*Ley Federal del Trabajo*).

Under the terms of our employment agreements, we are required to make certain post-retirement payments to our employees and their dependents. For such payment, we are required to include the net between the present value of the actuarial liabilities and the assets for financing these liabilities, and these payments as an additional liability that must be reflected on our balance sheet. We are permitted to record the additional liability stemming from these payments as a one-time charge to our income statement, or we may amortize the effect of these payments on a straight-line basis over the expected remaining period that our employees will be under employment. We record these differences (gain/losses) in liabilities annually as a one-time charge to our income statement. The application of this Mexican Banking GAAP criterion did not have an adverse effect on our financial condition or results of operations for the year ended December 31, 2019.

We have a private retirement plan with a defined contribution that rewards the savings of personnel, and an insurance of a contributory life group, with coverage for death and total permanent disability. All our employees participate in variable compensation plans. The benefits and incentives we grant to our employees are superior to those established by the Mexican Labor Law.

## **Legal Proceedings**

### ***Deposit Account Cases***

We have faced a number of lawsuits from depositors who held deposit accounts with one of our predecessor entities from 1979 through 1992, the period during which these entities were owned by the Mexican government. The plaintiff in each lawsuit has claimed that under the terms of the deposit agreement then in effect, we are required to pay the rate of interest (generally in excess of 95%) specified in such deposit agreement indefinitely, regardless of subsequent decreases in market interest rates.

In March 2010, the Mexican Supreme Court issued rulings in three areas which will be applicable to the lawsuits described in the preceding paragraph. First, high interest rates agreed during a period of high inflation are only applicable to the period originally agreed by the parties. *Banco de México* will fix the applicable interest rate for any extension. Second, interest may only be capitalized if there is an express agreement between the parties. Third, unclaimed interests will prescribe 10 years after they accrue. Based on the application of the foregoing, the amount of these contingencies has been substantially reduced and we consider them to be immaterial.

### ***Other Litigation***

There are no relevant ongoing legal, administrative or arbitral proceedings other than those that are part of the normal course of our business, including those related to liquidation or bankruptcy proceedings, in which we, our

subsidiaries or shareholders, directors and senior officials, are or could be involved, which could have or has had a significant impact on the outcome of our operations.

There are no legal, administrative or arbitral proceedings with contingencies amounting to more than 10% of the total assets of the Bank. For further information about other types of lawsuits and proceedings brought against us, see Note 35 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

Notwithstanding the foregoing, as described under “Risk Factors—Risks Relating to Our Business—We are subject to litigation and other legal, administrative and regulatory proceedings,” the Bank is subject and may be subject in the future to a series of investigations, procedures and legal or regulatory actions that, if resolved against the Bank, could have a significant adverse effect on the Bank’s reputation, financial condition or results of operations. Currently, it is not possible to predict the outcome of these proceedings or if they will have a significant adverse effect on the Bank’s reputation, financial condition or results of operations.

## RISK MANAGEMENT

### General

Our main risk exposures consist of credit, liquidity, operational (including legal) and market risks. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform on an obligation to us. Credit risk can affect the performance of both the loan portfolio and the investment portfolio. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal or stressed market conditions, and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems, internal controls or errors while processing transactions. Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates and equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. We consider risk management an essential activity that requires ongoing improvement and adjustment according to our operations.

The Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of minimum requirements with respect to risk management practices for all banking institutions. The regulations require banks to have adequate policies and procedures to manage credit, liquidity, technological, market, operational and legal risks. This management process should include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We have implemented and continue to update our program approved by our Board of Directors that complies with the requirements of the CNBV and requires higher standards regarding various topics.

### Risk Management Organizational Structure

The Bank has an adequate general risk management and control model for our business model and our organization. This model allows us to carry out our activities within the parameters of our strategy and policies that define our governing bodies and adapt to a changing economic and regulatory environment. The model includes the following basic elements: (i) government and organization, (ii) risk appetite framework, (iii) decisions and processes, (iv) evaluation, monitoring and reporting and (v) infrastructure.

The risk appetite framework is a key element of the management of BBVA Group, and it provides a comprehensive framework that sets out the risks and exposure levels that the BBVA Group and the business areas are willing to assume to reach their goals considering the organic growth of the business. Our risk strategy is approved by our governing bodies (the Board of Directors and the Risk Committee) through the risk appetite framework and its statements, as well as the core metrics and by type of risk metrics, which together constitute the principles on which the risk function is based.

The head of the risk function at the executive level is the Chief Risk Officer (“**CRO**”) who is appointed by the Board of Directors as a member of senior management and reports directly to the Chief Executive Officer on the activities carried out by the corporate bodies. The CRO is responsible for the management of all the financial risks with the necessary independence, authority, rank, experience, knowledge and resources. The CRO is supported by a structure consisting of risk units in the corporate area and specific risk units in the business areas. The CRO provides information to the Risk Committee about the performance of risk portfolios and the actions taken by his units to manage them.

The Risk Management Committee Strategies (“**RMC-E**”), the highest executive authority in terms of our risk management, was established to develop the strategies, policies, procedures and infrastructures required to identify, assess, measure and manage material risks faced by us in the ordinary course of business, which in some cases are subject to approval by our governing bodies.

In addition, we have a specific Internal Risk Control unit whose main function is to ensure the integration of our risk strategy in all areas of our management through an internal regulatory framework.

## Credit Risk

### *Credit Policies and Procedures*

The credit risk policies and procedures constitute the internal regulatory framework over which prudential and integrated management is carried out during the credit life cycle (admission, monitoring and settlement).

The Risk Management Unit has hierarchies to authorize exposure to credit risk by the different units that comprise it. The approval is the result of an analysis of the potential or existing capacity of the client to comply in a timely manner with all financial obligations with business or other income. The risk decision is supported by risk models and tools that are used at all times in accordance with our policies and procedures.

### *Credit Risk Quantification*

We have an integrated risk assessment system throughout the bank that provides us with sophisticated risk measurement tools and risk management practices. We use the following two measures for this purpose:

- The expected loss is calculated on the total outstanding loan portfolio. Credit scores are calculated using qualitative and quantitative information obtained from financial statements and self-regulatory organizations (*i.e.*, BC-Credit Bureau and the Mexican Banking Association). This score is determined to reflect the expected probability of a borrower's default and the expected loss given a default in any particular operation. We record this measure as a cost when creating a reserve for expected losses related to a particular portfolio. As of December 31, 2019, the total provision for expected credit losses was Ps.35,411 million, or U.S.\$1,896 million.
- The unexpected loss represents the uncertainty that actual losses will, in fact, differ from the expected loss as it measures the impact of external events that can affect a customer's probability of payment and helps us determine how much economic capital we need to maintain a satisfactory investment grade for our shareholders.

### *Credit Analysis and Pricing*

Account officers are trained and responsible for assigning risk ratings based on a set of quantitative and qualitative variables, as well as information from credit rating agencies and credit agencies using homogeneous criteria. Different rating systems have been developed for different customer segments. The analysis of a loan application by an account officer is accompanied by a summary of the main sources of risk. With respect to the approval of commercial loans, several prior authorizations are required depending on the amount of the loan requested and the rating of a given debtor, as shown in the table below.

Middle-Market Division's Credit Authorizations by Credit Amount	
Committee	Maximum amount (millions of U.S.\$)
Division Manager.....	30
Operations Technical Committee.....	120
Risk Management Committee – Admission.....	Greater than 120

The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our finance division) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating; and capitalization requirements.

### *Retail Lending Analysis*

We perform credit analysis of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an assessment of the borrower's ability to pay. A branch officer evaluates the information presented by the prospective borrower taking into account the following factors: (i) the results generated by an automated rating program, which takes into account the income, expenses and personal assets of the potential borrower; (ii) the credit history of the potential borrower; and (iii) our prior experience, if any, with the prospective borrower. We have improved our systems to track the payment of loan balances and credit cards. Decisions on the granting of loans are made at different levels and with varying degrees of participation of executives and officers,

depending on the size of the loan in question, the total amount of credit outstanding for the borrower and the complexity of the loan.

Our credit assessment procedures with respect to credit cards and consumer loans are based on a computerized credit scoring system. The credit rating process centralizes the decision-making process regarding the issuance of credit cards and increases in credit lines, which increases the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including increasing the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously. We have access to online information on the credit history of each of our credit card customers that we use in our decision-making process regarding increases or decreases in the line of credit provided to a particular client. We have also been working on the development of additional decision-making systems to verify the reliability of the information obtained from our admission process.

Our mortgage loan origination process is centralized and based on a computerized credit scoring system. The credit process begins in the prequalification phase, which serves as a filter for the loan approval process, and provides all the applicant's required information, including information about the applicant's credit history obtained through a credit bureau, which is reviewed to determine if the applicant meets the requirements. The prequalification standards. The evaluation of the property is carried out through a centralized independent unit. The relevant official reviews the applicant's file and the guarantee file (including the evaluation) to determine the capacity of the applicant's debt and the amount of the authorized loan. Once a final decision is made, the credit agreement is signed before a notary public, the deed is registered in the Public Registry and the funds are disbursed to the applicant's checking account. Loan to value relationships are established according to the size of the loan with a maximum of 90%, which requires a minimum initial payment of 10%. We only accept first mortgages on property.

### **Corporate and Middle-Market Lending Analysis**

The evaluation of a potential corporate borrower focuses mainly on the credit history and reputation of its owners and management, its production processes and facilities, the diversification of its financing sources, its current and projected cash flows and the guarantee offered to the loans. With regard to loans to finance a particular project, the evaluation focuses mainly on the experience of the borrower, the existence of a technological alliance, market conditions and the projected financial condition of the borrower. We assign a credit risk rating based on this analysis that helps identify the customer's risk profile.

Account officers are responsible for preparing proposals related to corporate loan applications. Each loan application is classified according to its industrial sector and then reviewed by the credit manager responsible for that particular sector to determine if it deserves more consideration. The credit manager submits the proposal to the corresponding credit committee for approval.

Applications for loans in excess of U.S.\$120 million (or the equivalent in pesos) must be submitted by the responsible credit manager to our Risk Management Committee, which is composed of the Credit Risk Officer, the Director of Wholesale Credit Risk and credit managers of all sectors.

The middle market segment is covered by risk teams assigned to each of the divisions in which the business unit is divided. The division's risk managers report directly to the central risk department and make credit decisions through the division committees.

### **Monitoring**

We operate a compliance center to monitor our borrowers' compliance with the term of loans. The compliance center monitors the dates and payments of loans, the conditions and covenants of loans and any authorized exceptions to standard procedures. The monitoring process also includes the verification of the use of proceeds and satisfaction contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among other procedures. Finally, the compliance center also operates an early warning default system.

Pursuant to the rules governing lending activities under the General Rules Applicable to Mexican Banks, Mexican banks must implement certain measures relating to lending controls, including processes relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

## Derivative Financial Instruments

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. To reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. To quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, our risk management unit calculates, by the use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be blocked out of the customers' or counterparties' line of credit. Lines of credit are monitored during the day and at the end of the day by our risk management unit.

## Liquidity Risk

Liquidity risk is related to the inability to meet efficiently both expected and unexpected current and future cash flows without affecting either our daily operations or our financial condition; it is also related to the structure of the balance sheet regarding the term structure gap between assets and liabilities. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

Our treasury unit is responsible for maintaining adequate intraday and short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee is responsible for maintaining overall adequate liquidity levels and funding structure in pesos and U.S. dollars. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term notes with interest due at maturity. Our main sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and foreign exchange derivatives.

Liquidity risk is analyzed by time horizon (intraday, short and long-term), by concentration of funding, by the relation between the liquidity buffer and net outflows, by encumbrance of the Bank's assets, and by uses and sources of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency funding plan is implemented for immediate corrective actions.

## Operational Risk

Operational risk is risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit.

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, value and mitigate operational risk throughout the Bank. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the Bank who has designated a member of his staff as operational risk manager, each of whom works as a delegate of the operational risk management unit.

We mainly use tools such as "STORM" (System for Operational Risk Management) and "SIRO" (*Sistema Integrado de Riesgo Operacional*) to manage operational risk, each of which was developed in-house and is a proprietary trademark. STORM is a qualitative management tool that identifies and evaluates operational risk factors and helps us establish and prioritize mitigating measures, including a collection of a key risk indicators that are customized for each process and that provide information about the level and type of operational risk exposure in the respective process. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit and account, among other criteria.

Pursuant to applicable regulations in Mexico, as of the end of 2015, operational risk for regulatory capital is currently being calculated under a Basel II alternative standard approach. Operational risk for economic capital is calculated under a Basel II advanced approach with a diversified allocation of economic capital for each business unit. Calculations under the Basel II Advanced Measurement Approaches have been estimated using data as of the end of June 2019, and will continue to be recalculated each year using data as of the end of each June.

## Market Risk

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (mainly the peso/U.S. dollar exchange rate) and stock prices are the most important sources of market risks, and from traditional banking services such as deposit taking and lending, where the balance sheet is exposed to interest-rate risk and foreign-exchange risk.

Trading positions are evaluated on a daily basis for market risk using Value at Risk Methodology. In addition, information regarding risk versus limits, scenario analysis and stress tests is produced on a daily basis.

Our risk management unit uses a historical simulation model to calculate value at risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. In addition, historical simulation with an exponentially weighted moving average is used as a complement because it is more sensitive to risk and, therefore, responds more quickly to changes in volatility and correlation levels. Finally, the effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years are available for value at risk calculations. “Unwind Period Value at Risk” looks to reflect market liquidity risk by calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, with the information being updated periodically for internal use.

The following table sets forth the average, maximum and minimum values of the daily Value at Risk during 2019 ended December 31, 2019, as well as the daily limits in effect as of December 31, 2019. Daily Value at Risk is calculated with a 99% confidence level. Value at Risk is calculated to represent the maximum loss at this confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held-to-maturity, or that are highly illiquid or in workout. During the year ended December 31, 2019, daily Value at Risk did not exceed Ps.153 million (U.S.\$8.08 million). The daily consolidated Value at Risk limit was Ps.316 million. Limits are reviewed periodically.

	Year ended December 31, 2019			Actual limit as of December 31, 2019
	Average	Maximum	Minimum	
Equities.....	34	41	27	75
Interest rate .....	113	148	78	250
Foreign exchange.....	16	48	1	65
Vega EQ .....	5	10	3	107
Vega FX .....	6	14	2	21
Vega IR .....	5	11	2	58
Total .....	119	152	89	316

Stress testing is used to complement the value at risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our Board of Directors. If a stop-loss warning is issued, trading desk head is convened to establish an action plan.

Our Asset and Liability Committee monitors our Basis Point Value (“BPV”) and Net Interest Income (“NII”), exposures and positions of our banking book. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operation and economic value that might result from changes in interest rates. Exposure of interest rate risk in the banking book is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity alerts for BPV and expected NII for the following twelve months, as well as limits for economic capital, which is the maximum expected loss in net economic value with a 99% confidence level over a three-month volatility horizon, and for margin at risk, which is the maximum expected loss in net expected NII for the following 12 months with a 90% confidence level over a three-month volatility horizon.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- parallel and non-parallel scenario analysis (including theoretical and historical stress scenarios); and

- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity and using a stability model. Also prepayment models are considered for mortgage and consumer loans.

Our non-peso lending activities are generally priced based on LIBOR, with re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the LIBOR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.



## MANAGEMENT

### Board of Directors

Pursuant to Mexican Banking Law, the board of directors of the largest Mexican banks must be composed of a minimum of five and a maximum of 15 directors, of whom, at least 25% must be independent. There could be an alternate director appointed for each director. Independent directors may have independent alternates. No more than a third of the board members may be employees of the relevant bank.

On February 28, 2020, our shareholders voted to elect the members of our Board of Directors. Our Board of Directors meets at least every three months and is chaired by Jaime Serra Puche, who is also the Chairman of the board of directors of GFBB. Except as otherwise indicated, the address for each director listed below is c/o BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, Paseo de la Reforma No. 510, Colonia Juárez, Demarcación Territorial Cuauhtémoc, Mexico City, Mexico, C.P. 06600.

The following table sets forth our current directors and their alternates:

Name and position	Principal activity	Years on our board of directors	Age
<i>Chairman</i>			
Jaime Serra Puche*	Chairman of GFBB	12	69
<i>Vice Chairman</i>			
Eduardo Osuna Osuna	Chief Executive Officer; General Director of the Bank	4	50
Onur Genç	CEO BBVA, S.A.	1	45
Carlos Torres Vila	Chairman of BBVA, S.A.	3	54
Vicente Maria Rodero	Independent Council	7	62
Alberto Bailleres González	CEO of BAL Group	28	88
Carlos Vicente Salazar Lomelín*	Chairman of Corporate Coordinating Counsel	14	68
Ricardo Guajardo Touché*	Independent Council	28	71
Jorge Saenz-Azcunaga Carranza	Country Monitoring BBVA, S.A	3	49
Cristina de Parias Halcón	Independent Council	<1	54
<i>Alternates</i>			
Andrés Alejandro Aymes Blanchet*	Aymes and Associated	19	79
Armando Garza Sada	CEO of Alfa and Nemark Group	1	62
Juan Asúa Madariaga	Senior Advisor Chairman BBVA,S.A.	<1	57
Fernando Gerardo Chico Pardo	Chairman and General Director of Promecap, S.C.	9	68
Eduardo Javier Garza Fernández	Chairman of Frisa Group	1	71
Alejandro Ramírez Magaña	CEO of Cinépolis de México, S.A. de C.V.	6	50
Arturo Manuel Fernández Pérez*	The Dean of the Instituto Tecnológico Autónomo de México (ITAM)	25	66
José Francisco Gil Díaz*	Chairman of Avanzia Group	9	76
Enrique de Jesus Zambrano Benitez	CEO of Grupo Proeza	<1	64

### Examiners

The examiners of the Bank must be residents of Mexico. The duties of the examiners include monitoring and supervising our operations, books and records. The examiners must comply with obligations imposed by law and bylaws and must meet the following requirements:

- technical expertise;
- extensive knowledge and experience in accounting, financial, legal or administrative matters;
- satisfactory credit and business history;
- moral character; and
- absence of any legal impediment to the performance of their duties (such as conflict of interest).

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. They may attend the Board of Directors' and shareholders' meetings but may not vote.

Although some of the functions of the examiner and the external auditor are similar, their responsibilities differ. To avoid conflicts of interest, examiners cannot sign the audit opinion on our annual financial statements.

## Board Activities

The main functions of our Board of Directors are to:

- manage and represent the Bank and fulfill its corporate purposes;
- implement the agreements adopted by the shareholders' meeting;
- appoint and dismiss the Secretary and Alternate Secretary. Appoint the General Director, executive officers and the internal and external auditors;
- create committees and commissions as it deems necessary, delineating their structure, organization and authority and granting them the necessary powers to carry out the business as the board may determine;
- approve the internal regulations; and
- call for the ordinary and extraordinary shareholders' meetings.

## Risk Committee

Our credit and market risk committee is responsible for:

- approving credit and market risk management policies (excluding policies that must be approved by the full Board of Directors);
- appointing and dismissing the responsible of the Integrated Risk Management Unit;
- informing the Board of Directors on a quarterly basis about the risk exposure of the Bank;
- establishing the framework of appetite for risk;
- creating committees as it deems necessary;
- performing, if applicable, the functions inherent to the Compensation Committee related to the "General Provisions applicable to Credit Institutions" issued by the CNBV; and
- addressing certain special issues referred to it by our Board of Directors.

The current members of our credit and market risk committee are Andrés Alejandro Aymes Blanchet (Chairman), Eduardo Osuna Osuna, Jaime Serra Puche, Arturo Manuel Fernández Pérez, Blanca Cecilia Muñoz Martínez and pursuant to the general rules applicable to the brokerage institutions (*Disposiciones de carácter general aplicables a las casa de bolsa*), José Alberto Galván López. Eugenio Bernal Caso acts as Secretary of the committee without being member, and José Arturo Sedas Valencia acts as Alternate Secretary of the committee without being a member.

## Audit Committee

Our audit committee performs the following functions:

- *Internal Controls.* Our audit committee reviews and submits internal control procedures and policies to our Board of Directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our Board of Directors.
- *Code of Ethics.* Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our Board of Directors for its approval.
- *Financial Information.* Our audit committee makes recommendations to our Board of Directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our Board of Directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.
- *Compliance.* Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our Board of Directors, and the committee verifies our compliance with the program.

- *Anti-Money Laundering and Anti-Funding to Terrorism.* Our audit committee examines and approves annually the working plan about these matters. Every six months the committee evaluates the fulfillment of this plan and its outcomes.
- *Internal Auditing.* Our audit committee evaluates and makes recommendations to our Board of Directors concerning the appointment of the head of our internal audit unit; reviews and approves our annual auditing plan; supervises and evaluates the independence, quality and effectiveness of our internal auditing department; facilitates communication between our Board of Directors and our auditors, oversees training of internal auditors; and oversees the implementation of corrective measures taken based on recommendations from the audit committee.
- *External Auditing.* Our audit committee submits external auditing candidates to our Board of Directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our Board of Directors.
- *External Supervision.* Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.
- *Systems.* The audit committee is informed about the incidents that occur in systems and services provided to users through electronic media (*i.e.*, e-mail and websites), to ensure that measures are taken to prevent or avoid any incidents in the future.
- *Outsourcing Operations.* The audit committee is informed of the performance of contracted services to third parties, as well as of compliance with applicable regulations relating to such services, to ensure that appropriate mechanisms are followed to manage, control and protect information created, received, transmitted, processed or stored in the technological infrastructure, telecommunications or information processing services that are performed by such third parties.
- *Credit Risk.* The audit committee is provided with quarterly reports on any deviations detected with respect to objectives, guidelines, policies, procedures, strategy and current regulations concerning credit.
- *Derivative Operations.* Each year the audit committee is informed and informs the Board of Directors of the results of the annual evaluation regarding our compliance with the requirements imposed by *Banco de México* on our derivative operations, including approval by our Board of Directors of our procedures, products and risk limits, qualification of our personnel and sufficiency of our infrastructure and internal controls related to our derivative operations.
- *Remuneration System.* Each year the audit committee must update the Board of Directors regarding the compliance, procedures and success of the remuneration system.

The current members of our audit committee are Ricardo Guajardo Touché (Chairman), Andrés Alejandro Aymes Blanchet and Jaime Serra Puche. Eugenio Bernal Caso acts as Secretary of the committee without being member, and José Arturo Sedas Valencia acts as Alternate Secretary of the committee without being a member.

## **Executive Committee**

Our executive committee is responsible for:

- working on special and urgent matters of competence of the Board of Directors that cannot be considered by the entire Board of Directors given time limitations or other limiting factors. The resolutions of the executive committee must be ratified by the Board of Directors;
- being knowledgeable about any matter that the Chairman or the General Director submits to the committee;
- convening extraordinary meetings of the Board of Directors; and
- resolving any matter expressly delegated to it by the Board of Directors.

The current members of the executive committee are Jaime Serra Puche (Chairman), Eduardo Osuna Osuna, Alberto Bailleres González, Ricardo Guajardo Touché and Carlos Torres Vila. Eugenio Bernal Caso acts as Secretary

of the committee without being member, and José Arturo Sedas Valencia acts as Alternate Secretary of the committee without being a member).

## Executive Officers

Our executive officers are appointed by our Chief Executive Officer or by our Board of Directors in accordance with our bylaws and applicable law. Since January 1, 2007, the executive officers, other than our Chief Executive Officer, are employed by BBVA Bancomer Operadora, S.A. de C.V. See “The Bank—Employees.”

The executive officers received fixed compensation of Ps.205.63 million and variable compensation of Ps.67.92 million for 2019. The amount of variable compensation was determined under the same criteria applicable to the rest of the executives of the financial group, consisting on setting annual evaluation indicators of the BBVA Group, including area/country and individual indicators (financial and non-financial); the corresponding scales of achievement, according to the weight attributed to each indicator; and an annual variable “objective” compensation, which represents the amount of the annual variable compensation in case of reaching the 100% of the preset goals. The resulting amount constitutes the annual variable compensation of each executive officer.

The Bank’s obligations under the retirement plan for the executive officers amounted to Ps.184.6 million as of December 31, 2019, and an additional Ps.33.6 million for additional benefits upon retirement, resulting in total obligations of Ps.218.2 million. Such liabilities include contractual conditions upon retirement.

The following table sets forth our executive officers as of December 31, 2019:

Name	Position	Years working for the BBVA Group	Age
Eduardo Osuna Osuna	Chief Executive Officer; Vice Chairman; General Director of the Bank	25	50
Luis Ignacio de la Luz Dávalos	General Director—Finance	19	48
Eugenio Bernal Caso	General Director—Legal Services	2	44
Blanca Cecilia Muñoz Martínez	General Director—Global Risks Management	35	58
Natalia Ortega Gómez	General Director—Audit	16	41
Pablo Alberto Martín Almaraz	General Director—Talent and Culture	17	47
Álvaro Vaqueiro Ussel	General Director—C&IB Global Markets	15	51
Gabriel Alejandro Ramírez Landa	General Director—Government and Business Banking	31	53
Francisco Xavier Leyva Rubio	General Director—Engineering & HoDMX	17	52
Rafael Humberto del Rio Aguirre	Director- Unique Experience	39	57
Hugo Daniel Nájera Alva	General Director—Business Development	27	55
Guillermo Estrada Attolini	General Director—Commercial Banking Network	32	54
Adolfo Arcos González	General Director—Audit	16	41

## RELATED PARTY TRANSACTIONS

### Operations to Related Parties

Pursuant to the Mexican Banking Law, no loans may be made by a bank to any of its officers or employees, except in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Article 73 of the Mexican Banking Law regulates and limits our loans and other transactions (including securities and derivatives transactions) to related parties pursuant to which such parties may become creditors of a bank, including loans to (1) holders of 2% or more of GFBB's or its subsidiaries' shares, (2) principal and alternate board members of GFBB, any of its subsidiaries or us, (3) relatives of a board member or of a 2% or more shareholder of GFBB or us, (4) any person not an officer or employee of GFBB or us who, nevertheless, is empowered to contractually bind GFBB or us, (5) any corporation which has a director or officer in common with GFBB or us, (6) any entity that has in common a director, employee or manager of a certain level at the Bank, and (7) any corporation in which GFBB's external auditors, our employees, holders of 2% or more of GFBB's shares, 2% or more of our shares, or we or any director or officer of GFBB or of us holds 10% or more of the outstanding capital stock. The majority of our Board of Directors must approve such loans. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level, and must be recommended by a special committee of directors responsible for reviewing our largest loans and all loans falling within the scope of Article 73 of the Mexican Banking Law. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (i) two million UDIs or (ii) 1% of a bank's Tier 1 net capital (approximately Ps.259,983, as of December 31, 2019, in our case), are exempt from such provisions. Loans to related parties may not exceed 35% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions.

The SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican government, loans to companies that provide ancillary services to us, provided that in each of these cases such entities do not make a loan to a related party, and loans to our directors or directors of GFBB if they fall within the minimum thresholds set forth above. These loans are not considered for purposes of determining the 35% of Tier 1 Capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our Board of Directors.

As of December 31, 2019, our loans to related parties under Article 73 of the Mexican Banking Law totaled Ps. 33,747 million, which comprised 2.72% of our total loan portfolio at such date. Of the Ps.33,747 million, Ps.21,495 million were loans made to BBVA S.A., its subsidiaries and / or their guarantee schemes Ps.12,352 million were loans made to borrowers affiliated with members of our Board of Directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on December 31, 2019, 95.9% were graded "A," 4.0% "B," and 0.2% "C" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

### Affiliate Transactions

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer for the sale of insurance policies and (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer for brokerage services.

Based on these service agreements, we receive fees on a cost basis from Seguros BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer and pay fees on a cost basis to Servicios Corporativos Bancomer, S.A. de C.V. and Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer. No assurance can be given that transactions between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, may develop, which are not required to be and may not be resolved in our favor.

All of our transactions among our subsidiaries are carried out at arms' length. For further information, see Note 22 to our Audited Financial Statements included elsewhere in this Offering Memorandum.

## THE MEXICAN FINANCIAL INDUSTRY

### General

Mexico's financial industry is currently comprised of full-service banks, national development banks, brokerage firms, public economic development trusts, and other non-bank institutions, such as controlling and sub-controlling entities of financial groups, bonded warehouses, exchange offices, bonding companies, insurance companies, brokerage firms, stock exchanges, investment fund, investment fund operating companies, distributors of investment fund shares, credit unions, pension fund management companies, central counterparties, securities rating institutions, securities depositories, multiple purpose financial companies, financial cooperative companies, community financial companies and financial technology institutions. On January 10, 2014, the new Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) was published in the Federal Official Gazette, replacing the Financial Groups Law of 1990.

The principal financial authorities that regulate financial institutions are *Banco de Mexico*, SHCP, the CNBV, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*, or the "CNSF"), the IPAB and the CONDUSEF.

### Trend Toward Multi-Purpose Banking Institutions

Prior to 1978, pursuant to the *Ley General de Instituciones de Crédito y Organizaciones Auxiliares* of 1941 the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican government. Institutions other than multi-purpose banking institutions were not permitted to engage in more than two of the specified activities. On January 2, 1975 and December 27, 1978, such law was amended in order to allow Mexican banks to carry out more financial activities. Consequently, during the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities. This is the model currently prevailing in Mexico.

### Nationalization and Subsequent Privatization

On September 1, 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. On November 18, 1982, a constitutional amendment came into force to implement the nationalization, which granted the Mexican government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. The *Ley Reglamentaria de Servicio Público de Banca y Crédito* was published in the Mexican Official Gazette on December 31, 1982, replacing the *Ley General de Instituciones de Crédito y Organizaciones Auxiliares* of 1941. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank S.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

On June 28, 1990, an amendment to the Mexican constitution came into force to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican government. Subsequently, on July 18, 1990, a new Mexican Banking Law was enacted to regulate the ownership and operation of full-service banks, national development banks, and the establishment in the national territory of representative offices of foreign financial entities. Thus, Mexico began the process of privatizing banks. By the third quarter of 1992, the Mexican government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors, including foreign sovereigns, have become more flexible.

### Financial Groups Law

The enactment of the former Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a holding company, such as ourselves, and made up of a number of financial operating entities.

On January 10, 2014, a new Financial Groups Law was published in the Mexican Official Gazette, which replaced the Financial Groups Law of 1990. The operations of financial groups holding companies are generally restricted to holding shares representing the capital stock of financial entities. Such financial entities may include full

service banks, brokerage firms, insurance companies, bonding companies, distributors of investment fund shares, investment fund operators, bond-warehousing companies, *Sofomes*, foreign exchange service providers, retirement fund administrators, financial cooperative companies and financial technology institutions. As a general rule, a financial group is formed with at least two of the referred financial entities, which may be of the same type. As an exception to the above, a financial group may not be formed with only two *Sofomes*.

The Financial Groups Law allows entities controlled by the same holding company of a financial group:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same financial group;
- maintain a common file for prevention purposes of operations with resources of illicit origin and financing terrorism, which can be used by all the entities that are part of the financial group;
- use equal or similar corporate names that identify them with the public as members of the same financial group (except for fintech institutions); and
- conduct their activities in the offices and branches of other entities as part of the same group.

In addition, the Financial Groups Law requires that each holding company enter into an agreement with each of the entities part of its financial group (*convenio único de responsabilidades*), pursuant to which the holding company agrees to guarantee without limitation the satisfaction of the obligations undertaken by each financial entity as a result of the activities that each such entity is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its financial entities, up to the total amount of the holding company's assets. If the assets of the holding company are not sufficient to meet the liabilities regarding the financial entities part of the financial group that arise simultaneously, the liabilities of the credit institution belonging to such financial group will be covered first and, subsequently the liabilities of any other entities that form the group will be prorated. For such purposes, a financial entity is deemed to have losses if its assets are insufficient to meet its payment obligations. The financial entities will never be held liable for the losses of their holding company or for the losses of the other financial entities of the group.

On March 9, 2018, the Financial Groups Law was modified to permit fintech institutions to be part of financial groups, so long as a fintech institution that is a part of a financial group may not use a denomination or name similar to those used by the other financial institutions that are members of that group.

### **Authorities of the Mexican Financial System**

The principal financial authorities that regulate financial institutions are *Banco de México*, the SHCP, the CNBV, the CNSF, the IPAB, and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other authorities. Also, these entities continually enact administrative regulation within the scope of their respective authority applicable to the corresponding financial entities, as further mentioned below. We, as a financial group holding company, are subject to the supervision and regulation of the CNBV and the CONDUSEF, particularly with respect to retail consumer banking. In addition, we and other financial subsidiaries are subject to the supervision and regulation of the corresponding financial authority, and are in constant interaction with such authority during the normal course of business.

### ***Banco de México***

*Banco de México* is the Mexican central bank, which is an autonomous constitutional body (*organismo constitucional autónomo*) that is not subordinate to any other entity of the Mexican federal government, or any branch of the Mexican government. *Banco de México*'s primary purpose is to provide the country with the Mexican currency, as well as to promote the healthy development of the financial system and promote the proper functioning of payment systems. Likewise, its main objective is to ensure the stability of the purchasing power of such currency.

Monetary policy decisions are taken by the members of the governing board of *Banco de México*. The exercise of the functions and administration of *Banco de México* are entrusted, within the scope of their respective powers, to a Governing Board and a Governor. The Governing Board is composed of five members, the Governor, and four deputy governors, all of which are appointed by the Mexican president and ratified by the Senate or the



Permanent Commission of the Mexican Congress, as applicable. Within the authorities of the governing board are the authorization of the currency minting orders, the decision to extend credit to the Mexican federal government, the determination of policies and criteria that *Banco de México* uses in its operations and the issuance of rules and general criteria, to which the preparation and exercise of the budget should be subject.

### **SHCP**

The SHCP is the ministry in charge of projecting and coordinating the national development planning, managing the public debt of the federation, planning, coordinating, evaluating and monitoring the Mexican banking system and collecting taxes and other contributions, among others. Together with the CNBV and *Banco de México*, it is the primary regulator of multiple purpose financial institutions and development banks. The SHCP, directly or through any of its commissions, participates in the processes of regulation, incorporation, revocation, operation, merger, control and stock purchase of the majority of the financial institutions.

### **CNBV**

The CNBV is a decentralized body (*órgano desconcentrado*) of the SHCP with technical autonomy and executive powers. The CNBV is in charge of the supervision and regulation of certain entities that are part of the Mexican financial system, including the multiple purpose financial institutions, with the purpose of ensuring their stability and proper operation, as well as to maintain and promote healthy and balanced development of such system, in protection of the interests of the public. The supervision authorities of the CNBV include inspection, surveillance, prevention and correction powers, including the evaluation of capitalization requirements and for the creation of reserves. The primary financial entities regulated by the CNBV are full-service banks, development banks, *Sofomes*, brokerage firms, as well as publicly traded companies and other entities that issue and offer securities. The CNBV is also in charge of granting and revoking authorizations to organize and operate as full-service bank and brokerage firm and fintech licenses in Mexico.

### **CNSF**

The CNSF is a decentralized body (*órgano desconcentrado*) of the SHCP with technical autonomy and executive powers. The CNSF is in charge of the inspection, surveillance and regulation of insurance and bonding institutions, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

### **IPAB**

After the 1994 financial crisis, the Mexican federal government created the IPAB, an independent, decentralized body of the Mexican government with its own legal standing and assets. The IPAB's primary purpose is to provide a protection system to the banking savings that ensures the payment of bank deposits, and has the power to support banks for the benefit of the savers and users of the banks and in safeguard of the national payments system.

### **CONDUSEF**

The CONDUSEF is public decentralized body (*organismo público descentralizado*) of the SHCP. The CONDUSEF is in charge promoting, assessing, protecting and defending the rights and interests of users of financial services, and serves as an arbitrator between financial institutions and their users, having the authority to establish regulations and impose sanctions on financial institutions in protection of the consumers. Among other authorities, the CONDUSEF can order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses. Likewise, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers that it leads to error.

## **The Banking Sector**

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects,

among others, caused an increase in the non-performing loan portfolio of banks, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed, or intervened in, the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with *Banco de México* to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves and amounts;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

### **Reforms to Mexican Banking Law**

On January 10, 2014, an amendment to the Mexican Banking Law was published in the Federal Official Gazette, that aimed to:

- *Update capital requirements according to Basel III.* The amendments to the Mexican Banking Law update the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, developed in the general provisions applicable to banking institutions.
- *Strengthen measures to maintain the liquidity requirements of banks.* The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank's accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and *Banco de México*, the CNBV may order the bank to adopt actions toward meeting its liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.
- *Create a special liquidation mechanism for banks.* The amendments to the Mexican Banking Law establish that the revocation of a bank's authorization to organize and operate as a full-service bank, will immediately lead to the liquidation of the bank under the provision of the Mexican Banking Law establishing an exception regime to the *concurso mercantil* procedure provided the Mexican Bankruptcy Law. Except when the shareholders specifically request the revocation of the authorization to organize and operate as a bank, the IPAB will act as receiver (*liquidador judicial*) of the bank in liquidation.
- *Allow foreign government to hold shares in Mexican banks under certain conditions.* The amendments to the Mexican Banking Law expressly set forth an exception to the rule prohibiting the participation of foreign governments in the capital stock of banking institutions, when such governments hold equity in the banking institution (i) pursuant to prudential temporary measures, such as financial support or financial bailouts, (ii) when control over such institution is held through official entities (such as funds or development governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate independently from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the banking institution in terms of the Mexican Banking Law.
- *Strengthen the authority of CNBV.* The amendments to the Mexican Banking Law reinforce the oversight powers of CNBV by giving it authority to order the suspension or limitation of transactions with related parties if such transactions are not within market terms. The CNBV may also order measures to stimulate banks into channeling more funds to the productive sector of the Mexican economy.

In addition, on March 9, 2019, the Mexican Banking Law was amended in order to (i) provide for the regulation of the use of electronic signatures (*firmas electrónicas avanzadas*) and any other form of electronic authentication for the execution of transactions between banks and their clients, so long as such means comply with CNBV requirements and (ii) allowing fintech institutions to be funded by the public without breaching the Mexican Banking Law. In addition, the definition of banking felonies was expanded to include more specific scenarios in which identity fraud occurs.

### **Initiatives to Improve Creditors' Rights and Remedies**

In Mexico, legislation has been enacted to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a bankruptcy law, which implies benefits for the Bank with respect to the operations and activities entered into with its customers.

### **Collateral Mechanisms**

On June 13, 2002, the Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law, the abrogated Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the abrogated Bonding Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors if proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations; changes to these laws also permit the non-judicial foreclosure of collateral.

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

### **Deregulation of Lending Entities and Activities**

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), the Mexican Banking Law and the Foreign Investment Law (*Ley de Inversión Extranjera*), with the purpose of creating *Sofomes*, a new type of multi-purpose financial entity. In January 10, 2014 further amendments to the General Law of Auxiliary Credit Organizations and Credit Activities were published in the Federal Official Gazette to strengthen the oversight authority of the CNBV and the CONDUSEF in respect to *Sofomes*.

*Sofomes* are Mexican companies (*sociedades anónimas*) registered before the CONDUSEF, and their main purpose is to engage in lending, financial leasing and factoring services. *Sofomes* can either be regulated entities (affiliates to financial institutions) or non-regulated entities. *Sofomes* that are regulated entities are subject to the supervision of the CNBV and are required to include in their denomination the words "*Entidad Regulada*" (regulated entity) or the abbreviation thereof "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated *Sofomes* and must indicate so in their corporate denomination by including the words "*Entidad No Regulada*" (non-regulated entity) or the abbreviation thereof, "E.N.R."

## **Amendments to Financial Regulations Impacting Banks**

The Mexican financial system, consistent with demands from regulators and market participants and developments in other jurisdictions, has committed to address systemic issues resulting from the global financial crisis, such as the enactment of new regulations aimed at improving disclosure standards for derivative transactions.

On July 5, 2010, the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) was enacted, which requires us to ensure the confidentiality of the information received from clients. We have modified our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder and as a means to obtain the consent of our customers prior to using any personal information provided by them.

On January 9, 2015, the General Rules Applicable to Financial Entities and other Persons that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y otras Personas que Proporcionan Servicios de Inversión*) were published. One of the main purposes of such rules was to establish a sole regulation that contains the rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the rules, financial entities and investment advisors rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client's investment profile and the financial product profile.

## SUPERVISION AND REGULATION

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the SHCP and the CNBV, as well as rules issued by *Banco de México*, the CONDUSEF, and the IPAB. The principal authorities that supervise our operations are the SHCP, *Banco de México*, the CONDUSEF and the CNBV.

### Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to regularly file reports to the financial regulatory authorities, principally the SHCP, the CNBV and *Banco de México*. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may correct, order a bank to modify and correct and, as a precautionary measure, republish such balance sheets. Occasionally, we are required to attend to information requests and to also cooperate with regulators in the course of visits and investigations.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and including their resume;
- a description and the total amount of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria, specific measures for loan-loss classifications and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's bylaws in effect at any time.

The CNBV has the authority to grant and revoke authorizations to bank institutions and to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations issued thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of *Banco de México* (*Ley del Banco de México*), the Law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), and regulations and provisions that it promulgates, including violations relating to the regulation of interest rates and fees and the terms of disclosure of fees charged by banks to customers. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems.

The SHCP is authorized to conduct evaluations of Mexican banks. Although guidelines for such evaluations have already been issued, additional rules may be issued in the future. Such evaluations are based upon the size of the banks and their participation in the relevant markets, and will determine whether or not a particular bank is lending to all sectors of the economy (primarily to small- and medium-sized companies). Results of evaluations are required to be made publicly available by the SHCP. Negative results from evaluations may result in corrective measures being ordered, however.

### **Authorization of Banks**

An authorization from the Mexican government is required to organize and operate as a bank. The CNBV, prior agreement of its governing board and favorable opinion of *Banco de México*, has the power to authorize the establishment of new banks, subject to minimum capital requirements, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico, or transfer of assets or liabilities between branches.

### **Intervention**

The CNBV, with the approval of its governing board, may declare managerial intervention (*intervención*) of a banking institution pursuant the Mexican Banking Law (the “**CNBV Intervention**”). In addition, and only if the IPAB provides liquidity to the bank pursuant to applicable law, the governing board of the IPAB may also appoint a “peremptory manager” (*administrador cautelar*).

A CNBV Intervention will only occur when (i) during a calendar month, the Capital Ratio of a bank is reduced from a level equal to or above the minimum Capital Ratio required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratio; (ii) the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law, or (iii) the banking institution defaults with respect to any of the following payment obligations: (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited in a securities deposit institution; or (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days (1) one or more participants the amounts due under any compensation process carried out through a clearinghouse or central counterparty, or does not pay three or more checks for such amount, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, or (2) in the bank windows of two or more branches the banking deposits and cash withdrawals carried out by 100 or more of their customers and such total amount.

If the IPAB granted extraordinary financial support to a bank pursuant to the Mexican Banking Law, the peremptory manager will be appointed by the IPAB and will assume the authority of the board of directors. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law. The appointment of the peremptory manager will be published in the Federal Official Gazette and in two national newspapers, and must be registered in the Public Registry of Commerce of the corresponding domicile.

### **Amendments to Banking Laws/Support Commercial Banking Institutions**

In January 2014, certain amendments to the Mexican Banking Law were enacted by Mexican Congress to reinforce, among other financial regulations, the legal framework to adopt and grant financial support to commercial banking institutions undergoing financial difficulties.

### **Resolution and Payment of Guaranteed Obligations**

#### ***Revocation of authorization to operate as a bank***

If the CNBV revokes a license to be organized and operating as a banking institution, the governing board of the IPAB will determine the manner under which the relevant banking institution shall be dissolved and liquidated in accordance with the Mexican Banking Law. In such a case, the IPAB’s Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution; (ii) constitute, organize and manage a new banking institution owned and operated directly by the IPAB, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits

and conditions provided by the Mexican Banking Law that the IPAB considers as the best and less expensive option to protect the interest of bank depositors.

***Causes for Revoking the authorization to organize and operate as a bank***

The following are the events upon which the CNBV may revoke an authorization to organize and operate as a bank if:

- it does not start its operations within a period of 30 days from the date on which the authorization was notified;
- the extraordinary shareholders' meeting resolves to request the revocation;
- it is dissolved or enters liquidation status;
- the banking institution (a) does not comply with any of the minimum corrective measures set forth in the Mexican Banking Law; (b) does not comply with more than one additional special corrective measure set forth in that same law; or (c) repeatedly fails to comply with an additional special corrective measure set forth in such law;
- the banking institution does not comply with the minimum Capital Ratio required under article 50 of Mexican Banking Law and the provisions referred to in such article;
- the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount in Mexican pesos greater than the equivalent of 20,000,000 UDIs: (1) credits or loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued and deposited with a securities depository, and (b) if during two business days or more and in an amount greater than the equivalent of 2,000,000 UDIs, (1) it does not settle with one or more participants the balances resulting from any compensation process carried out through a clearing house or central counterpart, or does not pay three or more checks that as a whole reach the quoted amount, which have been excluded from a clearing house for attributable reasons to the released institution or (2) it does not pay in the teller windows of two or more branches, withdrawals from banking deposits made by 100 or more of its customers that as a whole reach the quoted amount. This will not apply when the bank proves to the CNBV that it has the necessary liquid resources to meet the corresponding payment obligation, or when the respective payment obligation is subject to judicial dispute, arbitration proceedings or conciliation proceedings before the competent authority;
- the banking institution repeatedly performs operations prohibited by article 106 of the Mexican Banking Law; and
- the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking an authorization to operate as a bank in the Federal Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of "guaranteed obligations" of the relevant banking institution, as long as such are not object of any of the transfers referred to in Article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;

- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by *Banco de México*;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repurchase transactions and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette and in two newspapers of wide distribution in Mexico.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law; (v) bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of the IPAB different from those referred to clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures (such as the Notes), and (ix) the remaining amounts, if any, shall be distributed to stockholders.

## **Financial Support**

### ***Determination by the Banking Stability Committee***

The Banking Stability Committee (the “BSC,” formerly called the “Financial Stability Committee”), includes representatives of the SHCP, *Banco de México*, the CNBV and the IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments systems, necessary for development of economic activity, at risk, then the BSC may determine that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures be covered or paid by the IPAB or any other Mexican governmental agency.

### ***Types of Financial Support***

If the BSC makes the determination referred to in the preceding paragraph, then the IPAB’s Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank institution (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions or (ii) credit support granted by the IPAB in accordance with the Mexican Banking Law, and, in either case, the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- If the BSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such bank to any third party.



## Conditional Management Regime

As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

## Bank Liquidation Process

According to the amendments to the Mexican Banking Law enacted on January 10, 2014, upon the resolution of the CNBV revoking an authorization to organize and operate as a bank, the corresponding declaration will be published in the Federal Official Gazette and two newspapers of wide distribution in Mexican territory and will be registered with the Public Registry of Commerce, the relevant banking institution will be liquidated. The IPAB will be appointed liquidator of the banking institution.

If a banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Mexican federal court, according to the terms and conditions provided for a court liquidation procedure (*liquidación judicial*) under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*).

The IPAB will carry out the creditor identification process. The IPAB must also comply with the following preference for the payment of the banking institution's debts: (1) secured loans with collateral; (2) labor loans different to those referred to in section XXIII, subsection A, of Article 123 of the Mexican constitution; (3) loans that, according to statute, have a special privilege; (4) loans derived from the payment of obligations guaranteed pursuant to article 6 of Banking Insurance Deposit Law, up to the limit referred to in article 11 of such law; (5) loans derived from guaranteed obligations pursuant to article 6 of the Banking Insurance Deposit Law for the balance that exceeds the limit referred to in article 11 of such law; (6) loans derived from obligations other than the foregoing; (7) loans derived from subordinated preferred obligations; and (8) loans derived from subordinated non-preferred obligations.

## Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law is 90,000,000 UDIs.

The capitalization requirements in the General Rules Applicable to Mexican Banks set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets and operations risk. Under the relevant rules, the CNBV may impose additional capital requirements. The capitalization requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, which includes the supervisory authorities of twelve major industrial countries.

The General Rules Applicable to Mexican Banks classify Mexican banks in several categories based on their Capital Ratios. The corrective measures referred to below are determined based on the following classifications:

Fundamental Capital or CET1 (CCF)	Tier 1 Capital (CCB)	Net Capital Ratio (ICAP)				
		$\geq 10.5\% + \text{CBF}$	$\geq 8.0\%$	$\geq 7.0\% + \text{CBF}$	$\geq 4.5\%$	$< 4.5\%$
$\geq 7\% + \text{CBF}$	$\geq 8.5\% + \text{CBF}$	I	II			
	$\geq 7\% + \text{CBF}$	II	II	III		
$\geq 4.5\%$	$\geq 8.5\% + \text{CBF}$	II	II			
	$\geq 6\%$	II	II	III	IV	
	$\geq 4.5\%$	III	III	IV	IV	
$< 4.5\%$						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coeficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coeficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

Article 121 of the Mexican Banking Law provides that, in the exercise of its supervisory duties, the CNBV, through general provisions approved by its board of governance, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 122 of the Mexican Banking Law provides that, if a Mexican bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, including:

- (a) informing the bank's board of directors of its classification, based on its Capital Ratios, and submit a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations and the main financial indicators on the bank's stability and solvency; the bank shall also provide written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof;
- (b) if the bank is not in compliance with (i) any corrective measures under Article 122 of the Mexican Banking Law or (ii) the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements (Section V of Article 28 of the Mexican Banking Law), the CNBV will give notice to the bank, and the bank, within a period not to exceed seven (7) Business Days, shall file with the CNBV, for its approval, a capital recovery plan to increase the bank's Capital Ratios; the bank's capital recovery plan shall be approved by such bank's board of directors before it is submitted to the CNBV; and the CNBV, through its board of governance, will determine whether the recovery plan is approved, within a period not to exceed sixty (60) calendar days from the aforementioned filing;
- (c) suspending, in whole or in part, any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders; such measure shall apply to the bank's regulated holding company (*sociedad controladora del grupo financiero*) and other financial entities of the financial group (*grupo financiero*);

- (d) suspending, in whole or in part, any share repurchase programs, including those of the bank's regulated holding company (*sociedad controladora del grupo financiero*);
- (e) deferring or canceling, in whole or in part, payment of interest and, in the event of deferring or canceling the payment of principal on outstanding subordinated debt, and, if applicable, exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency if ordered by the CNBV; these corrective measures shall be applicable to subordinated debt considered part of the bank's Tier 1 Capital (*capital básico*) or Tier 2 Capital (*capital complementario*); if the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing such debt, in the applicable indenture and in the applicable offering document, that such deferral of payment of principal or deferral and cancellation of payments of interest, as the case may be, shall apply upon the occurrence of certain events as provided in the General Rules Applicable to Mexican Banks and that the implementation of such measures shall not be considered a default under the documents evidencing such debt;
- (f) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels of seniority, and suspending the granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratios set forth under the Mexican Capitalization Requirements;
- (g) abstaining from increasing the outstanding amounts of any loans granted to any person who is a related party of the bank under Article 73 of the Mexican Banking Law; and
- (h) any other corrective measures that are provided by the General Rules Applicable to Mexican Banks.

Article 122 of the Mexican Banking Law further provides that:

- (a) If a Mexican bank complies with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, but any of its Capital Ratios is not equal to or greater than the minimum Capital Ratios for a bank not to be subject to any corrective measures, such bank must implement certain corrective measures ordered by the CNBV, including, among others, (A) informing the bank's board of directors of its classification, based on the Capital Ratios thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations including the principal regulatory ratios, that reflect the bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or *Banco de México*) and providing written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof; (B) abstaining from entering into any transaction that may decrease the bank's Capital Ratios below the Mexican Capitalization Requirements; and (C) any other corrective measures ordered by the CNBV.
- (b) Regardless of a bank's capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (A) requiring compliance with additional corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratios; (B) requiring special audits to be performed by special auditors in connection with specific matters; (C) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any changes in salary previously agreed on and subject to the officers' and employees' labor rights; (D) removing officers, directors, statutory auditors or external auditors or appointing any persons to such positions; or (E) any other measures ordered by the CNBV, based on its authority to inspect and supervise banking institutions.
- (c) If a Mexican bank does not comply with any of the Capital Ratio requirements pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements, the CNBV may order the bank to suspend any payment of dividends or other distributions to its shareholders.
- (d) Corrective measures will not be applicable to Mexican banks with Capital Ratios equal to or greater than the minimum Capital Ratios required by the Mexican Capitalization Requirements.
- (e) The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from Class I through Class V based on their Capital Ratios for Total Net Capital

(*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is categorized as Class II.

- (f) Article 122 of the Mexican Banking Law specifies that if a bank does not satisfy the Capital Ratios required to be classified as Class I pursuant to the Mexican Capitalization Requirements, the bank must implement the corrective measures ordered by the CNBV. Currently, the minimum Capital Ratios required to be classified as Class I are: (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement.

If the minimum Capital Ratios to be classified as Class I are not satisfied, Mexican banks shall be classified as Category II, III, IV or V, as the case may be, according to the General Rules Applicable to Mexican Banks then in effect.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Categories II, III, IV or V include, among other things, requiring a bank to suspend or cancel payment of interest, defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; if the bank issues subordinated debt, a bank must include in the relevant debt documentation, including in the applicable indenture and offering document, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt if a bank is classified in Category II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

The General Rules Applicable to Mexican Banks require Category I Mexican banks to maintain Capital Ratios equal to or exceeding: (i) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (ii) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (iii) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “**Systemically Important Bank Capital Supplement**”). The CNBV also has the authority to require countercyclical capital supplements from any and all Mexican banks, designed to cover adverse economic cycles, if the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the “**Countercyclical Capital Supplement**” and, together with the Systemically Important Bank Capital Supplement and any other additional capital supplement that may be required to be maintained and comprised of Fundamental Capital pursuant to the Mexican Capitalization Requirements, the “**Capital Supplements**”).

The CNBV reconfirmed our status as a Grade IV bank of systemic importance on May 23, 2019, meaning that we are required by the CNBV to have a Systemically Important Bank Capital Supplement of 1.50%. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. The Systemically Important Bank Capital Supplement is calculated as 1.50% of our total Tier 1 Capital and was required to be implemented over a four-year period in four equal parts, each to be constituted in December of each year, starting December 31, 2016. As of December 31, 2019, our Capital Supplement was 1.5% of our Tier 1 Capital.

As a result of the foregoing, the minimum Capital Ratios applicable to us as of the dates indicated below, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement and the Countercyclical Capital Supplement, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

Minimum Capital Ratios	December 31,		
	2019	2018	2017
(i) Total Net Capital ( <i>capital neto</i> ).....	12.00%	11.63%	11.25%
(ii) Tier 1 Capital ( <i>capital básico</i> ).....	10.00%	9.63%	9.25%
(iii) Fundamental Capital ( <i>capital básico fundamental</i> ).....	8.50%	8.13%	7.75%

As of December 31, 2019, our Capital Ratios were (i) 15.61% in the case of Total Net Capital, (ii) 12.49% in the case of Tier 1 Capital and (iii) 12.49% in the case of Fundamental Capital. As of December 31, 2018, our Capital Ratios were (i) 15.27% in the case of Total Net Capital, (ii) 12.44% in the case of Tier 1 Capital, and (iii) 12.04% in the case of Fundamental Capital.

Aggregate net capital consists of Tier 1 Capital (which, in turn, consists of Core Equity Tier 1 Capital and instruments that are not common equity, but are eligible to be included in such tier (“**Additional Capital Tier 1**”)) and Tier 2 Capital. The capitalization requirements include among the Core Equity Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Core Equity Tier 1 Capital, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Additional Capital Tier 1 is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

The complementary part of basic capital (Tier 2) comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and are convertible into shares at their maturity date, and the total allowable reserves without total expected losses up to an amount that does not exceed 0.6% of weighted assets by credit risk. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained profits account. Under Mexican law, dividends may not be paid out against the legal reserve. As of December 31, 2019, we had set aside Ps.6,901 million in legal reserves compared to paid-in capital of Ps.24,143 million (without adjustment for inflation).

### Corrective Measures

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratios and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet any of the minimum required Capital Ratios.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they are classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after *Banco de México* has notified the CNBV of the capitalization ratio of the bank, as well as verify the bank’s compliance with the corrective measures imposed. Class I banks are exempted from any corrective measures, but banks in the remainder of the categories may be subject to specific corrective measures. Regardless of the Capital Ratio of the banks, the CNBV may order the implementation of additional and special corrective measures.

On July 26, 2010, the group of governors and heads of supervision of the Basel Committee, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010. The Basel III rules for capitalization were implemented in Mexico through an amendment to the General Rules Applicable to Mexican Banks published in the Federal Official Gazette on November 28, 2012, effective as of January 1, 2013.

### **Reserve and Compulsory Deposit Requirements**

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of *Banco de México*'s monetary policy is to maintain the stability of the purchasing power of the peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy. Under this policy, *Banco de México* has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where *Banco de México* compensates liquidity deficits through daily operations in the money market providing adequate liquidity and stability to these markets.

In order to manage its maturity exposures to the Mexican financial markets, *Banco de México* has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and monetary regulatory bonds (BREMs). At the same time, *Banco de México* has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

*Banco de México* may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time, these reserves are maintained on deposit with *Banco de México*, each banking institution receives interest on such deposits every 28 days. *Banco de México* provides advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

To promote the sound development of the financial system and improve monetary policies, on May 12, 2016, *Banco de México* published in the Federal Official Gazette the rules for auctions of *Bonos de Regulación Monetaria Reportables* ("BREMS R"), as an alternative for the banking institutions to comply with the compulsory deposit reserves (through the purchase of BREMS R). The BREMS R may only be acquired by Mexican banks, through auctions carried out by *Banco de México* or through reportos (repurchase transactions). Thus, there is no secondary market for BREMS R. The BREMS R maintained by banking institutions may only be sold directly or through reportos to *Banco de México* or to other banking institutions. Furthermore, on June 13, 2019, *Banco de México* allowed, through Bulletin 9/2019, banking institutions to use its BREMS R to secure overdrafts (*sobregiros*) of their sole accounts (*cuenta única*) maintained with *Banco de México*.

### **Classification of Loans and Allowance for Loan Losses**

The Loan Classification and Rating Rules established in the General Rules Applicable to Mexican Banks, provide a methodology for classifying (i) consumer loans (*i.e.*, each of the exposures of credit cards and loans to individuals, divided into separate groups) that are considered major factors (a) for the exposure of credit cards, the probability of default and potential losses, and (b) for loans to individuals, the probability of non-payment, potential losses (taking into account the guarantee received), and credit exposure (net of the reserves created), (ii) mortgage loans (*i.e.*, residential, including loans for construction, remodeling or improvements), considering as main factors periods of non-payment, the possibility of default and possible losses (taking into account the collateral and guarantees received), and (iii) commercial loans, based primarily on an assessment of the borrower's ability to pay off their loan (including country risk, financial risk, industry risk history and payments) and an evaluation of the guarantees and related guarantees. Based on this methodology, the percentage of reserves required is determined. The Loan Classification and Rating Rules also allow banks, subject to the prior approval of the CNBV, to develop and adopt specific internal procedures and methodologies within certain parameters to qualify the loans in their portfolios.

The Loan Classification and Rating Rules require Mexican banks to rate 100.0% of their commercial loan portfolio at the end of each month. The classification of mortgage and consumer loans must be made monthly and reported to the CNBV.

The provision for credit losses for our commercial loan portfolio is calculated mainly based on the classification of the loans in the established categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an assessment of the borrower's ability to repay their loan and the guarantees and guarantees related to the loan rating analysis to estimate a probable loss and define the percentage of necessary reserves. The Loan Rating and Classification Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. The CNBV approved our internal methodology in April 2014 for the portfolios of companies and large companies. Although there is an internal methodology, as of December 31, 2019, we applied the methodology prescribed by the CNBV, which requires that we classify 100% of the aggregate balance of our business loans, including all loans with an outstanding balance equal to or greater than 14,000,000 UDI, at the date of classification. Commercial loans must, at the same time, be classified by sector as loans with financial entities, states and municipalities or investment projects or by volume of sales as small, medium or large companies. Once we have this classification, it is expected that we calculate the expected loss as a result of the probability of default, the severity of the loss and the exposure in default, based on the parameters established by the CNBV in the particular annexes (21, 22, 23 and 24) of the Single Bank Agreement. If our analysis of the classification of a commercial loan changes from one period to another, then the calculation of the amount of our credit loss reserve is adjusted accordingly.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade "A" loans, representing minimal risk of non-payment; Grade "B" loans, represent low risk loans; Grade "C" loans, representing loans with moderate risk; Grade "D" loans, represent high risk loans; and Grade "E" loans, representing non-collectible loans.

### ***Commercial Loans***

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

<b>Percentage of expected loss</b>	<b>Risk Level</b>
0.000% to 0.90%	A1
0.901% to 1.5%	A2
1.501% to 2.0%	B1
2.001% to 2.50%	B2
2.501% to 5.0%	B3
5.001% to 10.0%	C1
10.001% to 15.5%	C2
15.501% to 45.0%	D
Greater than 45.01%	E

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification monthly to the balance of the loan recorded on the final day of each month.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

### ***Consumer Revolving Loans (Including Credit Cards)***

Our internal advanced model for the classification of consumer revolving loans (including credit cards) was certified by the CNBV in June 2011, with our most recent annual reauthorization approved in July 2019.

We determine the allowance for loan losses based on the following criteria:

- Probability of default: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- Severity of loss: Calculated based on variables like portfolio type, balance aging and noncompliance period.
- Exposure: Determined according to the credit limit and current balance.

The allowance made according to the following percentages:

Percentage of expected loss	Risk Level
0.00% to 3.0%	A1
3.01% to 5.0%	A2
5.01% to 6.5%	B1
6.51% to 8.0%	B2
8.01% to 10.0%	B3
10.01% to 15.0%	C1
15.01% to 35.0%	C2
35.01% to 75.0%	D
Greater than 75.01%	E

### ***Consumer Non-Revolving Loans (Excluding Credit Card Loans)***

We determine the provision for credit losses for our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in arrears as of the classification date. These billing periods can be weekly, biweekly or monthly. Additionally, we assign risk ratings from the credit losses for our consumer loan portfolio based on the following percentages according to the Loan Classification and Rating Rules:

Percentage of expected loss	Risk Level
0.00% to 2.0%	A1
2.01% to 3.0%	A2
3.01% to 4.0%	B1
4.01% to 5.0%	B2
5.01% to 6.0%	B3
6.01% to 8.0%	C1
8.01% to 15.0%	C2
15.01% to 35.0%	D
Greater than 35.01%	E

### ***Residential Mortgage Loans***

Our internal advanced model for the classification of residential mortgage loans was certified by the CNBV in November 2018.



We determine the allowance for loan losses based on the following criteria:

- Probability of default: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- Severity of loss: Calculated based on variables like portfolio type, balance aging and noncompliance period.
- Exposure: Determined according to the credit limit and current balance.

The following table shows the degree of risk to classify mortgage credits from their level of expected loss.

Percentage of expected loss	Risk Level
0.000% to 0.50%	A1
0.501% to 0.75%	A2
0.751% to 1.00%	B1
1.001% to 1.50%	B2
1.501% to 2.00%	B3
2.001% to 5.00%	C1
5.001% to 10.0%	C2
10.001% to 40.00%	D
Greater than 40.001%	E

### Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to Bulletin 3/2012 regulation of *Banco de México*, the liquidity requirement for foreign currency-denominated liabilities, or the liquidity coefficient in foreign currency, requires Mexican banks to maintain liquid assets, denominated in foreign currencies, equal to or greater than (i) the maximum excess between liabilities to assets for different gaps (1 day, 1 to 8 days, 1 to 30 days and 1 to 60 days) plus (ii) the sum of the excess between liabilities to assets for each day multiplied by a factor specified in the bulletin, for each day to the 60 days horizon.

Banks must have sufficient liquid assets to meet their obligations for the next 60 days.

*Banco de México* defines liquid assets as those assets in foreign currency that are not granted as collateral, loan, repurchase or that have not been used in any other similar operation that limits their free availability, as follows:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;
- deposits with *Banco de México*;
- treasury bills, treasury bonds and treasury notes issued by the United States government;
- one to seven-day term deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P;
- investments in mutual funds or companies identified by *Banco de México* upon the bank's request;
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and
- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Banks must report this requirement on a daily basis to *Banco de México*.

Mexican Banking Regulation has incorporated Basel III best practices for liquidity risk, so Banks must report the *Coeficiente de Cobertura de Liquidez* (“CCL”) on a daily basis and also publish the average quarterly CCL. This measure is similar to LCR from Basel. The regulation establishes a minimum level for CCL of 100%.

### **Foreign Currency Liabilities Regulation**

In addition, Bulletin 2019/95 establishes that the total liabilities denominated or indexed in foreign currencies of a bank, its subsidiaries and foreign agencies are limited to 1.83 times the amount of its Tier 1 Capital.

### **Lending Limits**

In accordance with the General Rules Applicable to Mexican Banks, restrictions relating to the diversification of a bank’s financing transactions are determined in accordance with the bank’s compliance with capitalization requirements. For a bank with a:

- Capitalization ratio greater than 8% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 12.0% of the bank’s basic capital.
- Capitalization ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank’s basic capital
- Capitalization ratio greater than 10% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank’s basic capital.
- Capitalization ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank’s basic capital
- Capitalization ratio greater than 15%, the maximum financing exposure is limited to 40% of the bank’s basic capital.

As of December 31, 2019, the Capitalization ratio of the Bank was 15.6%.

Any financing that has unconditional and irrevocable guarantees, covering the principal and accessories of such financing, granted by a bank or a financial institution from abroad that has a minimum investment grade rating and is established in a country that is part of the Organization for the Cooperation and Economic Development or the European Community, as well as those guaranteed with securities issued by the Mexican government, or with cash, may exceed the maximum limit applicable to the institution in question, but in no case shall they represent more than 100% of the basic capital of such bank or financial institution.

An additional exception is for financing granted to multi-purpose financial corporations in respect of which the accrediting institution has at least 99% of its capital stock, may also exceed the maximum limit applicable to the institution in question, but in no case shall they represent more than 100% of their basic capital.

Additionally, banking institutions must ensure that the sum of the financing granted to the 3 largest debtors does not exceed 100% of the basic capital of the banking institution. Financings granted exclusively to multiple banking institutions and the financings granted to the entities and organizations that make up the Federal Public Parastatal Administration, including public trusts, as well as the state’s productive companies, do not count towards this limit.

### **Funding Limits**

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV on the business day following its receipt of funds from a person or a group of persons acting in concert that represent, in one or more funding transactions, more than 100% of a bank’s Tier 1 Capital. As of December 31, 2019, none of our liabilities to a person or group of persons exceeded the 100% threshold.

### **Related Party Loans**

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank’s Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See “Related Party Transactions—Operations to Related Parties.”

## Foreign Currency Transactions

*Banco de México* regulations govern transactions by banks that are denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot foreign exchange transactions (*i.e.*, transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by *Banco de México*, in connection with maturities of obligations denominated in foreign currencies (as discussed under “—Liquidity Requirements for Foreign Currency-Denominated Liabilities” above).

## Derivative Transactions

Certain *Banco de México* rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange;
- stock exchange indexes;
- Mexican currency, foreign currencies and UDIs;
- inflation indexes;
- nominal and real interest rates, including those referring to debt instruments an index referring to such rates;
- loans and other advances;
- yellow corn (*maiz*), wheat, soybeans, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cacao, barley, bovine and porcine livestock, milk, canola, soy oil and soy paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc;
- gold or silver; and
- futures, forwards, options and swaps with respect to the underlying assets referred to above.

Mexican banks require an express general approval, issued in writing by *Banco de México* to enter into, as so-called intermediaries, into derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from *Banco de México* to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks (and not other financial institutions) may enter into credit derivatives such as total return swaps and credit default swaps, if expressly approved by *Banco de México*. Mexican banks may, however, enter into derivatives without the authorization of *Banco de México*, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer is a related party, are subject to lending limits and other requirements generally specified in connection with related party transactions, set forth in Mexican Banking Law.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in over-the-counter markets, collateral may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds and any other counterpart authorized by *Banco de México*. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform *Banco de México* periodically of derivative transactions entered into and whether

any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by *Banco de México* or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as International Swaps and Derivatives Association (“ISDA”) master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We carry out swaps, futures forwards and options related to pesos and foreign currencies in the underlying assets described above, except with commodities (yellow corn, wheat, soy bean, etc.) and gold or silver, as well as of credit derivatives related to interest rate.

### **Repurchase Operations and Securities Lending**

Under a bulletin issued by *Banco de México*, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

*Banco de México* has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

### **Limitations on Investments in Other Entities**

Under the Financial Groups Law, members of a financial group may not directly or indirectly own capital stock of their own financial group holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial group holding company or the capital stock of other subsidiaries of their financial group holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of *Banco de México* and the primary Mexican regulatory commission supervising the financial entity), and subject to certain exceptions, members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time; (ii) more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank’s board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV. The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

### **Restrictions on Liens and Guarantees**

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with *Banco de México*, development banks, public federal trust and the IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers’ acceptances.

### **Bank Secrecy Provisions; Credit Bureaus**

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services transactions to any third parties (including any purchaser, underwriter, or broker or holder of any of the bank’s securities) other than (i) the depositor, debtor, accountholder or beneficiary, settlor, and their legal representatives or attorneys-in-fact, to have the account or to intervene in the operation or service (ii) judicial authorities by virtue of trial proceedings in which the accountholder, or the settlor,

beneficiary, trustee, principal, or agent, is a defendant; (iii) banking institutions in the cases in which they are requested by the following authorities: the Attorney General of the Republic, the attorney general of the states and Mexico City, the Attorney General of Military Justice, the Mexican federal tax authorities for tax purposes, the SHCP for purposes of the provisions of Article 115 of Mexican Banking Law, the Federal Treasurer, the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its review and inspection authorities, the secretary and the undersecretaries of the Ministry of Public Administration and the Unit of Control of the Resources of the Political Parties. Applications must be made with the correct legal basis and through CNBV.

The Mexican Banking Law authorizes the SHCP, *Banco de México*, the CNBV, the IPAB and the CONDUSEF to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; *provided, however*, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV, the SHCP, *Banco de México*, the IPAB and the CONDUSEF must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus. We currently use the services of Buró de Crédito (Trans Unión de México, S.A. Sociedad de Información Crediticia), a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

### **Money Laundering Regulations**

Mexico has in effect a regulatory framework relating to anti-money laundering and counter-financing terrorism (the Money Laundering and Terrorism Financing Prevention Rules (*Reglas de Prevención al Lavado de Dinero y Financiamiento al Terrorismo*)). The most recent provisions issued by the SHCP in this matter applicable to credit institutions, are called “General provisions referred to in article 115 of the Mexican Banking Law” which have been in effect since April 21, 2009 and were last amended in March 22, 2019.

The aforementioned rules establish various obligations, including:

- the establishment of procedures and criteria of clients and users identification and know-your-customer policies in order to carry out a due diligence of such clients and users that enables us to prevent and detect actions, omissions or transactions that could favor, provide help or cooperation of any kind for the execution of crimes of operations with resources of illicit origin (commonly known as “money laundering”) and terrorism and its financing;
- implementing procedures to detect and report operations of clients, users or employees of the institution when there are indications, under specific criteria, that such operations favor money laundering and terrorist financing;
- creation and implementation of a methodology designed to carry out an assessment of risks to which entities are exposed derived from their products, services, practices or technologies with which they operate. Such methodology shall establish the processes for the identification, measurement and mitigation of such risks.
- in order to determine the degree of risk in which customers should be located, entities will have a model of evaluation of risks that must be consistent with the methodology referred to in the previous bullet, to carry out the process of identification, measurement and classification of the risk levels of its customers.
- The establishment of a Communication and Control Committee, the appointment of a compliance officer in charge of supervising full compliance with the relevant provisions, as well as the appointment of an interim compliance officer.
- the appointment of a compliance officer in charge of, among other matters, the elaboration of the anti-money laundering policies and procedures, supervising the correct implementation of the communication and control committee’s determinations, and informing the committee of high risk clients;

- the development of training programs and dissemination contemplating, among other aspects, those related to the content of their internal policies, criteria and procedures regarding Money Laundering and Terrorism Financing Prevention Rules, the content of the regulation on the matter, as well as information on techniques, methods and trends to prevent, detect and report money laundering and terrorist financing; and
- having automated systems that enable compliance with the regulatory framework related to Money Laundering and Terrorism Financing Prevention Rules.

### ***Know-your-Customer***

Entities are required to organize and maintain a file for the identification of each client, before opening an account or entering into an agreement to execute any kind of transaction, (each, an “**Identification File**”).

An individual’s Identification File shall include, among other information, the following data: (i) full name, (ii) gender, (iii) date of birth, (iv) nationality and place of birth, (v) federal identification number, (vi) tax identification number and/or equivalent, as well as the country or countries which granted them, when available, (vii) occupation, profession, main activity or line of business, (viii) complete domicile (including telephone number), (ix) e-mail address, if any, and (x) advanced electronic signature series number, when available.

Likewise, the Identification File must include, among others, the following documentation: (i) identification and (ii) proof of domicile.

An entity’s Identification File shall include, among other information, the following data: (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) Mexican tax identification number and if applicable, tax identification number and/or equivalent, as well as the country or countries which assigned them, and (vii) advanced electronic signature series number, when applicable.

Likewise, the Identification File shall include, among others, the following documentation: (i) articles of incorporation, (ii) certificate evidencing the Mexican tax identification number issued by the SHCP and, where appropriate, the document attesting the assignment of a tax identification number and/or equivalent issued by the competent authority and proof of the advanced electronic signature, (iii) proof of domicile, and (iv) identification and copy of the public deed containing the powers of attorney of its representative.

The previous documents and data that are part of the client’s Identification File must be kept for the entire duration of the business relationship, and upon its termination, by a period not less than 10 years after the termination date.

### ***Regulatory Reports***

In accordance with the legal framework for prevention of money laundering and terrorist financing, material transaction reports must be submitted to the SHCP, through the CNBV, and reports of certain international funds transfers, certain dollar cash transactions, unusual transactions, troubling internal transactions and transactions with cashier’s checks.

Under the Money Laundering and Terrorism Financing Prevention Rules, we must provide to the SHCP, through the CNBV, (i) quarterly reports (within 10 business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.\$7,500, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.\$1,000, and (iii) reports of suspicious and concerning internal activities within three calendar days counted from the date an unusual or concerning internal transaction is reviewed by the communication and control committee, which should analyze the case within 60 calendar days counted from the date the alert was detected by our systems, among others.

Additionally, anti-money laundering regulations restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts in U.S. dollars from individual customers in excess of U.S.\$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts in U.S. dollars from their corporate clients, except in limited circumstances.

Furthermore, Mexican banks are not permitted to receive more than U.S.\$300 per day in cash currency from individual domestic non-customers, and more than U.S.\$1,500 per day from individual foreigner non-customers for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.

Finally, the amended Money Laundering and Terrorism Financing Prevention Rules, set forth obligations for Mexican banks to obtain more information of their clients' counterparts on international funds transfers (which will be effective as of November 2020), as well as the geolocation of the devices from which (i) transactions are carried out, (ii) accounts are remotely opened and (iii) agreements to execute any kind of transaction are remotely executed (which will be effective as of March 2021).

Apart from the Mexican regulation as described above, we have included in our anti-money laundering policies the obligation to screen customers and potential customers against Office of Foreign Assets Control lists, and we have implemented an automated screening process to identify any person included in those lists as well as procedures to close the accounts of any customer included in those lists in accordance with applicable laws, as well as to avoid any future relationship with them. Accordingly, by being part of our policies, and compliance of those obligations can be enforced by Mexican authorities.

### **Rules on Interest Rates**

*Banco de México* regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose either: a fixed rate, TIIE, *Cetes*, CCP (*costo de captación promedio a plazo*), the rate determined by *Banco de México* as applied to loans funded by or discounted with *Nacional Financiera, S.N.C. Institución de Banca de Desarrollo* or the rate agreed to with development banks or public economic development trusts in loans funded or discounted with them, the weighted average bank funding rate or the weighted average government funding rate, both as determined by *Banco de México*. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, EURIBOR, LIBOR or the rate agreed with international or national development banks or trusts, for loans funded by or discounted with such banks or trusts. For U.S. dollar-denominated loans, banks may choose either a fixed rate, CCP-Dollars, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or trusts.

On January 15, 2020, *Banco de México* published Bulletin 1/2020, pursuant to which a new one-day reference rate, denominated "TIIE de Fondeo," was established.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

On November 12, 2010, *Banco de México* published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in Internet transactions and the wrongful use of information contained in credit cards.

In June 2014, the Mexican Supreme Court of Justice issued a thesis, of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced interest rate. The elements the judge should take into account to determine if an interest rate is evidently excessive are: (i) the type of relationship between the parties; (ii) the qualification of the persons intervening in the issuance of the promissory note and if the activity of the creditor is regulated; (iii) the purpose of the credit; (iv) the amount of the loan; (v) the term of the loan; (vi) the existence of guarantees or collateral for the payment of the loan; (vii) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (viii) the variation of the national inflation index during the term of the loan; (ix) market conditions; and (x) other issues that may be relevant for the judge.

To date, the Mexican courts have not issued any judgment reducing the interest rates on loans charged by the Bank. In addition, in November 2016, the Mexican Supreme Court of Justice published a separate thesis setting forth a rebuttable presumption that the interest rates charged on loans made by Mexican banking institutions are not excessive. The thesis was based on the fact that the loans offered to the public by credit institutions are supervised by *Banco de México*, whose supervision has the objective of ensuring that credit institutions' conditions are accessible and reasonable for the public.

## **Fees**

The Law for the Transparency and Regulation of Financial Services defines a “commission” as “any charge, regardless of its denomination or modality other than interest, that an Entity collects from a Client.”

*Banco de México* has the authority to regulate commissions and must ensure that they are in furtherance of the public interest, among other things. In addition, *Banco de México* establishes a list of prohibited commissions, which can be found on its website. Prohibited commissions include, but are not limited to, commissions related to (i) basic checking and payroll accounts; (ii) cash withdrawal and balance inquiries at tellers; and (iii) payroll portability services. Each new commission and / or change issued by a banking institution must be registered and authorized by *Banco de México*.

*Banco de México* also promotes transparency of commissions with comparisons of costs of financial services, reports of basic indicators and calculators of total annual cost. In addition, the CONDUSEF is a decentralized public organization, whose purpose is to promote, advise, protect and defend the rights and interests of people who use, or contract to use, a product or financial service, as well as to create and foster among users an adequate culture regarding financial operations and services.

Banking regulations in Mexico are constantly monitored by regulators and supervisors. In connection with assessing whether reasonable competitive conditions exist in connection with the fees charged by banks, *Banco de México* must obtain the opinion of COFECE in carrying out present and future assessments. *Banco de México* may take measures to address the proper implementation of any changes and/or new regulations.

*Banco de México* published rules that modified the rules on ATM user fees, which limited the Bank's ability to charge fees for the use of ATMs by customers and the amount of such fees for services, including: (i) cash withdrawals, (ii) checking account balances, (iii) deposits and (iv) payments, both in bank windows and ATMs operated by the clients' bank. The rules also specify that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

## **IPAB Law**

The Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*, or the “**IPAB Law**”), which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the Mexican bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may the IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by the IPAB, see “—Resolution and Payment of Guaranteed Obligations.”

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

The IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. The IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to the Mexican Congress prepared by the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of *Banco de México*, (iii) the President of the CNBV and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.



The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. The IPAB will not guarantee (i) deposits and loans constituting negotiable instruments and bearer promissory notes; (ii) liabilities for financial institutions or subsidiaries of the bank, (iii) liabilities not incurred in the ordinary course of business and related party transactions, or (iv) liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of the IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to the IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by the IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (*reportos*) and lending of securities with the same counterparty, pursuant to the provisions issued by the IPAB.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

### **Law for the Protection and Defense of Financial Services Users**

A Law for the Protection and Defense of Financial Services Users is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of the CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). The CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. The Bank and its subsidiaries must submit to the CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to the CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients regarding fixed-term contracts (*contratos de adhesión*).

The CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists the CONDUSEF in the performance of its activities. The CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, the CONDUSEF has wide authority to request all necessary information from financial institutions. Furthermore, the CONDUSEF may scrutinize banking services by approving and supervising the use of standard accession agreements.

The CONDUSEF (i) is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services, (ii) shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services, (iii) is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers the provisions thereof as detrimental to users, (iv) is permitted to issue resolutions as part of arbitration proceedings for the benefit of issuers that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings and (v) is given broad

authority to fine financial institutions, if any financial institution does not comply with an order issued by the CONDUSEF.

### **Law for the Transparency and Regulation of Financial Services**

The law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), published in the Federal Official Gazette in June 2007 and amended on January 10, 2014, aims to regulate (i) the fees charged to customers of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds; (ii) the fees that financial institutions charge to each other for the use of any payment system; (iii) interest rates that may be charged to customers, and (iv) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements. *Banco de México* has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform *Banco de México* of any changes in fees at least 30 calendar days before they become effective.

### **Law on Transparency and Development of Competition for Secured Credit**

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, or the “**Secured Credit Law**”), as amended on June 10, 2014. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (*i.e.*, purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with any refinancing.

### **Financial Groups Statutory Responsibility**

The Financial Groups Law requires that each financial group holding company enters into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial group holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company’s assets. For such purposes, a subsidiary is deemed to have losses its assets are insufficient to meet its payment obligations.

In the event of a financial group holding company’s statutory responsibility with respect to a bank, the IPAB must determine the amount of the preliminary losses of such bank. The financial group holding company is required to create a capital reserve for the amount of such losses. The financial group holding company is also required to collateralize the payment of the bank’s losses that are paid by the IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial group holding company’s assets or over such company’s shares or those of its subsidiaries.

A financial group holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank’s losses, up to the date on which the financial group holding company has paid for the bank’s losses.

No subsidiary is responsible for the losses of the financial group holding company or of the financial group holding company's subsidiaries. GFBB has entered into such an agreement with us and its other financial services subsidiaries.

### **Ownership Restrictions; Foreign Financial Affiliates**

Ownership of a financial group holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

In accordance with applicable law (1) the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors and, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV, (3) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA (and now the USMCA), the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or holding companies of financial institutions formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

### **Related Party Transactions**

The Credit Institution Law requires that the board of directors of a bank approves any transaction in which a related party becomes a debtor of a bank. Such transactions include deposits, loans, credits, discounts, the net position of derivatives transactions and other types of financings. The total amount of related party transactions may not exceed 35% of Tier 1 capital. Related parties include, among others, persons that own directly or indirectly 2% or more of the shares of the relevant bank or of its holding or other members of the financial group, directors and officers of the bank or of any entity in which the bank or its holding company have more than 10% of the shares or any corporation in which the officers and directors are part of the management.

The approval process for related party transactions is similar to any other loan, except that any loans to a related party above 1.0% of Tier 1 Capital or 2 million UDIs, which is determined based on the National Consumer's Price Index, an inflation index determined by *Banco de México*, must be approved by our Board of Directors with the favorable opinion of our risk committee.

## **Other Regulation Applicable to Our Business**

### ***The Mexican Securities Market Law***

The Mexican Securities Market Law, applicable to the Bank regarding the issuance of securities, provides standards for authorizing companies to organize and operate as brokerage firms, which authorization is granted by the CNBV with the approval of its Governing Board. In addition to setting standards for brokerage firms (*casas de bolsa*), the Mexican Securities Market Law authorizes the CNBV, among other things, to regulate the public offering and trading of securities, corporate governance, disclosure and reporting standards and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.

### ***Law on Financial Discipline for States and Municipalities***

The Law of Financial Discipline of the Federative Entities and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*) was promulgated on April 27, 2016, and published in the Federal Official Gazette, with the purpose of supporting government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to financial discipline for states and municipalities. We are subject to the law when granting loans to federative entities and municipalities of Mexico.

## DESCRIPTION OF THE NOTES

*The following summary of certain provisions of the Notes does not purport to be complete and is subject to all of the provisions of the relevant indenture and the Notes. The terms and conditions stated below will apply to each Note, as applicable, unless otherwise specified in the applicable indenture and pricing supplement. The terms of the Notes described in this Offering Memorandum, including the maturities and interest rates, may differ from one Note to another. The terms of a Tranche of Notes, as defined below, will be specified in a pricing supplement, the form of which is included under “Annex C—Form of Pricing Supplement.” The pricing supplement, and any other supplement to this Offering Memorandum, may also add to, update or change information contained in this summary. IN CASE OF ANY CONFLICT REGARDING THE RIGHTS AND OBLIGATIONS OF THE HOLDERS OF THE NOTES UNDER THE RELEVANT INDENTURE, THE NOTES AND THIS OFFERING MEMORANDUM, THE TERMS OF THE RELEVANT INDENTURE AND THE NOTES WILL PREVAIL. In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the Mexican law will prevail. You may obtain a copy of the relevant indenture and the forms of the Notes by contacting the Trustee at the address indicated in this Offering Memorandum or the applicable pricing supplement. References in this “Description of the Notes” to “we,” “us,” “our” and the “Bank” are to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and not to any of our subsidiaries or affiliates. It is important for you to consider the information contained in this Offering Memorandum and the applicable pricing supplement in making your investment decision.*

### General

We, acting through our Texas Agency (unless otherwise specified in the applicable Pricing Supplement), may issue up to an aggregate principal amount of U.S.\$10,000,000,000 (or, at our option if so specified in the relevant pricing supplement, the equivalent of this amount in any other currency or composite currency) of our Medium-Term Notes (the “**Notes**”) outstanding from time to time under the Program. The Bank may at any time increase the maximum aggregate principal amount of Notes that may be issued or outstanding under the Program at any one time without the consent of the holders of Notes. The Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer(s). Unless otherwise specified in the applicable pricing supplement (each, a “**Pricing Supplement**”), the Notes will have the terms described below, except that references to interest payments and interest-related information will not apply to certain Original Issue Discount Notes (as defined below). The Notes will be issued pursuant to an authorization by our Board of Directors and shareholders.

**THE NOTES WILL BE UNSECURED AND WILL CONSTITUTE EITHER SENIOR OR SUBORDINATED DEBT OBLIGATIONS. THE NOTES WILL NOT BE INSURED OR GUARANTEED BY ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES, INCLUDING ITS PARENT COMPANY, OR BY INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES WILL NOT BE CONVERTIBLE, BY THEIR TERMS, INTO ANY OF THE BANK’S DEBT SECURITIES, SHARES OR ANY OF THE BANK’S EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF THE BANK’S SUBSIDIARIES OR AFFILIATES.**

### *Senior Notes Indenture and Subordinated Notes Indenture*

Any Series of Notes that are senior debt obligations (the “**Senior Notes**”) are to be issued under a senior notes indenture dated as of August 6, 2019, between the Issuer and The Bank of New York Mellon, as trustee (in such capacity, the “**Trustee**”), registrar, paying agent and transfer agent (as amended and supplemented from time to time, the “**Senior Notes Indenture**”), and will be issued in registered form as provided in the applicable Pricing Supplement. The following description of certain provisions of the Senior Notes Indenture does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, all the provisions of the Senior Notes Indenture, including the definitions therein of certain terms. The Senior Notes will rank *pari passu* without preference among themselves and with all the Bank’s other Senior Indebtedness, as defined below. See “—Certain Terms and Conditions Applicable to Senior Notes—Ranking” below.

Any Series of Notes that are subordinated debt obligations (the “**Subordinated Notes**”) will be issued pursuant to the prior approval of *Banco de Mexico*, as required under Mexican law, under an indenture for such Series between the Issuer and The Bank of New York Mellon, as Trustee, registrar, paying agent and transfer agent and acknowledged by the CNBV (through an authorized officer thereof) (each, as amended and supplemented from time to time, a “**Subordinated Notes Indenture**”), the terms of which are described in this Offering Memorandum, as

supplemented by the applicable Pricing Supplement. The Subordinated Notes will rank (i) subordinated and junior to all of the Bank's present and future Senior Indebtedness (as defined below), (ii) *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of the Bank's capital stock, as specified in the relevant Subordinated Notes Indenture, this Offering Memorandum and the applicable Pricing Supplement. The Subordinated Notes will be issued in registered form as provided in the applicable Subordinated Notes Indenture and described in the applicable Pricing Supplement. The following description of certain provisions of the Subordinated Notes Indentures does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, all the provisions of the relevant Subordinated Notes Indenture, including the definitions therein of certain terms. See "—Certain Terms and Conditions Applicable to Subordinated Notes—Ranking" below.

The Senior Notes Indenture and each Subordinated Notes Indenture are referred to herein as the "**Indentures**." We may incur additional indebtedness, including senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness, from time to time, and the provisions of the Indentures do not prohibit or limit the incurrence of additional indebtedness, including additional senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness.

Neither the Indentures nor the Notes contain, or will contain, any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

### ***Further Issuances***

Unless otherwise specified in the applicable Pricing Supplement under "Additional Notes," the Bank may, from time to time, without giving notice to or seeking the consent of the holders of the Notes of any Series of Senior Notes, re-open one or more Series and issue additional Senior Notes with the same terms (including maturity and interest payment terms but excluding the Original Issue Date (as defined below) and, in some cases, the public offering price and the first Interest Payment Date (as defined below)) as, and ranking equally and ratably with, the Notes of a Series issued on an earlier date (the "**Additional Notes**"); *provided* that if the Additional Notes are not fungible with the earlier Notes for U.S. federal income tax purposes, the Additional Notes will have a separate CUSIP number. After such Additional Notes are issued, they will be fungible with the previously issued Notes to the extent specified in the applicable Pricing Supplement. Each such Series may contain one or more tranches of Notes (each, a "**Tranche**") having identical terms, including the Original Issue Date and the public offering price. Unless otherwise specified in the applicable Pricing Supplement under "Additional Notes," the Bank may not issue Additional Notes as part of an existing Series of Subordinated Notes.

### ***Additional Information in the Applicable Pricing Supplement***

The specific financial, legal and other terms particular to a Series of Notes will be contained in the relevant Indenture and the Notes for such Series and will be described in the applicable Pricing Supplement relating to the Series. The Pricing Supplement relating to a Tranche of Notes will describe the following terms:

- the title of the Tranche;
- whether such Notes are senior or subordinated and, if subordinated, the terms of the subordination;
- the date on which such Notes will mature (the "**Maturity Date**");
- the currency or composite currency in which the Notes of such Series will be denominated (each such currency or composite currency, a "**Specified Currency**") and, if other than the Specified Currency, the currency or composite currency in which payments on the Notes of such Series will be made (and, if the Specified Currency or currency or composite currency of payment is other than U.S. dollars, certain other terms relating to such Notes (the "**Foreign Currency Notes**") and such Specified Currency or such currency or composite currency of payment);
- whether such Notes are Fixed Rate Notes or Floating Rate Notes (including whether such Notes are Regular Floating Rate Notes, Fixed/Floating Rate Notes, Floating/Fixed Rate Notes or Inverse Floating Rate Notes, each as defined below);
- the price at which such Notes will be issued;
- the date on which such Notes will be issued (the "**Original Issue Date**");

- if such Notes are Fixed Rate Notes, the rate per annum at which such Notes will bear interest, if any, and the dates on which such interest shall be payable on such Fixed Rate Notes (each, an “**Interest Payment Date**”);
- if such Notes are Fixed Reset Notes, the Initial Fixed Reset Interest Rate, the Fixed Reset Date, the Subsequent Reset Date (if any), the Reset Reference Rate, the Reset Margin (each as defined below), the Interest Payment Dates, the calculation agent therefor and any other terms relating to the particular method of calculating the interest rate for such Fixed Reset Notes;
- if such Notes are Floating Rate Notes, the base rate, the initial interest rate (the “**Initial Interest Rate**”), the minimum interest rate and/or the maximum interest rate (if any), the Interest Payment Dates, the period to maturity of the instrument, obligation or index with respect to which the calculation agent will calculate the interest rate basis or bases (the “**Index Maturity**”), the Spread and/or Spread Multiplier, if any (each as defined below), the calculation agent therefor and any other terms relating to the particular method of calculating the interest rate for such Floating Rate Notes;
- if such Notes are Indexed Notes, Extendible Notes or Dual Currency Notes (each as defined below), the terms relating to the particular Notes;
- if such Notes are Amortizing Notes (as defined below), the amortization schedule and any other terms relating to the particular Notes;
- whether such Notes may be redeemed at the option of the Bank, or repaid at the option of the holder, prior to its stated maturity as described under “—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank’s Option; Repurchases at the Holder’s Option—Optional Redemption with a Make-Whole Premium” and “—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Repayments at the Option of the Holders” below and, if so, the provisions relating to such redemption or repayment, including, in the case of any Original Issue Discount Notes, the information necessary to determine the amount due upon redemption or repayment;
- any relevant tax consequences associated with the terms of the Notes, which have not been described under “Taxation—United States Taxation” below;
- if such Notes are Additional Notes, a description of the Original Issue Date and aggregate principal amount of the prior Tranche of Notes having terms (other than the Original Issue Date and the public offering price) identical to such Additional Notes;
- whether the purpose of the issuance is for green, social or sustainability purposes as described in the “Use of Proceeds” section;
- the denomination or denominations in which the Notes shall be issuable;
- any deletions from, modifications of or additions to the Events of Default (as defined below) or covenants, financial or otherwise, of us with respect to such Notes;
- any trustees and any agents with respect to such Notes if different from those identified in this section and the identity of any calculation agent or other applicable agent;
- the form of the such Notes, if such Notes shall be global notes, and the depository for such Notes; and
- any other terms and conditions of such Notes.

In addition, each Pricing Supplement with respect to a Tranche of Notes will identify the Dealer(s) participating in the distribution of such Notes. Each Pricing Supplement relating to Notes will be in, or substantially in, the relevant forms included under “Annex C—Form of Pricing Supplement.”

If any Notes are to be issued as Foreign Currency Notes, the applicable Pricing Supplement will specify (i) the currency or currencies, which may be composite currencies, in which the purchase price of such Notes is to be paid by the purchaser, and (ii) the currency or currencies, which may be composite currencies, in which the principal at maturity or earlier redemption, premium, if any, and interest, if any, with respect to such Notes may be paid, if applicable, along with any other terms relating to the non-U.S. dollar denomination. For further information for Notes

denominated in currencies other than U.S. dollars, see the applicable Pricing Supplement related to any such Notes, which shall include the provisions related to Foreign Currency Notes.

Unless otherwise specified in the applicable Pricing Supplement, the principal financial center of any country for the purpose of the foregoing definition is as provided in the 2006 ISDA Definitions, and as amended and updated from time to time, published by the International Swaps and Derivatives Association, Inc.

## **Principal and Interest**

### ***Interest***

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period (as defined below) and to one or more Write-Downs, and in the case of each Series of Senior and Subordinated Notes, an earlier redemption date, unless otherwise specified in the applicable Pricing Supplement, each Note will bear interest from (and including) its Original Issue Date or such other date specified in the applicable Pricing Supplement (the “**Interest Commencement Date**”) or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the day following the most recent Regular Record Date) (as each such term is defined below) to (but excluding) the next Interest Payment Date; *provided, however*, that the first payment of interest on any Note originally issued between a Regular Record Date and the Interest Payment Date immediately following such Regular Record Date will be made on the second Interest Payment Date following such Original Issue Date. Such interest will be payable by the Issuer to the registered owner on such next Regular Record Date. Interest will accrue on a Note until the principal thereof is paid or made available for payment.

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period and to one or more Write-Downs, and, in the case of each Series of Senior and Subordinated Notes, an earlier redemption date, interest will be payable on a Note on each Interest Payment Date to the person in whose name such Note is registered as of the applicable Regular Record Date; *provided, however*, that any interest not punctually paid or duly provided for, or defaulted interest, will cease to be payable to the holder of a Note at the close of business on the applicable Regular Record Date. The defaulted interest will instead be payable to the person in whose name the Note is registered at the close of business on a special record date for the payment of the defaulted interest, fixed by the applicable Trustee at the written direction of the Issuer. The Trustee will give notice of the payment of the defaulted interest to the holder of the Note in the manner specified under “—Notices” below not less than 15 days prior to the special record date.

### ***Payment upon Maturity***

Subject to, in the case of each Series of Subordinated Notes, deferral during any Suspension Period and the occurrence of one or more Write-Downs, unless the applicable Series of Notes has been redeemed prior thereto or, in the case of Subordinated Notes, a Suspension Period is in effect on the Maturity Date, the then-outstanding principal amount of the applicable Series of Notes will be repaid on the Maturity Date, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts, due thereunder, in each case as provided in this Offering Memorandum.

For deferral of interest and principal payments during a Suspension Period, see below in “—Certain Terms and Conditions Applicable to Subordinated Notes—Treatment of Interest and Principal During a Suspension Period—Deferral of Interest and Principal Payments.”

For possible reduction or suspension of interest and principal payments due to a Write-Down, see below in “—Certain Terms and Conditions Applicable to Subordinated Notes—Trigger Event and Write-Down.” Upon the occurrence of a Write-Down, any holder of Subordinated Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest.

## **Interest Rates**

Unless otherwise specified in the applicable Pricing Supplement, each Note will bear interest at either:

- (a) a fixed rate; and/or



- (b) a floating rate determined by reference to an interest rate basis, which may be adjusted by a Spread and/or Spread Multiplier (each as defined below). Any Floating Rate Note may also have either or both of the following:
  - (i) a maximum interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period (the “**Maximum Interest Rate**”); and
  - (ii) a minimum interest rate limitation, or floor, on the rate at which interest may accrue during any interest period (the “**Minimum Interest Rate**”); *provided* that if no Minimum Interest Rate is specified or if the Pricing Supplement indicates that the Minimum Interest Rate is “not applicable,” then the Minimum Interest Rate shall be zero.

The applicable Pricing Supplement may specify that the interest rate on the Notes will convert from a fixed rate to a floating rate (a “**Fixed/Floating Rate Note**”), or from a floating rate to a fixed rate (a “**Floating/Fixed Rate Note**”). See “—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Fixed/Floating Rate Note” and “—Floating Rate Notes—Regular Floating Rate Note; Fixed/ Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note—Floating/Fixed Rate Note” below. The “**Spread**” is the number of basis points, expressed as a percentage (one basis point equals one-hundredth of a percentage point), specified in the relevant Pricing Supplement that the calculation agent will add or subtract from the related interest rate basis or bases applicable to a Floating Rate Note. The “**Spread Multiplier**” is the percentage, specified in the relevant Pricing Supplement, by which the calculation agent will multiply the interest rate basis or bases for a Floating Rate Note to determine the applicable interest rate on such Floating Rate Note.

The applicable Pricing Supplement will designate:

- (a) a fixed rate per annum, in which case such Notes will be “**Fixed Rate Notes**”;
- (b) a fixed rate per annum, which resets on the Fixed Reset Date (as defined in “—Fixed Reset Notes—General”), in which case such Notes will be “**Fixed Reset Notes**”; or
- (c) one or more of the following interest rate bases as applicable to such Notes, in which case such Notes will be “**Floating Rate Notes**”:
  - (i) the CD Rate, in which case such Notes will be “**CD Rate Notes**”;
  - (ii) the Commercial Paper Rate, in which case such Notes will be “**Commercial Paper Rate Notes**”;
  - (iii) the CMT Rate, in which case such Notes will be “**CMT Rate Notes**”;
  - (iv) the Federal Funds Rate, in which case such Notes will be “**Federal Funds Rate Notes**”;
  - (v) LIBOR, in which case such Notes will be “**LIBOR Notes**”;
  - (vi) EURIBOR, in which case such Notes will be “**EURIBOR Notes**”;
  - (vii) the Treasury Rate, in which case such Notes will be “**Treasury Rate Notes**”;
  - (viii) the Prime Rate, in which case such Notes will be “**Prime Rate Notes**”; or
  - (ix) such other interest rate basis or formula as is set forth in such Pricing Supplement.

The Notes may be issued as Original Issue Discount Notes. “**Original Issue Discount Notes**” are Notes issued at more than a *de minimis* discount from the principal amount payable at maturity. Certain additional considerations relating to Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.

Unless otherwise indicated in the applicable Pricing Supplement, interest will be payable on a Note on each Interest Payment Date to the person in whose name such Note is registered as of the close of business on:

- (a) for Fixed Rate Notes or Fixed Reset Notes, the date fifteen calendar days prior to such Interest Payment Date (whether or not a Business Day (as defined below)); and
- (b) for Floating Rate Notes, the calendar day immediately preceding such Interest Payment Date (whether or not a Business Day)

(each, a “**Regular Record Date**”).

“**Business Day**” means, unless otherwise specified in the applicable Pricing Supplement, any day other than a Saturday or Sunday or any other day on which banking institutions are generally authorized or obligated by law or regulation to close or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

## **Fixed Rate Notes**

### ***General***

Each Fixed Rate Note will bear interest at the annual rate specified in the Note and in the applicable Pricing Supplement (the “**Fixed Rate of Interest**”). Interest on the Fixed Rate Notes will be paid on the Interest Payment Dates specified in the applicable Pricing Supplement. If any Interest Payment Date or Maturity Date for any Fixed Rate Note (including, in the case of a Fixed/Floating Rate Note or a Floating/Fixed Rate Note, an Interest Payment Date during the fixed rate period, but excluding an Interest Payment Date during the floating rate period) is not a Business Day, interest on such Fixed Rate Note will be paid on the next succeeding Business Day without additional interest. If interest is required to be calculated for a period other than a Fixed Interest Period (as defined below), such interest shall be calculated by applying the Fixed Rate of Interest to each specified denomination of the Notes of such Series, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards, or otherwise in accordance with applicable market convention.

### ***Day Count Fraction***

Unless otherwise indicated in the applicable Pricing Supplement, “**Fixed Day Count Fraction**” means:

- (a) in the case of Notes denominated in a currency other than U.S. dollars, “Actual/Actual (ICMA)” meaning:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date specified in the applicable Pricing Supplement) to (but excluding) the relevant payment date (the “**Calculation Period**”) is equal to or shorter than the Determination Period (as defined below) during which the Calculation Period ends, the number of days in such Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of determination dates (each, a “**Day Count Determination Date**”) (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of:
    - i. the number of days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Day Count Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
    - ii. the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Day Count Determination Dates that would occur in one calendar year; and
- (b) in the case of Notes denominated in U.S. dollars, “30/360,” meaning the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Pricing Supplement)) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

Where:

**“Determination Period”** means the period from (and including) a Day Count Determination Date to (but excluding) the next Day Count Determination Date (including where either the Interest Commencement Date (as specified in the applicable Pricing Supplement) or the final Interest Payment Date is not a Day Count Determination Date, the period commencing on the first Day Count Determination Date prior to, and ending on the first Day Count Determination Date falling after, such date).

**“Fixed Interest Period”** means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date (as specified in the applicable Pricing Supplement)) to (but excluding) the next (or first) Interest Payment Date.

**“sub-unit”** means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

## **Fixed Reset Notes**

### ***General***

Unless otherwise indicated in the applicable Pricing Supplement, each Fixed Reset Note will bear interest from (and including):

- (a) the Interest Commencement Date to (but excluding) the fixed reset date specified in the applicable Pricing Supplement (the **“Fixed Reset Date”**) at the rate per annum equal to the initial interest rate, each as specified in the applicable Pricing Supplement (such rate is hereinafter referred to as the **“Initial Fixed Reset Interest Rate”** and such period is hereinafter referred to as the **“Initial Fixed Reset Interest Period”**), and
- (b) the Fixed Reset Date to (but excluding) either (1) the Maturity Date or (2) if applicable, the first subsequent reset date specified in the applicable Pricing Supplement (the **“Subsequent Reset Date”**) and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each period in (1) and (2), a **“Subsequent Fixed Reset Interest Period”**), in each case at the rate per annum equal to the relevant Subsequent Reset Rate, as defined below,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrears on the applicable Interest Payment Date(s) in each year up to and including the Maturity Date.

Once the Subsequent Reset Rate is determined for a Subsequent Fixed Reset Interest Period, the provisions applicable to Fixed Rate Notes shall apply to Fixed Reset Notes, as applicable, as if the Fixed Reset Notes were Fixed Rate Notes.

### ***Rate of Interest***

Each Fixed Reset Note will bear interest during the Initial Fixed Reset Interest Period at the Initial Fixed Reset Interest Rate. Each Fixed Reset Note will bear interest during the Subsequent Fixed Reset Interest Period at the rate that is equal to the sum of the reset reference rate specified in the applicable Pricing Supplement (the **“Reset Reference Rate”**) and the reset margin specified in the applicable Pricing Supplement (the **“Reset Margin,”** and the sum of the Reset Reference Rate and the Reset Margin, the **“Subsequent Reset Rate”**). Unless otherwise specified in the applicable Pricing Supplement, the Subsequent Reset Rate will be determined on the second Business Day immediately preceding the Fixed Reset Date and each Subsequent Reset Date (if any) (the **“Reset Determination Date”**).

For the purposes of each Series of Fixed Reset Notes, if “Treasury Yield” is specified in the applicable Pricing Supplement as the “Reset Reference Rate,” the following definitions apply:

**“Treasury Yield”** will be defined in the applicable Indenture to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Maturity Date for the relevant Notes, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Maturity Date for such Notes, and (B) the other

maturity as close as possible to, but later than the Maturity Date for such Notes, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Maturity Date for such Notes is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519); and

“**H.15 (519)**” will be defined in the applicable Indenture to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 (519) means the H.15 (519) published prior to the applicable Reset Determination Date.

Unless we have validly called all outstanding Fixed Reset Notes of the applicable Series for redemption on or prior to the applicable Fixed Reset Date, we will appoint a calculation agent with respect to such Series of Notes prior to the Reset Determination Date preceding the Fixed Reset Date. The applicable Subsequent Reset Rate for each Subsequent Fixed Reset Interest Period will be determined by the calculation agent, as of the applicable Reset Determination Date. Promptly upon such determination, the calculation agent will notify us of the Subsequent Reset Rate for such Subsequent Fixed Reset Interest Period. The calculation agent’s determination of any Subsequent Reset Rate beginning on or after the Fixed Reset Date will be on file at our principal offices, will be made available to any holder of Notes of such Series upon request and will be final and binding in the absence of manifest error.

## **Floating Rate Notes**

### ***General***

Floating Rate Notes generally will be issued as described below. Each applicable Pricing Supplement will specify certain terms with respect to which such Floating Rate Note is being delivered, including:

- (a) whether such Floating Rate Note is a Regular Floating Rate Note, a Fixed/Floating Rate Note, a Floating/Fixed Rate Note or an Inverse Floating Rate Note, each as defined below;
- (b) the interest rate basis or bases, Initial Interest Rate, Interest Reset Dates, Interest Reset Period, redemption date and terms (if any); Regular Record Dates (if any) and Interest Payment Dates;
- (c) the Index Maturity;
- (d) the Spread and/or Spread Multiplier, if any;
- (e) the Maximum Interest Rate and Minimum Interest Rate, if any; *provided* that if no Minimum Interest Rate is specified or if the Pricing Supplement indicates that the Minimum Interest Rate is “not applicable,” then the Minimum Interest Rate shall be zero; and
- (f) the Designated LIBOR Currency, if one or more of the specified interest rate bases is LIBOR.

The Bank may change the Spread, Spread Multiplier, Index Maturity and other variable terms of the Floating Rate Notes from time to time. However, no such change will affect any Floating Rate Note previously issued or as to which an offer has been accepted by the Bank.

The interest rate in effect on each day shall be:

- (a) if such day is an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding such Interest Reset Date; or
- (b) if such day is not an Interest Reset Date, the interest rate determined on the Interest Determination Date immediately preceding the next preceding Interest Reset Date.

The “**Interest Determination Date**” is the date that the calculation agent will refer to when determining the new interest rate at which a floating rate applicable to a Floating Rate Notes will reset. Unless otherwise specified in the applicable Pricing Supplement, the Interest Determination Date for any Interest Reset Date will be:

- (a) for CD Rate Notes, Commercial Paper Rate Notes, CMT Rate Notes and Prime Rate Notes, the second Business Day before the Interest Reset Date;
- (b) for Federal Funds Rate Notes, the Business Day immediately preceding the related Interest Reset Date;
- (c) for LIBOR Notes, the second London Business Day before the Interest Reset Date;

- (d) for EURIBOR Notes, the second Target Business Day before the Interest Reset Date. “**Target Business Day**” means any day on which TARGET2 (Trans-European Automated Real-Time Gross Settlement Express Transfer payment system) is open for the settlement of payments in Euro; and
- (e) for Treasury Rate Notes, the day of the week in which the Interest Reset Date falls and on which Treasury bills would normally be auctioned.

Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, but the auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is held on the preceding Friday, that Friday will be the Interest Determination Date for the Interest Reset Date for Treasury Rate Notes occurring in the next week. If an auction falls on a day that is an Interest Reset Date for a Treasury Rate Note, the Interest Reset Date will be the Business Day immediately following the auction date.

The Interest Determination Date for a Floating Rate Note for which the interest rate is determined by two or more interest rate bases, will be the latest Business Day that is at least two Business Days prior to the Interest Reset Date for the Floating Rate Note on which each interest rate basis can be determined.

***Regular Floating Rate Note; Fixed/Floating Rate Note; Floating/Fixed Rate Note; Inverse Floating Rate Note***

The interest rate basis applicable to each Regular Floating Rate Note, Fixed/Floating Rate Note, Floating/Fixed Rate Note and Inverse Floating Rate Note may be subject to a Spread and/or Spread Multiplier, *provided* that the interest rate on any such note will not be less than zero. If a Floating Rate Note is designated as having an “Addendum” attached as specified on the face thereof, the Floating Rate Note shall bear interest in accordance with the terms described in such Addendum and the applicable Pricing Supplement. See “—Other Provisions” below.

*Regular Floating Rate Note.* A “**Regular Floating Rate Note**” will bear interest at the rate determined by reference to the applicable interest rate basis or interest rate bases (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest shall be payable on such Regular Floating Rate Note shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the 10 calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Pricing Supplement.

*Fixed/Floating Rate Note.* A “**Fixed/Floating Rate Note**” will initially, and during the “Fixed Rate Period” specified in the applicable Pricing Supplement, bear interest at a fixed rate. During the “Floating Rate Period” specified in the applicable Pricing Supplement, such Note will bear interest at the rate determined by reference to the applicable interest rate basis or bases (a) plus or minus the applicable Spread (if any), and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest shall be payable on such Fixed/Floating Rate Note during the “Floating Rate Period” shall be reset as of each Interest Reset Date commencing with the date the floating rate commences.

*Floating/Fixed Rate Note.* A “**Floating/Fixed Rate Note**” will initially, and during the “Floating Rate Period” specified in the applicable Pricing Supplement, bear interest at the rate determined by reference to the applicable interest rate basis (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). During the “Fixed Rate Period” specified in the applicable Pricing Supplement, such Floating/Fixed Rate Note will bear interest at a fixed rate. The rate at which interest shall be payable on such Floating/Fixed Rate Note shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate;
- (b) the interest rate in effect for the 10 calendar days immediately prior to the fixed rate commencement date shall be that in effect on the tenth calendar day preceding the fixed rate commencement date, unless otherwise specified in the applicable Pricing Supplement; and

- (c) the interest rate in effect commencing on, and including, the fixed rate commencement date to the Maturity Date shall be the fixed interest rate, if such rate is specified in the applicable Pricing Supplement, or if no such fixed interest rate is so specified and the Floating/Fixed Rate Note is still outstanding on such day, the interest rate in effect thereon on the day immediately preceding the fixed rate commencement date.

*Inverse Floating Rate Note.* An “**Inverse Floating Rate Note**” will bear interest equal to the fixed interest rate specified in the relevant Pricing Supplement minus the rate determined by reference to the interest rate basis (a) plus or minus the applicable Spread (if any) and/or (b) multiplied by the applicable Spread Multiplier (if any). The rate at which interest is payable shall be reset as of each Interest Reset Date commencing on the initial Interest Reset Date. However:

- (a) the interest rate in effect for the period from the Original Issue Date to the initial Interest Reset Date will be the Initial Interest Rate; and
- (b) the interest rate in effect for the 10 calendar days immediately prior to a Maturity Date shall be that in effect on the tenth calendar day preceding such Maturity Date, unless otherwise specified in the applicable Pricing Supplement.

### ***Interest Rate Bases***

Each Floating Rate Note will have one or more interest rate bases. The formula may be based on:

- (a) the CD Rate;
- (b) the Commercial Paper Rate;
- (c) the CMT Rate;
- (d) the Federal Funds Rate;
- (e) LIBOR;
- (f) EURIBOR;
- (g) the Treasury Rate;
- (h) the Prime Rate;
- (i) the lowest of two or more interest rate bases; or
- (j) such other rate specified in the applicable Pricing Supplement.

### ***Date of Interest Rate Change***

The interest rate on each Floating Rate Note may be reset daily, weekly, monthly, quarterly, semi-annually or annually, as specified in the applicable Pricing Supplement (such period, the “**Interest Reset Period**” and the first day of each Interest Reset Period, the “**Interest Reset Date**”).

If an Interest Reset Date for any Floating Rate Note falls on a day that is not a Business Day, it will be postponed to the following Business Day, except that if that Business Day is in the next calendar month, the Interest Reset Date will be the immediately preceding Business Day.

### ***How Interest Is Calculated***

#### ***General***

The Bank will appoint a calculation agent to calculate interest rates on the Floating Rate Notes, which will be specified in the applicable Pricing Supplement. Floating Rate Notes will accrue interest from and including the Original Issue Date or the last date to which the Bank has paid or provided for interest, to (but excluding) the applicable Interest Payment Date, as described below, or the Maturity Date, as the case may be. However, unless otherwise specified in the applicable Pricing Supplement, for Floating Rate Notes for which the interest rate is reset daily or weekly, each interest payment will include interest accrued from (and including) the date of issue or from (but excluding) the last Regular Record Date to which interest has been paid, through and including the Regular Record Date next preceding the applicable Interest Payment Date. Interest payments on Floating Rate Notes made on the Maturity Date will include interest accrued to (but excluding) such Maturity Date.

So long as any Floating Rate Notes are listed on or by any exchange, competent authority and/or market, and the rules of such exchange(s), competent authority(ies) and/or market(s) so require, the Bank will maintain a calculation agent for the Floating Rate Notes, and the Bank will notify the holders of its Floating Rate Notes in the manner specified under “—Notices” below if the Bank appoints a calculation agent with respect to such Floating Rate Notes other than the calculation agent designated as such in the applicable Pricing Supplement.

### ***Day Count Fraction***

The amount of interest (the “**Interest Amount**”) payable on any Series of Floating Rate Notes shall be calculated with respect to each specified denomination of such Floating Rate Notes of such Series for the relevant Interest Reset Period. Each Interest Amount shall be calculated by applying the relevant interest rate basis and Spread and/or Spread Multiplier, if any, to each specified denomination and multiplying such sum by the applicable Floating Day Count Fraction.

“**Floating Day Count Fraction**” means, in respect of the calculation of the Interest Amount for any Interest Reset Period:

- (a) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 365 (or, if any portion of that Interest Reset Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Reset Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Reset Period falling in a non-leap year divided by 365);
- (b) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 365;
- (c) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Reset Period divided by 360;
- (d) if “30/360,” “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Floating Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number is 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (e) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless such number would be 31, in which case D2 will be 30; and

- (f) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Reset Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Reset Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Reset Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Reset Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Reset Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Reset Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

Unless otherwise specified in the applicable Pricing Supplement, the Floating Day Count Fraction in respect of the calculation of the Interest Amount on any Floating Rate Note will (a) in the case of a Note denominated in U.S. dollars, be Actual/360 or (b) in the case of a Note denominated in any other Specified Currency, be Actual/Actual. Notes for which the interest rate may be calculated with reference to two or more interest rate bases will be calculated in each period by selecting one such interest rate basis for such period. For these calculations, the interest rate in effect on any Interest Reset Date will be the new reset rate.

The calculation agent will round all percentages resulting from any calculation of the rate of interest on a Floating Rate Note to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward (*e.g.*, 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)) and the calculation agent will round all currency amounts used in or resulting from any calculation to the nearest one-hundredth of a unit (with 0.005 of a unit being rounded upward).

The calculation agent will promptly, and no later than the fourth Business Day of the relevant Interest Reset Period, notify the applicable Trustee and the Bank of each determination of the interest rate. The calculation agent will also notify the applicable Trustee, the Bank and the relevant paying agents of the interest rate, the Interest Amount, the interest period and the Interest Payment Date related to each Interest Reset Date as soon as such information is available, and no later than the first Business Day of the relevant Interest Reset Period. The relevant paying agents will make such information available to the holders of Notes. The applicable Trustee will, upon the request of the holder of any Floating Rate Note, provide the interest rate then in effect and, if determined, the interest rate which will become effective as a result of a determination made with respect to the most recent Interest Determination Date relating to such Note.



### ***When Interest Is Paid***

The Bank will pay interest on Floating Rate Notes on the Interest Payment Dates specified in the applicable Pricing Supplement. The Bank will also pay interest on the relevant Floating Rate Notes at the Maturity Date.

If any Interest Payment Date (other than the Maturity Date) for Floating Rate Notes (including, in the case of a Fixed/Floating Rate Note or a Floating/Fixed Rate Note, an Interest Payment Date during the floating rate period, but excluding an Interest Payment Date during the “Fixed Rate Period” specified in the applicable Pricing Supplement) falls on a day that is not a Business Day, the Bank will postpone payment of interest to the following Business Day at which time the Issuer will pay additional interest that has accrued up to (but excluding) such following Business Day, except that if that Business Day would fall in the next calendar month, the Interest Payment Date will be the immediately preceding Business Day.

If the Maturity Date for a Floating Rate Note falls on a day that is not a Business Day, the Bank will make the payment on the next Business Day, without additional interest.

### ***Date of Interest Rate Determination***

The interest rate for each Interest Reset Period commencing on the Interest Reset Date will be the rate determined on the relevant Interest Determination Date for such Interest Reset Date for the relevant type of Floating Rate Note, as set forth in the relevant Pricing Supplement.

### ***Types of Floating Rate Notes***

#### ***CD Rate Notes***

Each CD Rate Note will bear interest at a specified rate that will be reset periodically based on the CD Rate and the Spread and/or Spread Multiplier, if any, specified in the CD Rate Note and in the applicable Pricing Supplement. CD Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**CD Rate**” means, with respect to any Interest Determination Date, the rate on that Interest Determination Date for negotiable U.S. dollar certificates of deposit having the specified Index Maturity as published in H.15(519) under the heading “CDs (Secondary Market).”

The following procedures will apply if the CD Rate cannot be determined as described above:

- (a) If the rate described above is not published in H.15(519) prior to 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the CD Rate will be the rate on that Interest Determination Date for negotiable U.S. dollar certificates of deposit having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (Secondary Market).”
- (b) If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, the CD Rate will be the average of the secondary market offered rates as of 10:00 a.m. (New York City time) on that Interest Determination Date of three leading non-bank dealers of negotiable U.S. dollar certificates of deposit in The City of New York (which may include one or more of the Dealers or their affiliates) selected by the Bank and identified to the calculation agent, for negotiable U.S. dollar certificates of deposit of major U.S. money market banks for negotiable certificates of deposit with a remaining maturity closest to the specified Index Maturity in an amount that is representative for a single transaction in that market at that time.
- (c) If fewer than three dealers are providing quotes, the rate will be (i) except as provided in clause (ii), the CD Rate in effect for the immediately preceding Interest Reset Period, or (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Period, then the rate of interest payable will be the rate for negotiable U.S. dollar certificates of deposit having the specified Index Maturity that was last published in H.15(519) under the heading “CDs (Secondary Market)” as determined by the calculation agent.

“**H.15(519)**” means the publication entitled “Statistical Release H.15(519), Selected Interest Rates,” or any successor publication published by the Federal Reserve.

**“H.15 Daily Update”** means the daily update of H.15(519), available through the website of the Federal Reserve at <https://www.federalreserve.gov/releases/h15/> or any successor service.

***Commercial Paper Rate Notes***

Each Commercial Paper Rate Note will bear interest at a specified rate that will be reset periodically based on the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any, specified in the Commercial Paper Rate Note and in the applicable Pricing Supplement. Commercial Paper Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, **“Commercial Paper Rate”** means, with respect to any Interest Determination Date, the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15(519) under the heading “Commercial Paper Nonfinancial.”

Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above is not published in H.15(519) prior to 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the Commercial Paper Rate will be the Money Market Yield of the rate on that Interest Determination Date for commercial paper having the specified Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper Nonfinancial.”
- (b) If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, then the calculation agent will determine the Commercial Paper Rate to be the Money Market Yield of the average for the offered rates as of 11:00 a.m. (New York City time) on that Interest Determination Date, of three leading dealers (which may include one or more of the Dealers or their affiliates) of commercial paper in The City of New York, selected by the Bank and identified to the calculation agent, for commercial paper having the specified Index Maturity placed for an industrial issuer whose bond rating is “AA,” or the equivalent, by a nationally recognized statistical rating agency.
- (c) If fewer than three dealers are providing quotes, the rate will be (i) except as provided in clause (ii), the Commercial Paper Rate in effect for the immediately preceding Interest Reset Period, or (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Period, then the rate of interest payable will be the rate for commercial paper having the specified Index Maturity that was last published in H.15(519) under the heading “Commercial Paper Nonfinancial” as determined by the calculation agent.

**“Money Market Yield”** means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360 \times 100}{360 - (D \times M)}$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal and “M” refers to the actual number of days in the period for which interest is being calculated.

***Constant Maturity Treasury (CMT) Rate Notes***

Each CMT Rate Note will bear interest at a specified rate that will be reset periodically based on the CMT Rate and the Spread and/or Spread Multiplier, if any, specified in the CMT Rate Notes and in the applicable Pricing Supplement. CMT Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, **“CMT Rate”** means, with respect to any Interest Determination Date relating to a CMT Rate Note:

- (a) If “Reuters Page FRBCMT” is the specified CMT Reuters Page in the applicable Pricing Supplement, the CMT Rate on the Interest Determination Date shall be a percentage equal to the yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the

applicable Pricing Supplement as set forth in H.15(519) (as defined below) under the caption “Treasury Constant Maturities,” as such yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace such page on such service) (“**Reuters Page FRBCMT**”) for such Interest Determination Date. Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:

- (i) If such rate does not appear on Reuters Page FRBCMT, the CMT Rate on such Interest Determination Date shall be a percentage equal to the yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement and for such Interest Determination Date as set forth in H.15(519) under the caption “Treasury Constant Maturities.”
- (ii) If such rate does not appear in H.15(519), the CMT Rate on such Interest Determination Date shall be the rate for the period of the index maturity specified in the applicable Pricing Supplement as may then be published by either the Federal Reserve or the U.S. Department of the Treasury that the calculation agent determines to be comparable to the rate that would otherwise have been published in H.15(519).
- (iii) If the Federal Reserve or the U.S. Department of the Treasury does not publish a yield on U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for such Interest Determination Date, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three leading primary U.S. government securities dealers in New York City (which may include one or more of the Dealers or their affiliates) (each, a “**reference dealer**”) selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury Federal Funds Rate Notes securities with an original maturity equal to the specified Index Maturity, a remaining term to maturity no more than one year shorter than such Index Maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
- (iv) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotations shall be eliminated. If fewer than three prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity greater than the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity closest to such index maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
- (v) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotations shall be eliminated; *provided, however*, that if fewer than three such prices are provided as requested, the CMT Rate determined as of such Interest Determination Date shall be the CMT Rate in effect on such Interest Determination Date. If two such U.S. Treasury securities with an original maturity greater than the index

maturity specified in the applicable Pricing Supplement have remaining terms to maturity equally close to such index maturity, the quotes for the U.S. Treasury security with the shorter original term to maturity will be used.

- (b) If “Reuters Page FEDCMT” is the specified CMT Reuters Page in the applicable Pricing Supplement, the CMT Rate on the Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement as set forth in H.15(519) opposite the caption “Treasury Constant Maturities,” as such yield is displayed on Reuters on page FEDCMT (or any other page as may replace such page on such service) (“**Reuters Page FEDCMT**”) for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such Interest Determination Date falls. If such rate does not appear on Reuters Page FEDCMT, the CMT Rate on such Interest Determination Date shall be a percentage equal to the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for the week or month, as applicable, preceding such Interest Determination Date as set forth in H.15(519) opposite the caption “Treasury Constant Maturities.” Unless otherwise specified in the applicable Pricing Supplement, the following procedures will apply if the rate cannot be set as described above:
- (i) If such rate does not appear in H.15(519), the CMT Rate on such Interest Determination Date shall be the one-week or one-month, as specified in the applicable Pricing Supplement, average yield for U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which such Interest Determination Date falls.
  - (ii) If the Federal Reserve Bank of New York does not publish a one-week or one-month, as specified in the applicable Pricing Supplement, average yield on U.S. Treasury securities at “constant maturity” having the index maturity specified in the applicable Pricing Supplement for the applicable week or month, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity equal to the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity of no more than one year shorter than such index maturity and in a principal amount that is representative for a single transaction in such securities in such market at such time.
  - (iii) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be the rate on the Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of such quotation shall be eliminated.
  - (iv) If fewer than three prices are provided as requested, the CMT Rate on such Interest Determination Date shall be calculated by the calculation agent and shall be a yield-to-maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such Interest Determination Date of three reference dealers selected by the Bank and identified to the calculation agent (from five such reference dealers selected by the Bank and identified to the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for U.S. Treasury securities with an original maturity longer than the index maturity specified in the applicable Pricing Supplement, a remaining term to maturity closest to such index maturity

and in a principal amount that is representative for a single transaction in such securities in such market at such time.

- (v) If fewer than five but more than two such prices are provided as requested, the CMT Rate on such Interest Determination Date shall be the rate on the Interest Determination Date calculated by the calculation agent based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations shall be eliminated; *provided, however*, that if fewer than three such prices are provided as requested, the CMT Rate determined as of such CMT Rate determination date shall be the CMT Rate in effect on such Interest Determination Date. If two U.S. Treasury securities with an original maturity greater than the index maturity specified in the applicable Pricing Supplement have remaining terms to maturity equally close to such index maturity, the quotes for the U.S. Treasury security with the shorter original term to maturity will be used.

### ***Federal Funds Rate Notes***

Each Federal Funds Rate Note will bear interest at a specified rate that will be reset periodically based on the Federal Funds Rate and the Spread and/or Spread Multiplier, if any, specified in the Federal Funds Rate Note and in the applicable Pricing Supplement. Federal Funds Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Federal Funds Rate**” means, with respect to any Interest Determination Date, the rate on specified dates for federal funds published in H.15(519) prior to 3:00 p.m. (New York City time) under the heading “Federal Funds Effective,” as such rate is displayed on Reuters Screen FEDFUNDS1 Page (or any such other page as specified in the applicable Pricing Supplement).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15(519) prior to 3:00 p.m. (New York City time) on the Interest Determination Date, then the Federal Funds Rate will be the rate on such Interest Determination Date published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective).”
- (b) If the rate does not appear on Reuters Screen FEDFUNDS1 Page (or any other pages as may replace such pages on such service) or is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, the Federal Funds Rate will be calculated by the calculation agent and will be the average of the rates on that Interest Determination Date for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in The City of New York (which may include one or more of the Dealers or their affiliates) selected by the Bank and identified to the calculation agent, prior to 9:00 a.m. (New York City time) on the Business Day following such Interest Determination Date.
- (c) If fewer than three brokers are providing quotes, the Federal Funds Rate will be (i) except as provided in clause (ii), the Federal Funds Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate for U.S. dollar federal funds as published in H.15(519) opposite the caption “Federal Funds (Effective),” as such rate was last displayed on Reuters Screen FEDFUNDS1 Page as determined by the calculation agent.

### ***LIBOR Notes***

Each LIBOR Note will bear interest at a specified rate that will be reset periodically based on LIBOR and the Spread and/or Spread Multiplier, if any, specified on the face of the LIBOR Note and in the applicable Pricing Supplement. LIBOR Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, the calculation agent will determine the London Interbank Offered Rate (“**LIBOR**”) on each Interest Determination Date relating to a LIBOR Note as follows:

- (a) The rate for deposits in the Designated LIBOR Currency (as defined below) having the specified Index Maturity as such rate is displayed on Bloomberg on page BBAM1 (or any other page as may replace such page on such service or any successor service for the purpose of displaying LIBOR of major banks for the Designated LIBOR Currency) (“**Bloomberg BBAM1**”) as of 11:00 a.m., London time, on such Interest Determination Date. If no such rate so appears, LIBOR on such Interest Determination Date will be determined in accordance with the provisions described in clause (b) or (c) below.
- (b) With respect to an Interest Determination Date on which no rate is displayed on Bloomberg BBAM1 as specified in clause (a) above, the calculation agent shall request the principal London offices of each of four major reference banks (which may include affiliates of the Dealers) in the London interbank market, as selected by the Bank, and identified to the calculation agent, to provide the calculation agent with its offered quotation for deposits in the Designated LIBOR Currency for the period of the specified Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such Interest Determination Date and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean calculated by the calculation agent of such quotations. If fewer than two such quotations are so provided, then LIBOR on such Interest Determination Date will be the arithmetic mean calculated by the calculation agent of the rates quoted at approximately 11:00 a.m., in the applicable Principal Financial Center (as defined below), on such Interest Determination Date by three major banks (which may include affiliates of the Dealers) in such Principal Financial Center selected by the Bank, and identified to the calculation agent, for loans in the Designated LIBOR Currency to leading European banks, having the specified Index Maturity and in a principal amount that is representative for a single transaction in the Designated LIBOR Currency in such market at such time; *provided, however*, that (i) except as provided in this clause (b), if the banks so selected by the Bank are not quoting as mentioned in this sentence, LIBOR determined as of such Interest Determination Date shall be LIBOR in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, LIBOR will be equal to LIBOR for deposits in the Designated LIBOR Currency having the specified Index Maturity that was last available on the Bloomberg BBAM1 page as determined by the calculation agent.
- (c) Notwithstanding clauses (a) and (b) above, if the Bank, in its sole discretion (acting in good faith and in a commercially reasonable manner), determines that LIBOR has been permanently discontinued or is no longer viewed as an acceptable benchmark for debt securities like the LIBOR Note, and the Issuer has notified the calculation agent of such determination (a “**LIBOR Event**”), the calculation agent will use, as directed by the Bank (acting in good faith and in a commercially reasonable manner), as a substitute for LIBOR (the “**Alternative Rate**”) for each future Interest Determination Date, the alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with market practice regarding a substitute for debt securities like the LIBOR Notes. As part of such substitution, the calculation agent will, as directed by the Bank (acting in good faith and in a commercially reasonable manner), make such adjustments to the Alternative Rate or the spread thereon, as well as the business day convention, Interest Determination Dates and related provisions and definitions (“**Adjustments**”), in each case that are consistent with market practice for the use of such Alternative Rate for debt securities like the LIBOR Notes. Notwithstanding the foregoing, if the Bank determines that there is no alternative reference rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with market practice regarding a substitute for debt securities like the LIBOR Notes, the Bank may, in its sole discretion (acting in good faith and in a commercially reasonable manner), appoint an independent financial advisor (which may be an unaffiliated investment bank or other independent financial adviser experienced in the international debt capital markets and of internationally recognized standing) (“**IFA**”) to determine an appropriate Alternative Rate and any Adjustments, and the decision of the IFA will be binding on the Bank, the calculation agent, the paying agent and the noteholders. If a LIBOR Event has occurred, but for any reason an Alternative Rate has not been determined or there is no such

market practice for the use of such Alternative Rate (and, in each case, an IFA has not determined an appropriate Alternative Rate and Adjustments or an IFA has not been appointed), LIBOR determined as of an Interest Determination Date shall be LIBOR in effect on such Interest Determination Date; *provided, however*, that, with respect to a Fixed/Floating Rate Note, if this sentence is applicable to the first Interest Determination Date related to the Floating Rate Period, LIBOR will be equal to LIBOR for deposits in the Designated LIBOR Currency having the specified Index Maturity that was last available on Bloomberg BBAM1, as determined by the calculation agent.

The establishment of LIBOR for each Interest Determination Date by the calculation agent (including, for the avoidance of doubt, at the direction of the Bank in the case of clause (c)) or the IFA, as applicable, shall (in the absence of manifest error) be final and binding. For the purposes of determining any Alternative Rate and/or any Adjustments and their consistency with market practice pursuant to clause (c), the Bank will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets. For the avoidance of doubt, any Adjustments made pursuant to clause (c) of the definition of LIBOR shall not be subject to the consent of the holders.

**“Designated LIBOR Currency”** means the currency (including composite currencies and Euro) specified in the Pricing Supplement as to which LIBOR shall be calculated. If no such currency is specified in the Pricing Supplement, the Designated LIBOR Currency shall be U.S. dollars.

**“Principal Financial Center”** means (i) the capital city of the country issuing the specified currency or (ii) the capital city of the country to which the Designated LIBOR Currency, if applicable, relates, except, in each case, that with respect to U.S. dollars, Australian dollars, Canadian dollars, Euro, New Zealand dollars, South African rand and Swiss francs, the “Principal Financial Center” shall be New York City, Sydney, Toronto, London (solely in the case of the Designated LIBOR Currency), Wellington, Johannesburg and Zurich, respectively.

#### ***EURIBOR Notes***

Each EURIBOR Note will bear interest at a specified rate that will be reset periodically based on EURIBOR and the Spread and/or Spread Multiplier, if any, specified on the face of the EURIBOR Note and in the applicable Pricing Supplement. EURIBOR Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, **“EURIBOR”** means the European Interbank Offered Rate and, with respect to each Interest Determination Date relating to a EURIBOR Note will be the rate for deposits in Euro having the Index Maturity, beginning on the second TARGET Business Day after the relevant Interest Determination Date, as that rate appears on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on that Interest Determination Date.

The following procedures will apply if the rate cannot be set as described above:

- (a) If such rate does not appear on the Designated EURIBOR Page as of 11:00 a.m., Brussels time, on the relevant Interest Determination Date, then EURIBOR will be determined on the basis of the rates, at approximately 11:00 a.m., Brussels time, on that Interest Determination Date, at which deposits in Euro having the specified Index Maturity, beginning on the relevant Interest Reset Date and in a representative amount are offered to prime banks in the Euro-zone interbank market by the principal Euro-zone offices of four major banks (one of which may be an affiliate of the calculation agent) in the Euro-zone selected by the Bank. If at least two quotations are provided, EURIBOR for that Interest Determination Date will be the average (rounded upwards, if necessary) of the quotations.
- (b) If fewer than two quotations are provided, EURIBOR for the relevant Interest Determination Date will be the average (rounded upwards, if necessary) of the rates quoted by three major banks (which may include an affiliate of the calculation agent) in the Euro-zone, selected by the calculation agent, at approximately 11:00 a.m., Brussels time, on that Interest Determination Date for loans in Euro to leading European banks for a period of time corresponding to the Index Maturity beginning on the relevant Interest Reset Date and in a representative amount.

- (c) If fewer than three banks are quoting such rates as described above, EURIBOR for such Interest Determination Date will be (i) except as provided in clause (ii), EURIBOR in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, EURIBOR will be equal to EURIBOR for deposits in Euro having the specified Index Maturity that was last available on the Designated EURIBOR Page as determined by the calculation agent.

**“Designated EURIBOR Page”** means Reuters Page EURIBOR01, or any other page as may replace such page on such service.

#### ***Treasury Rate Notes***

Each Treasury Rate Note will bear interest at a specified rate that will be revised periodically based on the Treasury Rate and the Spread and/or Spread Multiplier, if any, specified on the face of the Treasury Rate Note and in the applicable Pricing Supplement. Treasury Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, **“Treasury Rate”** means, with respect to any Interest Determination Date, the rate for the most recent auction of direct obligations of the United States (**“Treasury bills”**) having the specified Index Maturity as it appears under the caption **“INVEST RATE”** on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate is not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, the rate will be the auction average rate for such Treasury bills (expressed as a bond equivalent, on the basis of a year of 365 or 366 days as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury.
- (b) If the results of the auction of Treasury bills are not so published by 3:00 p.m. (New York City time) on the Interest Determination Date, or if no such auction is held, the Treasury Rate will be the rate (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) on such Interest Determination Date of such Treasury bills having the specified Index Maturity as published in H.15(519) under the caption **“U.S. Government Securities/Treasury Bills/Secondary Market.”**
- (c) If such rate is not so published in H.15(519) by 3:00 p.m. (New York City time) on the related Interest Determination Date, the rate on such Interest Determination Date of such Treasury bills will be as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption **“U.S. Government Securities/Treasury Bills/Secondary Market.”**
- (d) If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the Treasury Rate will be a yield to maturity (expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the average of the secondary market bid rates as of approximately 3:30 p.m. (New York City time) on the Interest Determination Date, of three leading primary U.S. government securities dealers in The City of New York selected by the Bank and identified to the calculation agent for the issue of Treasury bills with a remaining maturity closest to the specified Index Maturity.
- (e) If fewer than three dealers are providing quotes, the Treasury Rate will be (i) except as provided in clause (ii), the Treasury Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate from the latest auction of Treasury bills having the specified Index Maturity, as such rate was last displayed under the caption **“INVEST RATE”** on either Reuters Screen USAUCTION10 Page or Reuters Screen USAUCTION11 Page (or any other pages as may replace such pages on such service).

#### ***Prime Rate Notes***

Each Prime Rate Note will bear interest at a specified rate that will be reset periodically based on the Prime Rate and the Spread and/or Spread Multiplier, if any, specified on the face of the Prime Rate Note and in the applicable



Pricing Supplement. Prime Rate Notes will be subject to the Minimum Interest Rate and the Maximum Interest Rate, if any.

Unless otherwise specified in the applicable Pricing Supplement, “**Prime Rate**” means, with respect to any Interest Determination Date, the rate set forth on that Interest Determination Date in H.15(519) under the heading “Bank Prime Loan.”

The following procedures will apply if the rate cannot be set as described above:

- (a) If the rate described above is not published in H.15(519) by 3:00 p.m. (New York City time) on the relevant Interest Determination Date, then the Prime Rate for that Interest Determination Date will be the rate as published on such Interest Determination Date in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Bank Prime Loan.”
- (b) If the rate is not published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m. (New York City time) on the Interest Determination Date, then the Prime Rate will be the average (rounded upwards, if necessary, to the next higher one-hundred thousandth of a percentage point) calculated by the calculation agent of the rates publicly announced by each bank on the Reuters Screen USPRIME1 Page as its prime rate or base lending rate for that Interest Determination Date.
- (c) If fewer than four, but more than one, rates appear on the Reuters Screen USPRIME1 Page, the Prime Rate will be the average of the prime rates (quoted on the basis of the actual number of days in the year divided by a 360-day year) as of the close of business on the Interest Determination Date by four major money center banks (which may include one or more of the Dealers or their affiliates) in The City of New York selected by the Bank and identified to the calculation agent.
- (d) If fewer than two rates appear, the Prime Rate will be determined based on the rates furnished in The City of New York by the appropriate number of substitute banks or trust companies organized and doing business under the laws of the United States, or any state thereof, having total equity capital of at least U.S.\$500 million and being subject to supervision or examination by a federal or state authority, as selected by the Bank and identified to the calculation agent.
- (e) If no banks are providing quotes, the Prime Rate will be (i) except as provided in clause (ii), the Prime Rate in effect on such Interest Determination Date, and (ii) for a Fixed/Floating Rate Note, if there was no preceding Interest Reset Date, the rate that was last published in H.15(519) under the caption “Bank Prime Loan” as determined by the calculation agent.

### ***Other Types of Notes***

#### ***Indexed Notes***

Notes also may be issued with the principal amount payable on the Maturity Date or interest to be paid thereon, or both, to be determined with reference to the price or prices of specified commodities or securities, baskets of securities, indices of securities, stocks, the exchange rate of one or more specified currencies relative to an indexed currency or other formulae, assets or bases of reference, as may be specified in such Note and the applicable Pricing Supplement (“**Indexed Notes**”).

Holders of such Indexed Notes may receive a principal amount on the Maturity Date that is greater than or less than the face amount of the Indexed Notes, or an interest rate that is greater than or less than the stated interest rate on the Indexed Notes, or both, depending upon the structure of the Indexed Note and the relative value on the Maturity Date or at the relevant Interest Payment Date, as the case may be, of the specified index or indexed item. Information as to the method for determining the principal amount payable on the Maturity Date, the currency base rate, the manner of determining the interest rate, the determination agent, certain historical information with respect to the specified indexed item and tax considerations associated with an investment in Indexed Notes will be set forth in the applicable Pricing Supplement.

A separate prospectus comprising the relevant Note and a summary document (as the case may be) will be used for the documentation of an issuance of Indexed Notes, including, but not limited to a discussion of market and settlement disruptions and adjustments.

An investment in Indexed Notes entails significant risks that are not associated with similar investments in a conventional fixed-rate debt security. For further information regarding certain risks inherent in Indexed Notes, see “Risk Factors—Risks Relating to the Notes—Indexed notes.”

#### *Extendible Notes*

Notes may be issued with an initial Maturity Date (the “**Initial Maturity Date**”) which may be extended from time to time upon the election of the holders on specified dates (each, an “**Election Date**”) up to a final Maturity Date (the “**Final Maturity Date**”) as set forth in the applicable Pricing Supplement (“**Extendible Notes**”). The Pricing Supplement relating to each issue of Extendible Notes will set forth the terms of such Notes, including the Initial Maturity Date, the Final Maturity Date and the Election Dates, and will also describe certain tax considerations associated with an investment in Extendible Notes, the manner in which holders may elect to extend the Notes and such other terms and conditions as may apply to such issue.

#### *Dual Currency Notes*

“**Dual Currency Notes**” are Notes for which the Issuer is permitted under certain specified circumstances to pay principal, premium (if any) and/or interest in more than one currency or composite currency. In general, the Issuer will have the option of making each scheduled payment of principal and interest due on the Notes in either (i) the currency in which the face amount of the Note is specified in the applicable Pricing Supplement (“**Face Amount Currency**”) or (ii) another currency specified in the applicable Pricing Supplement (“**Optional Payment Currency**”). If the Issuer chooses to make a payment in the Optional Payment Currency, the amount payable in the Optional Payment Currency will be determined by the person specified in the applicable Pricing Supplement using the exchange rate specified in such Pricing Supplement (the “**Designated Exchange Rate**”). The terms of any Dual Currency Notes will be as set forth in the applicable Pricing Supplement related to any such Notes, including the Face Amount Currency, the option value calculation agent, the Optional Payment Currency, the option election date(s) and the Designated Exchange Rate.

For further information regarding certain risks inherent in Notes denominated in currencies other than U.S. dollars, see “Risk Factors—Risks Relating to the Notes—There is exchange rate risk and risk of exchange controls associated with an investment in the Notes.”

#### *Amortizing Notes*

“**Amortizing Notes**” are Fixed Rate Notes for which payments combining principal and interest are made in installments over the life of the Note. Unless otherwise specified in the applicable Pricing Supplement, interest on each Amortizing Note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and conditions of any issue of Amortizing Notes, including the amortization schedule, will be provided in the applicable Pricing Supplement. A table setting forth repayment information in respect of each Amortizing Note will be included in the applicable Pricing Supplement and set forth on such Notes.

#### *Original Issue Discount Notes*

A Series of Notes may be issued as Original Issue Discount Notes. Certain additional considerations relating to a Series of Original Issue Discount Notes may be described in the applicable Pricing Supplement relating thereto.

### **Other Provisions**

Any provisions with respect to Notes, including the determination of an interest rate basis, the specification of an interest rate basis, the calculation of the interest rate applicable to a Floating Rate Note, the Interest Payment Dates or any other matter relating thereto, may be modified by the terms specified in the applicable Pricing Supplement (and, in the case of Subordinated Notes, the relevant Subordinated Notes Indenture).

### **Certain Terms and Conditions Applicable to Senior Notes**

Unless otherwise stated in the applicable Pricing Supplement, the following terms will apply to each Series of Senior Notes.

## **Ranking**

The Senior Notes will rank *pari passu* without preference among themselves and with all the Bank's other Senior Indebtedness, as defined below. The Senior Notes will be effectively subordinated to (i) all of the Bank's secured indebtedness with respect to the value of its assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of the Bank's liquidation are granted preferential treatment pursuant to Mexican law and (iii) all of the existing and future liabilities of the Bank's subsidiaries, including trade payables.

For purposes of the Senior Notes:

- (a) The term “**Senior Indebtedness**” is defined in the Senior Notes Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of issuance of such Senior Notes or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness; and
- (b) The term “**Indebtedness for Money Borrowed**” is defined in the Senior Notes Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (i) any trade accounts payable in the ordinary course of business, (ii) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Senior Indebtedness, (iii) indebtedness to any of the Bank's employees, (iv) the Bank's indebtedness which, when incurred, was without recourse to the Bank, and (v) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (i) or (ii) above.

## **Events of Default, Notice and Waiver**

Unless otherwise specified in the applicable Pricing Supplement under “Additional Events of Default,” an event of default with respect to a Series of Senior Notes (a “**Senior Notes Event of Default**”) is defined in the Senior Notes Indenture as:

- (a) a default in the timely payment of the principal due and payable of the Senior Notes of such Series under the Senior Notes Indenture; or
- (b) a default for thirty calendar days in the payment of interest or Additional Amounts due and payable on the Senior Notes of such Series under the Senior Notes Indenture; or
- (c) a default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Senior Notes of such Series under the Senior Notes Indenture, not otherwise expressly defined as an Senior Notes Event of Default in (a) or (b) above, and the continuance of such default for more than sixty days after written notice of such default has been given to the Issuer by the Trustee or to the Bank and the Trustee by the holders of at least 25% in aggregate principal amount of Senior Notes of such Series outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default”; or
- (d) certain events involving the Bank's insolvency, liquidation (*liquidación*) or dissolution; or
- (e) if any of the Bank's Indebtedness (as defined below) or that of its subsidiaries becomes due and repayable prematurely by reason of an event of default under such Indebtedness or the Bank or any of its subsidiaries fails to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by the Bank or any of its subsidiaries for any Indebtedness becomes enforceable and steps are taken to enforce the same or if the Bank or any of its subsidiaries default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by the Bank or such subsidiary (as the case may be) in relation to any Indebtedness of any other person; *provided* that no such event as aforesaid shall constitute a Senior Notes Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (e) has occurred shall amount to at

least U.S.\$50,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates).

“Indebtedness” is defined in the Senior Notes Indenture to mean (a) money borrowed and premiums (if any) and accrued interest in respect thereof, (b) liabilities under or in respect of any acceptance or credit and (c) the principal and premium (if any) and accrued interest in respect of any bonds, notes, debentures, or other similar instrument.

For the avoidance of doubt, in the case of SDG Notes, if the net proceeds of such SDG Notes are not used, any report, assessment, opinion or certification is not obtained or published, or any other step or action not taken, in each case as set out and described in the “Use of Proceeds” section of this Offering Memorandum, as so supplemented, in connection with the offering of such SDG Notes, such occurrence shall not constitute a Senior Notes Event of Default.

The Senior Notes Indenture provides that (i) if a Senior Notes Event of Default (other than a Senior Notes Event of Default described in clause (d) above) shall have occurred and be continuing with respect to a Series of Senior Notes, either the Trustee or the holders of not less than 25% of the total principal amount of Senior Notes of such Series then outstanding may declare the principal of all outstanding Senior Notes of such Series and the interest accrued thereon, if any, to be due and payable immediately and (ii) if a Senior Notes Event of Default described in clause (d) above shall have occurred, the principal of all outstanding Senior Notes of such Series and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of such Senior Notes of such Series. The Senior Notes Indenture provides that the Senior Notes of such Series owned by the Bank or any of the Bank’s affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Senior Notes of such Series. Upon the satisfaction by the Bank of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of Senior Notes of such Series then outstanding. Past defaults with respect to any Series of Notes, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of Senior Notes of such Series outstanding.

Holders may not enforce the Senior Notes Indenture or the Senior Notes of such Series except as provided in the Senior Notes Indenture. The holder of any Senior Note, however, will have the right to receive payment of the principal of and interest on that Senior Note on or after the due dates, the redemption dates or the Maturity Date expressed in the Senior Notes Indenture or such Senior Note and, subject to certain limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates.

The Trustee may refuse to enforce the Senior Notes Indenture or the Senior Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Senior Notes of a Series may direct the Trustee under the Senior Notes Indenture in its exercise of any trust or power in respect thereof. The Trustee may withhold from holders notice of any continuing Senior Notes Event of Default (except a default in payment of principal or interest) if the Trustee in good faith determines that withholding notice is in their interest.

Under the Senior Notes Indenture, the Bank must furnish the Trustee annually with a statement regarding any default in the performance of its obligations thereunder.

#### ***Modification of the Senior Notes Indenture; Waiver of Covenants***

The Bank and the Trustee may, without the consent of any holder of Senior Notes of a Series, amend, waive or supplement the Senior Notes Indenture or the Senior Notes of such Series in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Senior Notes Indenture or the Senior Notes of such Series to any provision in this “Description of the Notes” or the relevant Pricing Supplement distributed to holders of a Series and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, the Bank and the Trustee may amend, waive or supplement the Senior Notes Indenture or the Senior Notes of such Series with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Senior Notes of such Series. However, without the consent of the holder of each Senior Note of a Series affected thereby, the Bank may not, among other things:

- reduce the percentage in principal amount of outstanding Senior Notes of such Series that is required for the consent of the holders in order to modify or amend the Senior Notes Indenture or to waive compliance with some provisions of the Senior Notes Indenture or to waive some defaults.
- reduce the rate of or change or have the effect of changing the time for payment of interest, including applicable Amount in Arrears (as defined in the Senior Notes Indenture), on any Notes of such Series or change in any adverse respect the obligation of the Bank to pay Additional Amounts in respect of such Series of Notes;
- reduce the principal of or change or have the effect of changing the maturity date of any Senior Notes of such Series, or change the date on which any Senior Notes of such Series may be subject to redemption, or reduce the redemption price therefor;
- change the currency of payment of principal or interest on any Senior Note of such Series;
- modify any other payment provision of any Senior Note of such Series; or
- make any change in the provisions of the Senior Notes Indenture entitling each holder of such Series of Notes to receive payment of principal of and interest on such Notes of such Series on or after the due date thereof or to bring suit to enforce such payment, or permitting holders of a majority in principal amount of outstanding Senior Notes of such Series to waive certain events of default under the Senior Notes Indenture.

The holders of a majority in aggregate principal amount of the outstanding Senior Notes of a Series may waive any past default or Senior Notes Event of Default under the Senior Notes Indenture with respect to such Series, except a default under a provision that cannot be modified without the consent of each holder of a Senior Note of such Series that would be affected.

#### **Certain Terms and Conditions Applicable to Subordinated Notes**

Unless otherwise stated in the applicable Pricing Supplement, the following terms will apply to each Series of Subordinated Notes.

##### ***Ranking***

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that any Series of Subordinated Notes will constitute Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*) and will rank (i) subordinated and junior to all of the Bank's present and future Senior Indebtedness, (ii) *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) senior to Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of the Bank's capital stock. No payment of principal, premium, if any, or interest on the Subordinated Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of a Series of Subordinated Notes due to the Bank's insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *liquidación, resolución, concurso mercantil* or similar proceedings in connection with the Bank's insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Subordinated Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Preferred Indebtedness (including the Subordinated Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Subordinated Notes and all other Subordinated Preferred Indebtedness will be senior to the Bank's Subordinated Non-Preferred Indebtedness and all classes of its capital stock.

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that:

- (a) The term "**Senior Indebtedness**" will mean all Indebtedness for Money Borrowed, whether outstanding on the date of issuance of such Subordinated Notes or thereafter created, assumed or

incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness (including the Subordinated Notes) or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness;

- (b) The term “**Subordinated Preferred Indebtedness**” (including the relevant Series of Subordinated Notes) will mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of such Subordinated Notes Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness and all classes of the Bank’s capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;
- (c) The term “**Subordinated Non-Preferred Indebtedness**” will mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the relevant Subordinated Notes Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of the Bank’s capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and
- (d) The term “**Indebtedness for Money Borrowed**” will mean any obligation of, or any obligation guaranteed by the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (i) any trade accounts payable in the ordinary course of business, (ii) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (iii) indebtedness to any of the Bank’s employees, (iv) the Bank’s indebtedness which, when incurred, was without recourse to it, and (v) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

### ***Treatment of Interest and Principal During a Suspension Period***

#### ***Deferral of Interest and Principal Payments***

The Issuer has the right to and will defer, but not cancel (except pursuant to one or more Write-Downs), the payment of interest due on each Series of Subordinated Notes and defer, but not cancel (except pursuant to one or more Write-Downs), the payment of principal thereof for the duration of any Suspension Period (see “—Suspension Periods”). In the event of a deferral of the payment of interest on a Series of Subordinated Notes or deferral of payment of principal thereof, the Issuer will notify the holders of such Series of Subordinated Notes and the Trustee in accordance with the procedures described in the applicable Subordinated Notes Indenture. Payments of interest due on each Series of Subordinated Notes will be cumulative, so that if payments of interest are deferred during a Suspension Period and subject to the occurrence of one or more Write-Downs, holders of such Series of Subordinated Notes will have the right to receive following the termination of the Suspension Period all interest accrued prior to and during the Suspension Period, but not paid as a result of such Suspension Period, and such interest will be payable (without any interest on such previously accrued interest) on the next succeeding Interest Payment Date on which a Suspension Period is no longer in effect, unless such Interest Payment Date occurs on a date that is less than twelve (12) Business Days after such Suspension Period ends, in which case any and all interest then payable shall be paid on the date that is twelve (12) Business Days after the date on which such Suspension Period ends, except to the extent such interest is cancelled pursuant to one or more Write-Downs. If a Suspension Period is in effect on the Maturity Date or any redemption date or the Maturity Date or such redemption date is on a date that is less than twelve (12) Business Days after a Suspension Period ends, payment of principal will be deferred with interest until the date that is twelve Business Days after the date on which such Suspension Period ends, except to the extent such principal is cancelled pursuant to one or more Write-Downs. When a Suspension Period is no longer in effect, the Issuer will notify the holders of the applicable Series of Subordinated Notes and the Trustee in accordance with the procedures described in the relevant Subordinated Notes Indenture. If a Write-Down occurs, the Written-Down Principal, and any interest accrued with respect thereto during any Suspension Period, will be cancelled. The deferral of interest in

accordance with the procedures set forth in this paragraph will not constitute an event of default under the Subordinated Notes Indenture.

### ***Suspension Periods***

For purposes hereof, a “**Suspension Period**” will commence and the Issuer will defer, but not cancel (except pursuant to one or more Write-Downs), the payment of interest due on any Subordinated Note and principal due thereon upon the occurrence of one of the following events:

- (a) any of the following Capital Ratios applicable to the Bank declines below the minimum percentage required, from time to time, by the Mexican Capitalization Requirements, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are: (i) 8% in the case of the Total Net Capital (*capital neto*) or (ii) 6% in the case of Tier 1 Capital (*capital básico*), *plus*, in each case, any other applicable Capital Supplement (a “**Capital Ratios Event**”); or
- (b) the CNBV institutes any corrective measure against the Bank pursuant to either Article 121 or Article 122 of the Mexican Banking Law or any successor provisions (including the corresponding rules set forth under the General Rules Applicable to Mexican Banks), which requires deferring or canceling payments of interest and principal otherwise due on the notes if the Bank is classified as Class III or IV (or equivalent classification under successor provisions) under the Mexican Capitalization Requirements (a “**Mexican Regulatory Event**”).

“**Capital Conservation Buffer**” means the capital supplement required to be equivalent to 2.5% of a Mexican bank’s total risk-weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.

“**Capital Supplement**” refers to the Countercyclical Capital Supplement and the Systemically Important Bank Capital Supplement, together with any other additional capital supplement that may be required to be maintained and comprised of Fundamental Capital pursuant to the Mexican Capitalization Requirements.

“**Countercyclical Capital Supplement**” means an additional capital supplement that the CNBV has the authority to require from any and all Mexican banks, designated to cover adverse economic cycles, if the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

“**Systemically Important Bank Capital Supplement**” means an additional capital supplement, as determined from time to time, that the CNBV requires of Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy.

See “Supervision and Regulation—Capitalization” for further information regarding the General Rules Applicable to Mexican Banks and how they apply to us.

### ***Conclusion of a Suspension Period***

Subject to the occurrence of one or more Write-Downs, a Suspension Period in respect of a Series of Subordinated Notes shall terminate and the payment of interest or principal due on such Series of Subordinated Notes will resume:

- (a) if such Suspension Period was triggered by a Capital Ratios Event, when the Capital Ratios Event has terminated; or
- (b) if such Suspension Period was triggered by a Mexican Regulatory Event, when the Mexican Regulatory Event has terminated.

### ***Further Provisions for Suspension Periods***

Notwithstanding anything in this Offering Memorandum to the contrary, neither the occurrence nor continuation of a Suspension Period shall give rise to any Subordinated Notes Event of Default under the relevant Subordinated Notes Indenture or the Subordinated Notes.

The Issuer must give notice of any Suspension Period affecting a Series of Subordinated Notes to the holders of such Series via the applicable clearing system and to the Trustee in writing at least five (5) Business Days prior to the earlier of (1) the date the interest due on the Subordinated Notes would have been payable except for such

Suspension Period and (2) the date the Trustee is required to give notice to any securities exchange or to holders of the Subordinated Notes of the Regular Record Date or the date such interest is payable but in any event not less than five (5) Business Days prior to such Regular Record Date. The Issuer must also give notice of the termination of any Suspension Period to the holders of the Subordinated Notes via the applicable clearing system and to the Trustee in writing not more than three (3) Business Days after the Suspension Period is no longer in effect. In the absence of written notice to the contrary, the Trustee will assume that the Suspension Period in respect of a particular Series of Subordinated Notes is in effect.

Unless all payable accrued interest and any Additional Amounts on the Subordinated Notes have been paid or been cancelled pursuant to one or more Write-Downs, at any time during any Suspension Period, and following termination of such Suspension Period, the Bank shall not:

- (a) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Bank's capital stock (which includes common and preferred stock);
- (b) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of the Bank's debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Subordinated Notes;
- (c) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by the Bank of the debt securities of any of the Bank's subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Subordinated Notes; or
- (d) take any other action in violation of any other order by the CNBV, *Banco de México*, the SHCP or any other relevant Mexican authority;

*provided, however*, that the foregoing shall not apply to the extent that the Bank obtains prior regulatory approval for any action that would otherwise be prohibited.

### ***Trigger Event and Write-Down***

#### ***Trigger Event***

A "Trigger Event," with respect to a Series of Subordinated Notes, will be deemed to have occurred if:

- (a) the CNBV publishes a determination, in its official publication of capitalization levels for Mexican banks, that the Bank's Fundamental Capital ratio, as calculated pursuant to the applicable Mexican Capitalization Requirements, is equal to or below 4.5% (four point five percent);
- (b) (A) both (i) the CNBV has notified the Bank that it has made a determination, pursuant to Articles 28 and 29 Bis of the Mexican Banking Law, that a cause for revocation of its license has occurred resulting from (x) the Bank's assets being insufficient to satisfy its liabilities, (y) the Bank's non-compliance with corrective measures imposed by the CNBV pursuant to the Mexican Banking Law or (z) the Bank's non-compliance with the capitalization requirements set forth in the Mexican Capitalization Requirements and (ii) the Bank has not cured such cause for revocation by (a) complying with such corrective measures, or (b)(1) submitting a capital restoration plan to, and receiving approval of such plan by, the CNBV, (2) not being classified in Class III, IV or V and (3) transferring at least 75 percent of the Bank's shares to an irrevocable trust or (B) remedying any capital deficiency, in each case on or before the third or seventh business day in Mexico, as applicable, following the date on which the CNBV notifies the Bank of such determination; or
- (c) the BSC (as defined in "Supervision and Regulation—Financial Support—Determination by the Banking Stability Committee") determines pursuant to Article 29 Bis 6 of the Mexican Banking Law that, under Article 148, Section II, paragraphs (a) and (b) of the Mexican Banking Law, financial assistance is required by the Bank to avoid revocation of its license because the Bank's assets are insufficient to satisfy its liabilities, or the Bank's failure to comply with corrective measures, to comply with capitalization requirements, or to satisfy certain liabilities when due, as a means to maintain the solvency of the Mexican financial system or to avoid risks affecting the Mexican payments system and such determination is either made public or notified to the Bank (for the avoidance of doubt, pursuant to Annex 1-S of the General Rules Applicable to Mexican Banks,



a Trigger Event shall occur if financial assistance or other loans shall be granted to the Bank pursuant to Article 148, Section II, paragraphs (a) and (b) of the Mexican Banking Law).

### ***Write-Down***

If a Trigger Event occurs with respect to any Series of Subordinated Notes, the following write-downs (each, a “**Write-Down**”) of such Series of Subordinated Notes shall be deemed to have occurred on the Write-Down Date (as defined below), automatically and without any additional action by the Bank, the Trustee or the holders of such Subordinated Notes:

- (a) the then-outstanding principal amount of such Subordinated Notes will automatically be reduced by one or more Write-Downs by each applicable Write-Down Amount (as defined below) and such Write-Down shall not constitute a Subordinated Notes Event of Default; and
- (b) any holder of Subordinated Notes will automatically be deemed to have irrevocably waived its right to claim or receive, and will not have any rights against the Bank or the Trustee with respect to, repayment of, the Written-Down Principal of the Subordinated Notes or any interest with respect thereto (or Additional Amounts payable in connection therewith), including any and all accrued and unpaid interest with respect to such Written-Down Principal as of the Write-Down Date, irrespective of whether such amounts have become due and payable prior to the date on which the Trigger Event shall have occurred.

The Issuer shall provide notice to holders via the applicable clearing system as well as written notice to the Trustee (a “**Write-Down Notice**”) that a Trigger Event has occurred not later than the next Business Day succeeding such Trigger Event. Any Write-Down Notice to the Trustee must be in writing and accompanied by an officer’s certificate of the Issuer stating that a Trigger Event has occurred and setting out the method of calculation of the relevant Write-Down Amount.

“**Write-Down Amount**” means an (i) amount of the then-outstanding principal amount of the relevant Series of Subordinated Notes that would be sufficient, together with any concurrent pro rata Write-Down of any other loss-absorbing instruments issued by the Bank and then outstanding, to return its Fundamental Capital ratio to the levels of then-applicable Fundamental Capital ratio required by the CNBV in accordance with Section IX, b) of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this Offering Memorandum is, including the Capital Conservation Buffer, 7% plus the amount required to restore any Countercyclical Capital Supplement and any Systemically Important Bank Capital Supplement to the minimum amounts required under the Mexican Capitalization Requirements on such Write-Down Date; or (ii) if any Write-Down of the then-outstanding principal amount, together with any concurrent pro rata write down of any other loss-absorbing instruments issued by the Bank and then outstanding, would be insufficient to return the Bank’s Fundamental Capital ratio to the aforementioned amount described in clause (i) above, then the amount necessary to reduce the then-outstanding principal amount of each outstanding note to zero.

“**Write-Down Date**” means the date on which a Write-Down will be deemed to take effect, which shall be the next Business Day succeeding the date of the Trigger Event.

“**Written-Down Principal**” means the amount by which the principal of any Subordinated Notes has been written down by any one or more Write-Downs.

As required under the Mexican Capitalization Requirements, a full Write-Down (whereby the principal amount of the Subordinated Notes has been written down to zero) shall be completed before any public funds are contributed or any public assistance is provided to the Bank in the terms of Article 148, Section II, subsections a) and b) of the Mexican Banking Law, including, among others, in the form of (i) subscription of shares, (ii) granting of loans, (iii) payment of the Bank’s liabilities, (iv) granting of guaranties and (v) the transfer of assets and liabilities.

### ***Events of Default, Notice and Waiver***

Unless otherwise specified in the applicable Pricing Supplement under “Additional Events of Default,” an event of default with respect to a Series of Subordinated Notes (each, a “**Subordinated Notes Event of Default**” and, together with each Senior Notes Event of Default, an “**Event of Default**”) will be defined in the applicable Subordinated Notes Indenture as:

- (a) the Issuer's default in the payment of interest or Additional Amounts due and payable in respect of the applicable Series of Subordinated Notes, unless such payment of interest is deferred as a result of a Suspension Period, and such default continues for a period of thirty (30) calendar days;
- (b) the Issuer's default in the timely payment of the principal of the applicable Series of the Subordinated Notes, unless such payment of principal is deferred as a result of a Suspension Period, as applicable under the relevant Subordinated Notes Indenture, when the same shall become due and payable, other than during a Suspension Period;
- (c) a payment by the Bank, during a Suspension Period, of dividends or other distributions in respect of its capital stock; or
- (d) certain events involving the Bank's liquidation (including liquidación or resolución) or dissolution.

For the avoidance of doubt, the occurrence of any the following shall not constitute a Subordinated Notes Event of Default: (i) one or more Write-Downs and (ii) in the case of SDG Notes, the net proceeds of such SDG Notes not being used, any report, assessment, opinion or certification not being obtained or published, or any other step or action not being taken, in each case as set out and described in the "Use of Proceeds" section of this Offering Memorandum, as so supplemented, in connection with the offering of such SDG Notes.

The payment of the principal of the Subordinated Notes or interest accrued and unpaid thereon may be accelerated only upon the occurrence of a Subordinated Notes Event of Default described in the paragraph (d) above, referred to as a "**Liquidation Event of Default.**" There is no right of acceleration of the payment of principal or accrued and unpaid interest of the Subordinated Notes upon the occurrence of any other Subordinated Notes Event of Default noted above, including a default in the payment of principal or interest. If payment of the principal of the Subordinated Notes of any Series or accrued and unpaid interest is accelerated, the Issuer shall promptly notify holders of its Senior Indebtedness of the acceleration. If a Subordinated Notes Event of Default with respect to a Series of Subordinated Notes occurs under the relevant Subordinated Notes Indenture and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided above) under such Subordinated Notes Indenture to collect the payment of due and unpaid principal of and interest on the applicable Subordinated Notes, or to enforce the performance of any provision of the applicable Subordinated Notes and/or Subordinated Notes Indenture.

If and only if a Liquidation Event of Default occurs and is continuing, the Subordinated Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder of the Subordinated Notes. The Subordinated Notes will become immediately due and payable at their then-outstanding principal amount together with accrued and unpaid interest up to (but excluding) the date on which the Liquidation Event of Default occurs, without further action by any person. For the avoidance of doubt, no Capital Ratios Event or Mexican Regulatory Event will constitute a Liquidation Event of Default, nor during a Suspension Period in respect of the Subordinated Notes will a deferral in the payment of interest or principal on the Subordinated Notes, as applicable, entitle the holders of the Subordinated Notes to accelerate the payment of principal or accrued and unpaid interest of the Subordinated Notes. In the event of a Liquidation Event of Default, holders of the Subordinated Notes may not be able to collect the full amount payable under the Subordinated Notes and other bankruptcy rules may affect the timing or amount paid to holders of the Subordinated Notes. In addition, holders of the Subordinated Notes may have no enforcement remedies for a Subordinated Notes Event of Default upon the occurrence of a Trigger Event and resulting Write-Down. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Subordinated Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

Holders of Subordinated Notes may not enforce the relevant Subordinated Notes Indenture or the Subordinated Notes except as provided in the applicable Subordinated Notes Indenture. The holder of any Subordinated Note, however, will have the right to receive payment of the principal of and interest on that Subordinated Note on or after the due dates, redemption dates or Maturity Date expressed in the relevant Subordinated Notes Indenture or such Subordinated Note and, subject to one or more Write-Downs and the deferral provisions set forth in the Subordinated Note and the relevant Subordinated Notes Indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The Trustee may refuse to enforce any of the provisions of a Subordinated Notes Indenture or the Subordinated Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Subordinated Notes of a Series may direct the Trustee under the relevant Subordinated Notes Indenture in its exercise of any trust or power in respect thereof.

Under the Subordinated Notes Indentures, the Bank must furnish the Trustee annually with a statement regarding any default in the performance of the Bank's obligations thereunder.

***Modification of a Subordinated Notes Indenture; Waiver of Covenants***

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holder of Subordinated Notes of a Series, amend, waive or supplement the relevant Subordinated Notes Indenture or the Subordinated Notes of such Series in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the relevant Subordinated Notes Indenture or the Subordinated Notes of such Series to any provision in this "Description of the Notes" or the relevant Pricing Supplement distributed to holders of Notes of such Series and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México* and the approval by 75% of the members of the Bank's Board of Directors, the Bank and the Trustee may amend, waive or supplement the relevant Subordinated Notes Indenture or the Subordinated Notes of a Series with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Subordinated Notes of such Series. However, without the consent of the holder of each Subordinated Note of a Series affected thereby, the Bank may not, among other things:

- (a) reduce the percentage in principal amount of outstanding Subordinated Notes of such Series that is required for the consent of the holders in order to modify or amend the relevant Subordinated Notes Indenture;
- (b) reduce the rate of or change or have the effect of changing the time for payment of interest, including amount in arrears, on any Subordinated Notes of the applicable Series or change in any adverse respect the obligation of the Bank to pay Additional Amounts in respect of the Notes of the applicable Series;
- (c) reduce the principal (except in the case of one or more Write-Downs), or change or have the effect of changing the Maturity Date, of any Subordinated Notes of such Series, or change the date on which any Subordinated Notes of the applicable Series may be subject to redemption, or reduce the redemption price therefor;
- (d) change the currency of payment of principal or interest on any Subordinated Note of such Series;
- (e) modify any other payment provision of any Subordinated Note of such Series;
- (f) make any change to the provisions of the relevant Subordinated Notes Indenture entitling each holder to receive payment of principal of and interest on a Subordinated Note of such Series on or after the due date thereof or that impairs the right to sue for the enforcement of any payment on or with respect to any Subordinated Note of such Series; or
- (g) modify the subordination provisions relating to the Subordinated Notes in any manner adverse to the holders of the Subordinated Notes of such Series.

The holders of a majority in aggregate principal amount of the outstanding Subordinated Notes of a Series may waive any past default or Subordinated Notes Event of Default under the relevant Subordinated Notes Indenture, except that a default under a provision that cannot be modified without the consent of each holder of a Subordinated Note of such Series that would be affected.

Notwithstanding the foregoing, a Subordinated Notes Indenture may not be amended, supplemented or modified without the approval of *Banco de México* and the CNBV.

***Restrictions Applicable to Mexican Financial Institutions***

Unless otherwise permitted by applicable law, each Subordinated Notes Indenture will provide that the Subordinated Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*), including the Bank, and (ii) may not be directly or indirectly acquired by the Bank for its own account by any person controlled by the Bank, or by any of the following entities:

- (a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Subordinated Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments, (2) securities brokers (*casas de bolsa*) that acquire the Subordinated Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the

Subordinated Notes to invest their technical reserves and for securities fluctuation, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Financial Groups Law, and (5) the Bank, in the event set forth in Section II of the first paragraph of Article 28 of the Bulletin 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of its financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

- (b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing at least 51% of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;
- (c) Mexican pension or retirement funds managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);
- (d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity as trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; *provided, however*, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Subordinated Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes; or
- (e) related parties to the Bank, as defined in Article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:
  - (i) public offering; or
  - (ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of Article 27 of the Bulletin 3/2012.

#### **Other Terms and Conditions Applicable to the Senior and Subordinated Notes**

##### ***Redemption; Repurchases at the Bank's Option; Repurchases at the Holder's Option***

The applicable Pricing Supplement will indicate either that:

- (1) the Notes of any Series will not be subject to redemption at our option, prior to the Maturity Date of such Series of Notes; or
- (2) the Notes of such Series will be redeemable prior to the Maturity Date at our option on a date(s) specified prior to the Maturity Date and at a price(s) and on other terms as are specified in the applicable Pricing Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the redemption date for any Floating Rate Note will be an Interest Payment Date, and the Bank shall calculate the redemption price of any Notes.

##### ***Optional Redemption with a Make-Whole Premium***

In addition to specifying whether the applicable Series of Notes may be redeemed as set forth under “—Redemption of Notes Prior to Maturity Solely for Taxation Reasons” below and, in the case of Subordinated Notes, “—Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes” below, each applicable Pricing Supplement will indicate either that the relevant Tranche of Notes of a Series cannot be redeemed prior to maturity or the terms on which such Notes will be redeemable at the option of the Issuer, including, without limitation, the price at which such Notes are to be redeemed (the “**Make-Whole Redemption Price**”) and the relevant date upon which such Notes will be so redeemed (each such date, an “**Make-Whole Redemption Date**”); *provided, however*, that Notes denominated in currencies other than U.S. dollars may be subject to different restrictions on redemption as set forth in the applicable Pricing Supplement relating to any such Notes.

If the applicable Pricing Supplement provides that “Make-Whole Redemption” is applicable, the Issuer may, at any time at its option, redeem the relevant Series of Notes, in whole but not in part, at a Make-Whole Redemption Price that includes a Make-Whole Premium (as defined below), which will be calculated by the person specified in the Pricing Supplement, and the following shall apply to such Series of Notes:

The relevant Series of Notes will be redeemable by the Issuer prior to maturity in whole, but not in part, on the Make-Whole Redemption Date at a Make-Whole Redemption Price equal to the greater of (i) 100% of the principal amount thereof and (ii) the sum of the present values of the Remaining Scheduled Payments of principal and interest on the Notes to be redeemed (exclusive of interest accrued to (but excluding) the applicable Make-Whole Redemption Date) discounted to that Make-Whole Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Make-Whole Treasury Rate plus a spread to be indicated in the applicable Pricing Supplement (the “**Make-Whole Premium**”); *plus*, in the case of both clause (i) and clause (ii) above, accrued and unpaid interest, and Additional Amounts, if any, to (but excluding) the Make-Whole Redemption Date.

Notice of redemption to holders of Notes in respect of optional redemption with a Make-Whole Premium shall be provided as described under “Notices” below at least 30 and not more than 60 calendar days prior to the Make-Whole Redemption Date.

Notwithstanding the foregoing, installments of interest on the Notes to be redeemed that are due and payable on or prior to a Make-Whole Redemption Date will be payable to the holders of those Notes registered as such at the close of business on the relevant Regular Record Dates according to the terms and provisions of the applicable Indenture.

In connection with such optional redemption with a Make-Whole Premium, the following defined terms apply:

“**Comparable Treasury Issue**” means the United States Treasury security or securities selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate Notes of comparable maturity to the remaining term of the Notes.

“**Comparable Treasury Price**” means, with respect to any Make-Whole Redemption Date, (A) the average of the Reference Treasury Dealer Quotations for that Make-Whole Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker for the Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“**Independent Investment Banker**” means one of the Reference Treasury Dealers appointed by the Bank to act as the “Independent Investment Banker.”

“**Make-Whole Treasury Rate**” means, with respect to any Make-Whole Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding the Make-Whole Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Make-Whole Redemption Date.

“**Reference Treasury Dealer**” means each of four nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Bank; *provided*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States of America (a “**Primary Treasury Dealer**”), the Bank shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

“**Reference Treasury Dealer Quotation**” means, with respect to each Reference Treasury Dealer and any Make-Whole Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third Business Day preceding that Make-Whole Redemption Date.

“**Remaining Scheduled Payments**” means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Make-Whole

Redemption Date but for such redemption; *provided*, that, if that Make-Whole Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Make-Whole Redemption Date.

On and after any Make-Whole Redemption Date, interest will cease to accrue on the Notes called for redemption unless the Issuer defaults in the payment of the Make-Whole Redemption Price.

#### ***Redemption of Notes Prior to Maturity Solely for Taxation Reasons***

If the applicable Pricing Supplement provides that “Tax Redemption” is applicable, the Issuer may, at its election, subject to applicable law, redeem a Series of Notes, in whole (up to the then-outstanding principal amount) but not in part, at any time prior to the Maturity Date (the “**Tax Redemption Date**”), upon giving not less than 30 nor more than 60 days’ notice to the holders of the Notes of such Series, at 100% of their par value, plus Additional Amounts, if any, together with all accrued to and unpaid interest due on (but excluding) the Tax Redemption Date, upon the occurrence of a Withholding Tax Event (as defined below) affecting the Notes of such Series (a “**Withholding Tax Redemption**”).

For the purposes of the foregoing, the term “**Withholding Tax Event**” is defined in the Senior Notes Indenture and will be defined in the relevant Subordinated Notes Indenture to mean (i) the receipt by the Bank and the delivery to the applicable Trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of (a) any amendment to, or change in (including any announced prospective change), the laws or treaties (or any rules or regulations thereunder) of any Relevant Jurisdiction affecting taxation, (b) any judicial decision, official administrative pronouncement or regulatory procedure, of any Relevant Jurisdiction (each an “**Administrative Action**”) or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of such Notes or with respect to any jurisdiction other than Mexico, after such jurisdiction has become a Relevant Jurisdiction (collectively, a “**Change in Tax Law**”), there is more than an insubstantial risk that the Bank is or will be liable for more than a de minimis payment of Additional Amounts in respect of such Notes in excess of the gross amount of Additional Amounts payable in respect of such Notes prior to such Change in Tax Law and (ii) the delivery to the applicable Trustee of an officer’s certificate stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to the Bank (such measures not involving any material cost to the Bank or the incurring by the Bank of any other tax or penalty).

Prior to giving any notice of a “Tax Redemption” pursuant to this provision, we will deliver to the Trustee the opinion required pursuant to clause (i) and the officer’s certificate required pursuant to clause (ii) of the definition of “Withholding Tax Event.”

Notice of redemption pursuant to this provision, after it is delivered by us to the holders, will be irrevocable.

If the Issuer elects to effect a Withholding Tax Redemption with respect to the Subordinated Notes of any Series, (i) the Bank shall be in compliance with applicable Mexican Capitalization Requirements in effect on the applicable Tax Redemption Date; (ii) after giving effect to the redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable Tax Redemption Date, as evidenced by an officer’s certificate delivered to the Trustee prior to delivery of the redemption notice to the holders; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Withholding Tax Redemption.

In the event of such a Withholding Tax Redemption for Subordinated Notes, the Bank is required to obtain the authorization of *Banco de México* to redeem the Subordinated Notes prior to the applicable Tax Redemption Date. The Bank's obligation to obtain *Banco de México*'s authorization to redeem the Subordinated Notes shall not grant any rights to the Trustee or the holders of the Subordinated Notes to have the Subordinated Notes redeemed, even if such authorization is obtained.

#### ***Subordinated Notes Optional Redemption and Special Event Redemption of Subordinated Notes***

If, and to the extent, specified in the applicable Pricing Supplement, Subordinated Notes Optional Redemption and Special Event Redemption (each, defined below) apply to each Series of Subordinated Notes. Neither redemption feature applies to any Series of Senior Notes.

##### ***Subordinated Notes Optional Redemption***

If the applicable Pricing Supplement provides that "Subordinated Notes Optional Redemption" is applicable, the Issuer will have the option, but no obligation, under the relevant Subordinated Notes Indenture to redeem the applicable Series of Subordinated Notes on the applicable optional call date only, in whole (up to the then-outstanding principal amount) or in part, at par plus accrued and unpaid interest due on, or with respect to, such Series of Subordinated Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption (a "**Subordinated Notes Optional Redemption**") (subject to the right of holders on the relevant Regular Record Date to receive interest due on the related Interest Payment Date occurring on or prior to the applicable redemption date).

The Issuer may redeem the Subordinated Notes pursuant to a Subordinated Notes Optional Redemption only if (i) the Bank is then in compliance with the applicable Mexican Capitalization Requirements in effect on the applicable redemption date; (ii) after giving effect to the Subordinated Notes Optional Redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable redemption date, as evidenced by an officer's certificate delivered to the Trustee prior to delivery of the redemption notice to the holders; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Subordinated Notes Optional Redemption.

In the event of such a Subordinated Notes Optional Redemption, the Bank is required to obtain the authorization of *Banco de México* to redeem the applicable Series of Subordinated Notes prior to the applicable redemption date. The Bank's obligation to obtain *Banco de México*'s authorization to redeem the applicable Series of Subordinated Notes shall not grant any rights to the Trustee or the holders of such Series of Subordinated Notes to have the Subordinated Notes redeemed, even if such authorization is obtained.

##### ***Special Event Redemption***

If the applicable Pricing Supplement provides that "Special Event Redemption" is applicable, the Issuer has the option, but no obligation, to redeem the applicable Series of Subordinated Notes at any time prior to the Maturity Date, subject to any applicable regulatory requirements, in whole (up to the then-outstanding principal amount) but not in part, at par plus accrued and unpaid interest due on, or with respect to, the applicable Series of Subordinated Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption, upon the occurrence of a Special Event (as defined below) affecting the Subordinated Notes (a "**Special Event Redemption**") (subject to the right of holders on the relevant Regular Record Date to receive interest due on the related Interest Payment Date occurring on or prior to the applicable redemption date); *provided, however*, in the event of such a Special Event Redemption with respect to such Series of Subordinated Notes, (i) the Bank shall be in compliance with applicable Mexican Capitalization Requirements in effect on the applicable redemption date; (ii) after giving effect to the redemption, the Bank maintains each of its Capital Ratios equal to, or exceeding, the then-applicable capital ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-S of the General Rules Applicable to Mexican Banks or any successor regulation, which, as of the date of this Offering Memorandum, unless otherwise set forth in any supplement

hereto, are (x) 10.5% in the case of the Total Net Capital (*capital neto*), which includes the Capital Conservation Buffer, (y) 8.5% in the case of Tier 1 Capital (*capital básico*), which includes the Capital Conservation Buffer, and (z) 7% in the case of Fundamental Capital (*capital básico fundamental*), which includes the Capital Conservation Buffer, *plus*, in each case, any other applicable Capital Supplement, or the Bank issues securities that replace the Subordinated Notes such that the Bank remains in compliance with the Mexican Capitalization Requirements; and (iii) the Bank has obtained the authorization from *Banco de México* to redeem the Subordinated Notes prior to the applicable redemption date; *provided, however*, that if at any time a Trigger Event shall have occurred, or a Suspension Period shall have commenced and not terminated, then the Issuer shall have no obligation to redeem any Subordinated Notes called for Special Event Redemption.

In the event of such a Special Event Redemption, the Bank is required to obtain the authorization of *Banco de México* to redeem the applicable Series of Subordinated Notes prior to the applicable redemption date. The Bank's obligation to obtain *Banco de México*'s authorization to redeem such Series of Subordinated Notes shall not grant any rights to the Trustee or the holders of the applicable Series of Subordinated Notes to have such Series of Subordinated Notes redeemed, even if such authorization is obtained.

Unless otherwise stated in the applicable Pricing Supplement, each Subordinated Notes Indenture will provide that:

- (a) the term “**Special Event**” in respect of the Subordinated Notes will mean a Capital Event or a Tax Event (both as defined below);
- (b) the term “**Capital Event**” in respect of the Subordinated Notes will mean the reasonable determination by the Bank that, as a result of (a) the occurrence of any amendment to or change in the laws or any regulations thereunder of Mexico or (b) any official administrative pronouncement or judicial decision interpreting or applying these laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the Original Issue Date of such Subordinated Notes, there is more than an insubstantial risk that the Bank will not be entitled to treat the Subordinated Notes as Tier 2 Capital, or the then equivalent of Tier 2 Capital for purposes of the Rules for Capitalization and Mexican Capitalization Requirements, as then in effect and applicable to the Bank; and
- (c) the term “**Tax Event**” in respect of the Subordinated Notes will mean the receipt by the Bank of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of a Change in Tax Law, there is more than an insubstantial risk that interest payable by the Bank on the Subordinated Notes is not or will not be deductible by the Bank in whole or in part for Mexican income tax purposes.

#### ***Repurchases at the Bank's Option***

Except as specified in the applicable Pricing Supplement, the Bank and its affiliates may purchase Senior Notes at any price in the open market or otherwise, subject to obtaining any prior approval as may be required pursuant to applicable law or regulation. Any Senior Notes so purchased by the Bank and its affiliates may, at their discretion, be held or resold or surrendered to the Trustee for cancellation, *provided* that the Bank or its affiliates will only be permitted to resell the Senior Notes if the Senior Notes will be fungible with all of the outstanding Senior Notes of such Series for U.S. federal income tax purposes or if the sold Senior Notes have a separate CUSIP number.

#### ***Repayments at the Option of the Holders***

If the applicable Pricing Supplement provides that “Investor Put” is applicable, the Notes of such Series will be subject to repayment at the option of the holders of such Notes under the terms of the Notes on their respective optional repayment dates, if any, as agreed upon by us and the relevant Dealer(s) at the time of sale and specified in the applicable Pricing Supplement. We will refer to these repayment dates as the “**holder's optional repayment date**.” If no holder's optional repayment date is specified in the applicable Pricing Supplement, the Note will not be repayable at the option of the holder prior to maturity. On any holder's optional repayment date for a Note, the Note will be repayable in whole or in part at the option of the holder of the Note at a repayment price equal to 100% of the principal amount to be repaid, together with accrued and unpaid interest on the Note payable to but excluding the date of repayment. For any Note to be repaid, the Note must be received, together with the form located on the Note entitled “Option to Elect Repayment” duly completed, by the Trustee at the address specified in the form (or at the place(s) of



which we will from time to time notify the holders of the Notes) not more than 30 nor less than 15 days prior to the holder's optional repayment date, unless otherwise specified in the applicable Pricing Supplement.

### ***Payment of Additional Amounts***

All payments made by or on behalf of the Issuer in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of the government of Mexico, the United States, or any other jurisdiction through which payments are made (each, a “**Relevant Jurisdiction**”) or any authority or agency therein or thereof having power to tax (collectively, “**Relevant Tax**”) unless the withholding or deduction of such Relevant Tax is required by law or by the interpretation or administration thereof. If the Issuer is so required by law or by the interpretation or administration thereof to withhold or deduct any amount for or on account of Relevant Taxes imposed by a Relevant Jurisdiction from any payment made under or with respect to the Notes, the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction; *provided, however*, that no Additional Amounts will be payable to a holder (or beneficial owner or nominee) to the extent that such Relevant Tax:

- (a) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes, including such holder or beneficial owner being or having been a citizen, national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein; or
- (b) is imposed only by virtue of such holder (or beneficial owner) or any other person having failed to timely comply with any certification, identification, information or other reporting requirement that is required or imposed by a statute, treaty, regulation, general rule or generalized administrative practice that is publicly available as a precondition to exemption from, or reduction in the rate of, any Relevant Tax imposed by a jurisdiction other than the United States, provided that at least 30 days prior to (i) the first payment date with respect to which the Issuer applies this clause (b) and (ii) in the event of a change in such certification, identification, information, documentation or other reporting requirement, the first payment date subsequent to such change, the Issuer has or its agent has notified the holders in writing that the holders or beneficial owners of Notes will be required to provide such certification, identification, information or documentation; or
- (c) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or
- (d) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Notes are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as in effect on the Original Issue Date or any successor or amended version of these provisions that is substantially comparable and not materially more onerous to comply with; or
- (e) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or
- (f) is an estate, inheritance, gift, sale, transfer, excise, personal property or similar tax or assessment; or

- (g) is imposed only by virtue of the presentation of the Note for payment in the Relevant Jurisdiction, unless such Note could not have been presented to a paying agent for payment elsewhere; or
- (h) any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the Notes; or
- (i) is imposed as a result of any combination of (a) through (h) above.

In the event that the Issuer is so required by law or by regulation or governmental policy having the force of law or by the interpretation or administration thereof to withhold or deduct any amount for or on account of Relevant Taxes imposed by a Relevant Jurisdiction from any payment made under or with respect to the Notes, the Issuer will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Issuer will furnish to the Trustee, within thirty Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Issuer. Upon written request made by the holders to the Trustee, the Trustee will provide copies of such officer's certificate or other documentation, as the case may be, to the holders.

To give effect to the foregoing, the Issuer will, upon the written request of any holder or beneficial owner, indemnify and hold harmless and reimburse the holder or beneficial owner for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder or beneficial owner would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in this section "Payment of Additional Amounts") so imposed on, and paid by, such holder or beneficial owner as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder or beneficial owner after such reimbursement will not be less than the net amount the holder or beneficial owner would have received if such Relevant Tax had not been imposed or levied and so paid. Holders and beneficial owners will be obligated to provide reasonable documentation in connection with the foregoing.

The Issuer will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders and beneficial owners for any such taxes paid by holders or beneficial owners.

Unless the context requires otherwise, all references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Issuer under the Notes or the relevant Indenture and as set forth in the first paragraph of this section and in paragraphs (a) through (h) above. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the relevant Indenture.

If the Issuer shall at any time be required to pay Additional Amounts to holders or beneficial owners pursuant to the terms of the Notes and the relevant Indenture, the Issuer will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Issuer pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder or beneficial owner of the Notes, and as a result thereof such holder or beneficial owner is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder or beneficial owner shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Issuer. However, by making such assignment, the holder or beneficial owner makes no representation or warranty that the Issuer will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. The Issuer will inform such holder or beneficial owner of the refund or credit within thirty Business Days of the Bank's determination that it is entitled to receive such refund or credit.

## **Covenants**

We have agreed to restrictions on our activities for the benefit of holders of each Series of Notes. The following restrictions will apply separately to each Series of Senior Notes and Subordinated Notes:

### ***Consolidation, Merger, Sale or Transfer of Assets***

We may not, without the consent of holders of at least 66⅔ % in aggregate principal amount of the outstanding Notes of each Series, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties, deposits, assets and liabilities to any person, unless:

- (a) the resulting entity, if other than us, is a bank organized and existing under the law of Mexico and, by execution of a supplemental indenture delivered to the Trustee, assumes all of our obligations to:
  - (i) pay the principal of, and interest on, such Notes; and
  - (ii) perform and observe all of its other obligations under the relevant Indenture; and
- (b) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the relevant Indenture, and no event which, after notice or lapse of time or both would become an event of default under the relevant Indenture, has happened and is continuing; and
- (c) we shall have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and, if required, such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the relevant Indenture and the execution of such supplemental indenture, if required, relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer as obligations by any such successor corporation in such circumstances subject to certain exceptions, the Issuer will be discharged from all obligations under the Notes and the relevant Indenture.

### ***Rule 144A Information***

For so long as any of the Notes of a Series remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder or (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer designated by such holder, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Notes (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

### ***Periodic Reports***

So long as the Notes of a Series are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes of such Series upon written request:

- (a) Within 120 days following the end of each of its fiscal years, (i) its consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by the Bank's independent auditors, (ii) the English version of the Bank's annual financial statements and (iii) the Bank's annual financial information included in the English version of its annual report as provided to its shareholders, and
- (b) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related Notes thereto for the Bank and its consolidated subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) the Bank's quarterly financial information included in the English version of its quarterly report as provided to its shareholders;

*provided* that any such information or reports will be deemed to have been delivered to the holders of such Notes and the Trustee on the date any such information or reports is posted by us on our website as long as the Trustee has been notified in writing, who in turn will notify the holders of the Notes, that such information has been posted on our

website. None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, the Bank shall furnish to the holders of the Notes, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by persons who are not “affiliates” under the Securities Act.

In addition, if and so long as the Notes are admitted to listing on an exchange and the rules of such exchange so require, copies of such reports and information furnished to a Trustee will also be made available by the Bank as required by the rules of such exchange.

### ***Assignment of Indentures***

Unless otherwise specified in the applicable Pricing Supplement, under each Indenture, the Bank will have the right to assign any of its rights under such Indenture to a direct or indirect wholly-owned subsidiary of the Bank; *provided* that, in the event of any such assignment, the Bank will remain jointly and severally liable for all such obligations.

### **Form of Notes and Registration**

#### ***General***

We and the relevant Dealer(s) will agree on the form of Notes to be issued in respect of any Series of Notes. Unless otherwise specified in the applicable Pricing Supplement, all Fixed Rate Notes having the same Original Issue Date, redemption date (if any), redemption terms (if any), Interest Payment Dates, interest rate, and stated maturity will be represented by a fully registered individual global note, and all Floating Rate Notes having the same Original Issue Date, Initial Interest Rate, interest rate basis, Index Maturity, Spread (if any), Spread Multiplier (if any), Minimum Interest Rate (if any), Maximum Interest Rate (if any), Interest Reset Period, Interest Reset Dates, redemption date (if any), redemption terms (if any), Interest Payment Dates and Stated Maturity will be represented by a fully registered individual global note or notes, in the case of the Notes sold to or through one or more Dealers. If the aggregate principal amount of any single Note exceeds U.S.\$500,000,000, one certificate will be issued with respect to each U.S.\$500,000,000 of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such Note. Notes will be issued in the form of a one or more master global notes, at our election, in the case of Notes sold directly to customers by us.

We may issue Notes sold outside of the United States, its territories and possessions to non-United States persons solely in registered form. Additional restrictions applicable to the Dealers are discussed in the sections entitled “Transfer Restrictions” and “Plan of Distribution—Sales Restrictions.”

#### ***Registered Notes***

We may offer and sell the Notes in the United States only, outside the United States only, or in and outside the United States simultaneously as part of a global offering. The Notes will be initially represented by one or more master global notes or global notes in fully registered form without receipts, interest coupons or talons. We refer to each of these Notes as a “**Global Note**.” Depending on where the Notes are offered, the Notes will clear through one or more of DTC, Euroclear and Clearstream, or any other clearance system specified in the applicable Pricing Supplement.

Notes offered and sold to qualified institutional buyers under Rule 144A under the Securities Act are referred to collectively as the “**Rule 144A Global Notes**.” Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Notes offered and sold in offshore transactions in reliance on Regulation S under the Securities Act to persons which are non-U.S. persons are referred to collectively as the “**Regulation S Global Notes**” and Regulation S Global Notes and Rule 144A Global Notes collectively comprise “**Global Notes**.” Regulation S Global Notes will initially be issued in the form of registered Regulation S Global Notes. On or prior to the 40th day after the completion of the distribution of the Notes of such Series, any resale or transfer of beneficial interests in such Regulation S Global Note shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Notes sold in an offering made in and outside the United States simultaneously as part of a global offering may be represented:

- solely by one or more registered Global Notes deposited with DTC (each, a “**DTC Global Note**”), which we will refer to as a single global note issue; or
- by one or more DTC Global Notes for the Notes sold in the United States and by a separate registered global note deposited with the common depositary for, and registered in the name of a nominee of such common depositary, for Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement, for the Notes sold outside of the United States. We refer to each of these Notes as a dual global note issue.

Except as described below, owners of beneficial interests in a registered Global Note will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of the Notes under the applicable Indenture. Beneficial interests in a registered Global Note will be represented by, and transfers in a registered Global Note will be effected only through, book-entry accounts of financial institutions acting on behalf of the beneficial owners, as, direct or indirect participants in the relevant clearing system.

Investors in a global offering may elect to hold interests in a registered Global Note through DTC, Euroclear, Clearstream or any other clearance systems as specified in the applicable Pricing Supplement, if they are participants in those systems, or indirectly through organizations that are participants in those systems. If the Notes sold in a global offering are part of a single global note issue, Clearstream, Euroclear, or any other clearance systems specified in the applicable Pricing Supplement, will hold interests on behalf of their participants through customers’ securities accounts in Clearstream’s and Euroclear’s names, or in the names of any other clearance systems specified in the applicable Pricing Supplement, on the books of the common depositary, which in turn will hold those interests in customers’ securities accounts in the common depositary’s name on the books of DTC.

Ownership positions within each clearing system will be determined in accordance with the normal conventions observed by that system. According to the applicable Indenture, the Trustee will act as our paying agent for the Notes. We will make payments of principal, premium, if any, and interest on a registered Global Note to DTC, its nominee or a nominee of such common depositary, for Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, or to any of their successors or nominees, as the registered holder of the registered Global Note. None of us, the Dealers, the Trustee or any of our respective agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a registered Global Note or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests. See “—Payment of Principal, Premium and Interest” below.

When DTC receives any payment of principal, premium, if any, or interest on a DTC Global Note, we expect that DTC will credit its participants’ accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of that DTC Global Note as shown on the records of DTC. Payments by the participants to owners of beneficial interests in the DTC Global Note will be the responsibility of the participants, as is now the case with securities held for the accounts of customers registered in “street name.” Distributions for Notes held through Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement will be credited to the cash accounts of the participants of Euroclear, Clearstream, or such other clearance systems according to the relevant system’s rules and procedures, and to the extent received by their respective depositaries.

## **Exchange and Transfer of Notes**

### ***Exchanges***

Unless otherwise provided in the applicable Pricing Supplement, we will exchange interests in a registered Global Note for registered Notes in definitive form only if that exchange is permitted by applicable law and, (i) in the case of a DTC Global Note, if:

- DTC notifies us that it is unwilling or unable to continue as depositary for the DTC Global Note; or
- DTC ceases to be a clearing agency registered under the Exchange Act, if so required by applicable law or regulation,

and, in either case, a successor depositary is not appointed by us within 90 days after receiving notice or becoming aware that DTC is no longer so registered; and (ii) in the case of any other registered Global Note, if:

- the clearing system(s) through which the Notes are cleared and settled is closed for business for a continuous period of 14 days, other than by reason of holidays, statutory or otherwise;
- the clearing system(s) through which the Notes are cleared and settled announces an intention to cease business permanently or does in fact do so;
- we, in our discretion, elect to issue registered Notes in definitive form; or
- after the occurrence of an event of default relating to any registered Global Note, beneficial owners representing a majority in principal amount of the registered Global Note advise the relevant clearing system through its participants to cease acting as depository for the registered Global Note.

The registered Notes in definitive form (referred to herein as “**definitive Notes**”) issued in exchange for the registered Global Note will be in authorized denominations and will have similar terms and will be in an amount equal to the aggregate principal amount of the registered Global Note. These definitive Notes will be registered in the name(s) of person(s) as the relevant clearing system(s) will instruct the relevant registrar. In the case of DTC Global Notes, it is expected that these instructions may be based on directions that DTC received from DTC participants regarding ownership of beneficial interests in the DTC Global Notes. Except as provided above, owners of beneficial interests in a registered Global Note will not be entitled to receive physical delivery of definitive Notes and will not be considered registered holders of these Notes for any purpose.

Any definitive Note issued under the circumstances described in the preceding paragraph will be transferable in whole or in part in an authorized denomination upon the surrender of that Note, together with the form of transfer endorsed on that Note duly completed and executed, at the specified office of the relevant registrar or of any transfer agent. In the case of a transfer in part only, a new definitive Note for the balance not transferred will be issued to the transferor. Each new definitive Note to be issued upon transfer will, within three (3) Business Days of receipt of that form of transfer, be delivered to the transferee at the office of the relevant registrar or transfer agent or mailed at the risk of the holder entitled to the definitive Note to the address specified in that form of transfer. No service charge will be made to a holder for any transfer of a definitive Note, but we may require payment of a sum sufficient to cover any stamp or other tax, duty, assessment or governmental charge that may be imposed in connection therewith.

In case any definitive Note shall at any time become mutilated, defaced, destroyed, lost or stolen, and such definitive Note or evidence of the loss, theft or destruction thereof satisfactory to us and the relevant registrar, and such other documents or proof as may be required by us and the relevant registrar, shall be delivered to the relevant registrar, the relevant registrar shall issue a new definitive Note of like tenor and principal amount having a serial number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced definitive Note or in lieu of the definitive Note destroyed, lost or stolen but, in the case of any destroyed, lost or stolen definitive Note, only upon receipt of evidence satisfactory to us and the relevant registrar that such definitive Note was destroyed, stolen or lost, and, if required, upon receipt of indemnity satisfactory to us and the relevant registrar. Upon the issuance of any substituted definitive Note, we may require the payment of a sum sufficient to cover all expenses and reasonable charges connected with the preparation and delivery of a new definitive Note. If any definitive Note which has matured or has been redeemed or repaid or is about to mature or to be redeemed or repaid shall become mutilated, defaced, destroyed, lost or stolen, we may, instead of issuing a substitute definitive Note, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated or defaced definitive Note) upon compliance by the holder with the provisions of this paragraph.

### ***Transfers***

DTC may grant proxies or otherwise authorize its participants (or persons holding beneficial interests in the Notes through its participants) to exercise any rights of a holder or take any other actions that a holder is entitled to take under the applicable Indenture or the Notes. Euroclear, Clearstream or any other clearance system as specified in the applicable Pricing Supplement will take any action permitted to be taken by a holder under the applicable Indenture or the Notes on behalf of its participant only in accordance with its relevant rules and procedures and, for interests in a DTC Global Note, subject to the ability of the DTC participant of Euroclear, Clearstream or such other clearance system to effect such actions of such clearance system on its behalf through DTC. Because DTC can only act on behalf of its participants, who in turn act on behalf of indirect participants, the ability of a beneficial owner to pledge its interest in the Notes to persons or entities that do not participate in the DTC system or take action with respect to that interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions may

require that certain purchasers of securities take physical delivery of these securities in definitive form. These limits and laws may impair the ability of a beneficial owner to transfer beneficial interests in a DTC Global Note.

Subject to compliance with the transfer restrictions applicable to the Global Notes described under “Plan of Distribution—Sales Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the relevant registrar, the Trustee and any custodian with whom the relevant Global Notes have been deposited.

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee therefor of a written certification from the transferor of the beneficial interest, in the form provided in the applicable Indenture, to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only in accordance with the applicable procedures and upon receipt by the Trustee therefor of a written certification from the transferor of the beneficial interest, in the form provided in the applicable Indenture, to the effect that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

#### **Payment of Principal, Premium and Interest**

We are obligated to make payments of principal, premium, if any, and interest on all Notes in the applicable specified currency or, if the specified currency is not at the time of payment legal tender for the payment of public and private debts, in such other coin or currency of the country which issued the specified currency at the time that the payment is legal tender for the payment of debts. Subject to any fiscal or other laws and regulations applicable in the place of payment, payments on Notes to be made in a specified currency other than in U.S. dollars will be made by wire transfer to an account in the specified currency maintained by the payee, or by a check in the specified currency drawn on a bank in the principal financial center of the country of the specified currency. In the case of Euro, payments will be made in Euros by credit or transfer to a Euro account, or any other account to which Euros may be credited or transferred, or may be made by check. For further information regarding Notes denominated in currencies other than U.S. dollars, see the applicable Pricing Supplement related to any such Notes, which shall include the provisions related to Foreign Currency Notes.

Payment of principal, premium, if any, and interest on any definitive Note at maturity will be made in immediately available funds upon surrender of the Note at a specified office of the applicable paying agent, *provided* that the definitive Note is presented to the paying agent in time for the paying agent to make these payments in immediately available funds under its normal procedures. Payments of interest on any definitive Note, other than at maturity, will be payable by check mailed to the holder of the Note as of the Regular Record Date for the Interest Payment Date at the address shown in the note register. A holder of definitive Notes of U.S.\$10,000,000 or more in aggregate principal amount, or its equivalent in other currencies, whether of the same or different Series, will be entitled to receive payments of interest, other than interest due at maturity, by wire transfer of immediately available funds if the applicable paying agent has received appropriate written wire transfer instructions not less than 16 days prior to the applicable Interest Payment Date.

The total amount of any principal, premium, if any, and interest due on any registered Global Note on any Interest Payment Date or maturity, will be made available to the applicable paying agent on or prior to that date in accordance with the relevant Indenture and the Notes. The paying agent will make the payment to the relevant clearing system as soon as it possibly can after the monies become available. Each clearing system will credit its participants with payment in amounts proportionate to their respective beneficial interests in the principal amount of the registered Global Note under their existing operating procedures. None of us, the Dealers, the Trustee, any paying agent nor any of our respective agents will have any responsibility or liability for payments by the clearing system. So long as DTC,

its nominee, the nominee of the common depositary for Euroclear and Clearstream or a nominee of any other clearance system specified in the applicable Pricing Supplement, is the holder of any registered Global Note, DTC, its nominee, the nominee of the common depositary for Euroclear and Clearstream or the nominee of any other clearance system specified in the applicable Pricing Supplement, will be considered the sole owner or holder of the Notes represented by that registered Global Note for all purposes under the applicable indenture and the Notes. See the section entitled “—Form of Notes and Registration.”

See “—Principal and Interest” and “—Interest Rates” above for further information.

## **Notices**

Notice to holders of the Global Notes will be given as may be permitted by the procedures of DTC, Euroclear, Clearstream or any other clearing system specified in the applicable Pricing Supplement, as applicable, and any applicable exchange.

All notices regarding the definitive, non-Global Notes will be mailed first class, postage prepaid to the registered owners of the Notes at their addresses appearing in the applicable Note register therefor.

As long as temporary or permanent Regulation S Global Notes are held in their entirety on behalf of Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, we may substitute the publication in the newspaper for the delivery of the relevant notice by communication from Euroclear, Clearstream and any other clearance system to the beneficial owners of interests in the temporary and permanent Regulation S Global Notes.

Notices to be given by a holder of Notes should be in writing and delivered, together with the related Note(s), to the Trustee specified in the applicable Pricing Supplement for further delivery to the Issuer. While Notes are represented by a registered Global Note, the notice shall be given by the beneficial owner to the Trustee via DTC, Euroclear, Clearstream or any other clearance system as DTC, Euroclear, Clearstream or any other clearance system, may approve.

We will also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are at the time being listed. This notice will be deemed to have been given on the date of the first publication.

## **Registrar; Transfer Agent; Paying Agents**

The Trustee under the applicable Indenture will serve initially as the registrar, transfer agent and paying agent for the Notes. In that capacity, the Trustee will keep at its office in the State of New York, a register, which we refer to as a note register, in which, subject to such reasonable regulations as it may prescribe, the applicable registrar will provide for the registration and transfers of the Notes. We reserve the right to transfer this function to another bank or financial institution.

Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Issuer may require) in respect of any tax or other governmental charges that may be imposed in relation to the transfer. The Issuer will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

## **Listing**

Application may be made to Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) to admit a Series of Notes to the Official List and for admission to trading on the Global Exchange Market, which is the exchange-regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU. Application may also be made to list a Series of Notes on another exchange.

## **The Trustee**

The Bank of New York Mellon will act as Trustee with respect to each Series of Notes, unless otherwise specified in the applicable Pricing Supplement. Notices to the Trustee should be directed to it at The Bank of New York Mellon, 240 Greenwich Street, Floor 7 East, New York, New York 10286. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with each Series of Notes, unless otherwise specified in the applicable Pricing Supplement. The Trustee may resign or be removed under circumstances described in such Indenture, and a successor trustee shall be appointed in accordance with the applicable



Indenture to act in connection with any Indenture. Any action described in this Offering Memorandum to be taken by the Trustee may then be taken by the successor trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights it would have if it were not Trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

Each Indenture will contain some limitations on the right of the applicable Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of a default under the relevant Indenture could create a conflicting interest for the Trustee. In this case, if the default has not been cured or waived within 90 days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as Trustee for the Notes.

No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the relevant Indenture.

### **Governing Law; Consent to Jurisdiction**

**EACH INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK; PROVIDED THAT, IN RESPECT OF SUBORDINATED NOTES, (1) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (2) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US; (3) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); AND (4) THE RANKING AND SUBORDINATION OF THE SUBORDINATED NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WITH RESPECT TO SUBORDINATED NOTES, WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW AND ANY PROCEEDINGS IN RESPECT OF OUR LIQUIDATION OR RESOLUTION WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.**

The Bank will consent to the jurisdiction of the Supreme Court of the State of New York, Borough of Manhattan, County of New York, or the United States District Court for the Southern District of New York and will agree that all disputes under the relevant Indenture and the Notes may be submitted to the jurisdiction of such courts. The Bank will irrevocably consent to and waive to the fullest extent permitted by law any objection that it may have to the laying of venue of any suit, action or proceeding against the Bank or its properties, assets and revenues with respect to the relevant Indenture and the Notes or any such suit, action or proceeding in any such court and any right to which the Bank may be entitled on account of place of residence or domicile.

To the extent that the Bank or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, the Bank will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

The Bank will agree that service of all writs, claims, process and summons in any suit, action or proceeding against the Bank or its properties, assets or revenues with respect to the relevant Indenture and the Notes or any suit, action or proceeding to enforce or execute any judgment brought against the Bank in the State of New York may be

made upon CT Corporation System, 28 Liberty St., New York, New York 10005, and the Bank will irrevocably appoint CT Corporation System as its agent to accept such service of any and all such writs, claims, process and summonses.

### **Unclaimed Money, Prescription**

Unless otherwise specified in the applicable Pricing Supplement, if money deposited with the Trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on a Series of Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to us, upon our written request, subject to applicable unclaimed property law. After that, holders of such Series of Notes entitled to the money must look to us for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture relating to any Series of Notes will not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on such Series of Notes.

### **Currency Rate Indemnity**

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Indenture is expressed in a currency other than the Specified Currency, the Bank will indemnify the Trustee in respect of such Indenture and the relevant holders against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the relevant Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the relevant Indenture or the Notes.

### **Replacement of Notes**

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the applicable Trustee or to the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The following summary of certain provisions of the Notes does not purport to be complete and is subject to all of the provisions of the Notes. The terms and conditions stated below will apply to each Note unless otherwise specified in the applicable pricing supplement. The terms of the Notes described in this Offering Memorandum, including the maturities and interest rates, may differ from one Note to another. The terms of a Tranche of Notes, as defined below, will be specified in a pricing supplement, the form of which is included under “Annex C—Form of Pricing Supplement.” The pricing supplement may also add, update or change information contained in this Offering Memorandum. It is important for you to consider the information contained in this Offering Memorandum and the applicable pricing supplement in making your investment decision.*

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that we believe to be reliable, but neither we nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither we nor any other party to any indenture will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### **Clearance and Settlement; Clearing Systems**

The Notes that we offer under this Program may be held through one or more international and domestic clearing systems, principally the book-entry systems operated by DTC in the United States, and Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement outside of the United States. Electronic securities and payment transfer, processing, depository and custodial links have been established among these systems and others, either directly or through custodians and depositories, which enable Notes to be issued, held and transferred among the clearing systems. The Dealers have direct electronic links with DTC, Clearstream and Euroclear. Special procedures have been established among these clearing systems and the relevant Dealers to facilitate clearance and settlement of certain Notes traded across borders in the secondary market. Cross-market transfers of registered Global Notes for which payments will be made in U.S. dollars and which will be issued in global form may be cleared and settled using these procedures on a delivery against payment basis. Cross-market transfers of Notes in other than global form may be cleared and settled under other procedures established among the relevant Dealer(s), and the relevant clearing systems. Investors in Notes issued outside of the United States, its territories and possessions must initially hold their interests in the Notes through Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement.

Although DTC, Euroclear and Clearstream have agreed to the procedures described below in order to facilitate the transfers of Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform the procedures and the procedures may be modified or discontinued at any time. Neither we, the Dealers, nor any affiliate or person controlled by any of us will have any responsibility for the performance of the respective obligations under the rules and procedures governing the operations of DTC, Euroclear, Clearstream or any other clearance system specified in the applicable Pricing Supplement, or of their respective direct or indirect participants. In all cases, clearance and settlement of the Notes will be governed by the rules and procedures established by the relevant clearing system(s) and in effect at the time of clearance and settlement.

### **DTC**

DTC has advised us that it is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity, corporate and municipal debt, and money market instruments that DTC’s participants (“**DTC participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among DTC participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between DTC participants’ accounts. These services eliminate the need for physical movement of securities certificates. DTC participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of

The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of DTC participants and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (also subsidiaries of DTCC), as well as by the New York Stock Exchange and FINRA. Access to the depository system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The rules applicable to DTC’s participants are on file with the SEC. More information about DTC can be found at its website at <http://www.dtcc.com>. The information concerning DTC and its book-entry system has been obtained from sources that we believe are reliable, but we take no responsibility for the accuracy thereof.

### ***Clearstream***

Clearstream holds securities for its participating organizations (“**Clearstream participants**”) and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also interfaces with domestic securities markets in several countries. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the paying agent. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream participant. Clearstream has established an electronic bridge with Euroclear as the operator of the Euroclear system (the “**Euroclear Operator**”) in Brussels to facilitate settlement of trades between Clearstream and the Euroclear Operator. Distributions with respect to Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the depository for Clearstream.

### ***Euroclear***

Euroclear holds securities and book-entry interests in securities for participating organizations (“**Euroclear participants**”) and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the paying agent. Non-participants in Euroclear may hold and transfer beneficial interests in a registered Global Note through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in a registered Global Note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “**Terms and Conditions**”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants, and has no record or relationship with persons holding through Euroclear participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the depository for Euroclear.

### ***Other Clearing Systems***

The applicable Pricing Supplement will specify any other clearing system that will be available for a particular offering of Notes, including the clearance and settlement procedures for that clearing system. The clearing system will be agreed upon by the Bank and the Dealer(s).

## **Book-Entry Procedures for the Global Notes**

Ownership of beneficial interests in a Global Note representing the Notes will be limited to the clearing system through which these interests are held, and its direct and indirect participants. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by such clearing system, and its respective participants for that Global Note. The conveyance of notices and other communications by such clearing system to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect. Any interest in registered Global Notes will be transferable only under the rules and procedures of DTC, Euroclear, Clearstream or any other applicable clearance system.

## **Transfers of Notes Represented by Registered Global Notes**

### ***Primary Distribution***

*General.* Distribution of the Notes will be cleared through one or more of the clearing systems described above or any other clearing system specified in the applicable Pricing Supplement. Payment for Notes will be made on a delivery versus payment or free delivery basis, as more fully described in the applicable Pricing Supplement.

*Registered Notes.* We and the relevant Dealer(s) will agree that either global clearance and settlement procedures or specific clearance and settlement procedures should be available for any Series of Notes, as specified in the applicable Pricing Supplement. Clearance and settlement procedures may vary from one Series of Notes to another according to the specified currency of the Notes of that Series. Customary clearance and settlement procedures are described under the specific clearance and settlement procedures below. Application will be made to the relevant clearing system(s) for the Notes of the relevant Series to be accepted for clearance, and the clearance numbers applicable to each clearance system will be specified in the applicable Pricing Supplement.

*Clearance and Settlement Procedures—DTC.* DTC participants holding Notes through DTC on behalf of investors will follow the settlement practices applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement System. Notes will be credited to the securities custody accounts of such DTC participants against payment in same-day funds on the settlement date.

*Clearance and Settlement Procedures—Euroclear and Clearstream.* Investors electing to hold their Notes through Euroclear and/or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear and/or Clearstream participants, as the case may be, on the Business Day following the settlement date against payment for value on the settlement date.

### ***Secondary Market Trading***

*Trading between DTC participants.* Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System in same-day funds, if payment is made in U.S. dollars, or free of payment if payment is made in a currency other than U.S. dollars. Where payment is made in a currency other than U.S. dollars, separate payment arrangements outside of the DTC system are required to be made between DTC participants.

*Trading between Euroclear and/or Clearstream participants.* Secondary market trading between Euroclear or Clearstream participants will occur in the ordinary way under the applicable rules and operating procedures of Euroclear and Clearstream and will be settled using procedures applicable to conventional eurobonds in registered form.

*Trading between DTC Seller and Euroclear or Clearstream Purchaser Single Global Note Issues.* When Notes represented by a DTC Global Note are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream will instruct their respective DTC participants to receive the Notes against payment or free of payment. After the settlement has been completed, the interests in the Notes will be credited to the respective clearing system and by the clearing system, under its usual procedures, to the account of the relevant Euroclear or Clearstream participant. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day, when settlement occurs in New York). If settlement is not completed

on the intended value date, meaning that the trade fails, the Euroclear or Clearstream cash debit will be valued as of the actual settlement date.

Euroclear or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, participants may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one Business Day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to the participants, participants can elect not to pre-position funds and allow that credit line to be drawn on to finance settlement. Under this procedure, Euroclear or Clearstream participants purchasing Notes would incur overdraft charges for one Business Day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one day period may substantially reduce or offset the amount of the overdraft charges, although this result will depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants can employ their usual procedures for delivering Notes to Euroclear's or Clearstream's DTC participant for the benefit of Euroclear or Clearstream participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participants, a cross-market transaction will settle no differently than a trade between two DTC participants.

*Dual Global Note Issues.* When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant will deliver the Notes free of payment to the appropriate account of the custodian at DTC by 11:00 a.m. (New York City time) on the settlement date together with instructions for delivery to the relevant Euroclear or Clearstream participant. Separate payment arrangements are required to be made between the relevant Euroclear or Clearstream participant and the DTC participant. The applicable registrar, as custodian, will (i) decrease the amount of Notes registered in the name of the nominee of DTC and represented by the DTC Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream and represented by the registered global note. The depositary will deliver such Notes free of payment to Euroclear or Clearstream for credit to the relevant participant in such clearing system on the Business Day following the settlement date.

#### ***Trading Between a Euroclear or Clearstream Seller and a DTC Purchaser***

*Single Global Note Issues.* Due to time zone differences in their favor, Euroclear or Clearstream participants may employ their customary procedures for transactions in which Notes represented by a DTC Global Note are to be transferred by the respective clearing system. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will instruct the depositary to credit the Notes to the DTC participant's account against payment. The payment will then be reflected in the account of the Euroclear or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date, which would be the preceding day, when settlement occurs in New York. If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on that line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As is the case with sales of Notes represented by a DTC Global Note by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date.

*Dual Global Note Issues.* When interests in Notes are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the relevant Euroclear or Clearstream participant must provide settlement instructions for delivery of the Notes free of payment to Euroclear or Clearstream by 7:45 p.m., Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, will in turn provide appropriate settlement instructions to the common depositary and the registrar for delivery to the DTC participant. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, the custodian will deliver the Notes free of payment to the appropriate DTC account of the DTC participant and will instruct the applicable registrar to (i) decrease the amount

of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream and represented by the registered Global Note and (ii) increase the amount of Notes registered in the name of the nominee of DTC and represented by the DTC Global Note.

## TRANSFER RESTRICTIONS

### General

The Notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes issued under the Program will be offered and sold only:

- to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

### Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- (2) it acknowledges that the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) it understands and agrees that Notes initially offered in the United States to "qualified institutional buyers" will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States pursuant to Regulation S will be represented by one or more Regulation S Global Notes;
- (4) it will not offer, pledge, resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions;
- (5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- (6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the applicable indenture, including with respect to Notes sold or transferred pursuant to Rule 144A or Regulation S;
- (7) it acknowledges that the trustee, registrar or transfer agent for the Notes may not be required to accept for registration or transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- (8) it acknowledges that we, the Dealers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the Dealers; and
- (9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.



## Legends

The following is the form of restrictive legend that will appear on the face of any Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer.

**THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE BANK THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE BANK OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.**

The following is the form of restrictive legend which will appear on the face of any Regulation S Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

**THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.**

The following is the form of restrictive legend which will appear on the face of any Regulation S Global Note and any Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR “RNV”) MAINTAINED BY THE CNBV AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO; THE NOTES MAY BE OFFERED OR SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS, SOLELY PURSUANT TO**

THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER (THE “COMPANY”) WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV IN RESPECT OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV FOR STATISTICAL AND INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM. THE OFFERING MEMORANDUM RELATING TO THIS NOTE IS SOLELY THE RESPONSIBILITY OF THE COMPANY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

## TAXATION

### United States Taxation

This section describes the material United States federal income tax consequences of owning the Notes issued under the Program. It applies only to holders who hold such Notes as capital assets for tax purposes. This section addresses only United States federal income taxation and does not discuss all of the tax consequences that may be relevant to holders in light of their individual circumstances, including foreign, state or local tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax. This section does not apply to a holder who is a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings;
- a bank;
- an insurance company;
- a tax-exempt organization;
- a regulated investment company;
- a real estate investment trust;
- a person required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement;
- a person that actually or constructively owns 10% or more of the combined voting power of our voting stock or of the total value of our stock;
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks;
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes;
- a person that purchases or sells Notes as part of a wash sale for tax purposes; or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section deals only with Notes that are due to mature 30 years or less from the date on which they are issued, and that do not reference the performance of United States equities. The United States federal income tax treatment of any other Notes will be discussed in the applicable Pricing Supplement.

This section is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis.

If an entity or arrangement that is treated as a partnership for United States federal income tax purposes holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

*Prospective purchasers are advised to consult their own tax advisor concerning the consequences of owning Notes in their particular circumstances under the Code and the laws of any other taxing jurisdiction.*

### ***United States Holders***

This subsection describes the tax consequences to a United States holder. A person is a United States holder if it is a beneficial owner of a Note and it is, for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a domestic corporation (including an entity treated as a domestic corporation for United States federal income tax purposes);
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust, or the trust has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This subsection does not apply to persons who are not United States holders. Such persons should refer to “—Non-United States Holders” below.

### ***Senior Notes***

#### ***Payments of Interest***

Except as described below in the case of interest on a discount Senior Note that is not qualified stated interest (each as defined below under —Original Issue Discount—General”), a United States holder will be taxed on any interest on Senior Notes held by such holder, and any additional amounts paid with respect to a withholding tax on such Senior Notes, if any, including withholding tax on payments of such additional amounts (“**additional amounts**”), whether payable in U.S. dollars or a foreign currency, as ordinary income at the time the United States holder receives the interest or when it accrues, depending on the United States holder's method of accounting for tax purposes.

Interest paid on Senior Notes, original issue discount, if any, accrued with respect to such Senior Notes and any additional amounts will generally be treated as income from sources outside the United States for purposes of determining the foreign tax credit allowable to a United States holder. Such amounts will generally be “passive” income for purposes of computing the foreign tax credit. A United States holder will, subject to applicable limitations (including a minimum holding period requirement), generally be entitled to a foreign tax credit for any Mexican withholding tax imposed on interest payments on the Senior Notes. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. Instead of claiming a foreign tax credit, a United States holder may deduct any Mexican withholding tax imposed on interest payments on the Senior Notes, but only for a taxable year in which such United States holder elects to do so with respect to all foreign income taxes paid or accrued in such taxable year and subject to generally applicable limitations under U.S. law.

*Foreign Currency Senior Notes – Cash Basis Taxpayers.* If a United States holder uses the cash receipts and disbursements method of accounting for tax purposes and receives an interest payment that is denominated in, or determined by reference to, a foreign currency, such United States holder must recognize income equal to the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the United States holder actually converted the payment into U.S. dollars.

*Foreign Currency Senior Notes – Accrual Basis Taxpayers.* If a United States holder uses an accrual method of accounting for tax purposes, such United States holder may determine the amount of income that it recognizes with respect to an interest payment denominated in, or determined by reference to, a foreign currency by using one of two methods. Under the first method, such United States holder will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If such United States holder elects the second method, it would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if the United States holder receives a payment of interest within five business days of the last day of its accrual period, it may instead translate the interest accrued into U.S. dollars at the exchange

rate in effect on the day that it actually receives the interest payment. If such United States holder elects the second method, that method will apply to all debt instruments that such United States holder holds at the beginning of the first taxable year to which the election applies and to all debt instruments that such United States holder subsequently acquires. A United States holder may not revoke this election without the consent of the U.S. Internal Revenue Service (the “IRS”).

When such United States holder actually receives an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of its Senior Note) denominated in, or determined by reference to, a foreign currency for which such United States holder accrued an amount of income, such United States holder will recognize ordinary income or loss attributable to the difference, if any, between the exchange rate that such United States holder used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether such United States holder actually converts the payment into U.S. dollars.

#### *Original Issue Discount*

*General.* If a United States holder owns a Senior Note, other than a short-term Senior Note with a term of one year or less, it will be treated as a discount Senior Note issued at an original issue discount if the amount by which the Senior Note’s stated redemption price at maturity exceeds its issue price is more than a de minimis amount. Generally, a Senior Note’s issue price will be the first price at which a substantial amount of Senior Notes included in the issue of which the Senior Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. A Senior Note’s stated redemption price at maturity is the total of all payments provided by the Senior Note that are not payments of qualified stated interest. Generally, an interest payment on a Senior Note is qualified stated interest if it is one of a series of stated interest payments on a Senior Note that are unconditionally payable at least annually at a single fixed rate. There are special rules for variable rate Senior Notes that are discussed under “—Variable Rate Senior Notes.”

In general, a Senior Note is not a discount Senior Note if the amount by which its stated redemption price at maturity exceeds its issue price is less than the de minimis amount of  $\frac{1}{4}$  of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity. A Senior Note will have de minimis original issue discount if the amount of the excess is less than the de minimis amount. If a Senior Note has de minimis original issue discount, such United States holder must include the de minimis amount in income (as capital gain) as stated principal payments are made on the Senior Note, unless such United States holder makes the election described below under “—Election to Treat All Interest as Original Issue Discount.” A United States holder can determine the includible amount with respect to each such payment by multiplying the total amount of a Senior Note’s de minimis original issue discount by a fraction equal to:

- the amount of the principal payment made
- divided by:*
- the stated principal amount of such Senior Note.

Generally, if the United States holder’s discount Senior Note matures more than one year from its date of issue, the United States holder must include original issue discount (“OID”) in income (as ordinary income) before it receives cash attributable to that income. The amount of OID that a United States holder must include in income is calculated using a constant-yield method, and generally a United States holder will include increasingly greater amounts of OID in income over the life of its Senior Notes. More specifically, a United States holder can calculate the amount of OID that it must include in income by adding the daily portions of OID with respect to its discount Senior Note for each day during the taxable year or portion of the taxable year that it holds its discount Senior Note. A United States holder can determine the daily portion by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. A United States holder may select an accrual period of any length with respect to its discount Senior Note and such United States holder may vary the length of each accrual period over the term of its discount Senior Note. However, no accrual period may be longer than one year and each scheduled payment of interest or principal on the discount Senior Note must occur on either the first or final day of an accrual period.

A United States holder can determine the amount of OID allocable to an accrual period by:

- multiplying its discount Senior Note’s adjusted issue price at the beginning of the accrual period by such Senior Note’s yield to maturity, and then

- subtracting from this figure the sum of the payments of qualified stated interest on such Senior Note allocable to the accrual period.

A United States holder must determine the discount Senior Note's yield to maturity on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, a United States holder determines the discount Senior Note's adjusted issue price at the beginning of any accrual period by:

- adding the discount Senior Note's issue price and any accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition premium or amortizable bond premium, each as described below), and then
- subtracting any payments previously made on such discount Senior Note that were not qualified stated interest payments.

If an interval between payments of qualified stated interest on a discount Senior Note contains more than one accrual period, then, when a United States holder determines the amount of OID allocable to an accrual period, it must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, *pro rata* to each accrual period in the interval based on their relative lengths. In addition, a United States holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. A United States holder may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of OID allocable to the final accrual period is equal to the difference between:

- the amount payable at the maturity of a Senior Note, other than any payment of qualified stated interest, and
- the Senior Note's adjusted issue price as of the beginning of the final accrual period.

*Acquisition Premium.* If a United States holder purchases a discount Senior Note for an amount that is less than or equal to the sum of all amounts, other than qualified stated interest, payable on such Senior Note after the purchase date but is greater than the amount of such Senior Note's adjusted issue price, as determined above under "—General," the excess is acquisition premium. If a United States holder does not make the election described below under "—Election to Treat All Interest as Original Issue Discount," then it must reduce the daily portions of OID by a fraction equal to:

- the excess of the adjusted basis in the Senior Note immediately after purchase over the adjusted issue price of the Senior Note

*divided by:*

- the excess of the sum of all amounts payable, other than qualified stated interest, on the Senior Note after the purchase date over the Senior Note's adjusted issue price.

*Pre-Issuance Accrued Interest.* An election may be made to decrease the issue price of a Senior Note by the amount of pre-issuance accrued interest if:

- a portion of the initial purchase price of such Senior Note is attributable to pre-issuance accrued interest,
- the first stated interest payment on such Senior Note is to be made within one year of such Senior Note's issue date, and
- the payment will equal or exceed the amount of pre-issuance accrued interest.

If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on such Senior Note.

*Senior Notes Subject to Contingencies Including Optional Redemption.* A Senior Note is subject to a contingency if it provides for an alternative payment schedule or schedules applicable upon the occurrence of a

contingency or contingencies, other than a remote or incidental contingency, whether such contingency relates to payments of interest or of principal. In such a case, a United States holder must determine the yield and maturity of such Senior Note by assuming that the payments will be made according to the payment schedule most likely to occur if:

- the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Senior Note, and
- one of such schedules is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, a United States holder must generally include income on a Senior Note in accordance with the general rules that govern contingent payment debt instruments. These rules will be discussed in the applicable Pricing Supplement.

Notwithstanding the general rules for determining yield and maturity, if a Senior Note is subject to contingencies, the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Senior Note, and either a United States holder or we have an unconditional option or options that, if exercised, would require payments to be made on such Senior Note under an alternative payment schedule or schedules, then:

- in the case of an option or options that we may exercise, we would be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on such Senior Note, and
- in the case of an option or options that a United States holder may exercise, it will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on such Senior Note.

If both a United States holder and we hold options described in the preceding sentence, those rules would apply to each option in the order in which they may be exercised.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then, except to the extent that a portion of a Senior Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a United States holder must redetermine the yield and maturity of such Senior Note by treating such Senior Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Senior Note's adjusted issue price on that date.

*Election to Treat All Interest as Original Issue Discount.* A United States holder may elect to include in gross income all interest that accrues on a Senior Note held by it using the constant-yield method described above under “—General,” with the modifications described below. For purposes of this election, interest will include stated interest, acquisition discount, OID, de minimis original issue discount, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium, described below under “—Senior Notes Purchased at a Premium,” or acquisition premium.

If a United States holder makes this election for a Senior Note held by it, then, when such United States holder applies the constant-yield method:

- the issue price of such Senior Note will equal the United States holder's cost,
- the issue date of such Senior Note will be the date the United States holder acquired it, and
- no payments on such Senior Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Senior Note for which it is made; however, if a Senior Note has amortizable bond premium, the United States holder will be deemed to have made an election to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium, other than debt instruments the interest on which is excludible from gross income, that are held by such United States holder as of the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if a United States holder makes this election for a market discount Senior Note, the United States holder will be treated as having made the election discussed below under “—Market Discount” to include market discount in income currently over the life of all debt instruments having market discount that it acquires on or after the first day of the first taxable year to which

the election applies. A United States holder may not revoke any election to apply the constant-yield method to all interest on a Senior Note or the deemed elections with respect to amortizable bond premium or market discount Senior Notes without the consent of the IRS.

*Variable Rate Senior Notes.* A Senior Note will be a variable rate Senior Note if:

- such Senior Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:
  1. .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or
  2. 15 percent of the total noncontingent principal payments; and
- such Senior Note provides for stated interest, compounded or paid at least annually, only at:
  1. one or more qualified floating rates,
  2. a single fixed rate and one or more qualified floating rates,
  3. a single objective rate, or
  4. a single fixed rate and a single objective rate that is a qualified inverse floating rate; and
- the value of any variable rate on any date during the term of the Senior Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Senior Note will have a variable rate that is a qualified floating rate if:

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Senior Note is denominated; or
- the rate is equal to such a rate either:
  1. multiplied by a fixed multiple that is greater than 0.65 but not more than 1.35, or
  2. multiplied by a fixed multiple greater than 0.65 but not more than 1.35, and then increased or decreased by a fixed rate.

If such Senior Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Senior Note, the qualified floating rates together constitute a single qualified floating rate.

A Senior Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are caps, floors or governors that are fixed throughout the term of such Senior Note or such restrictions are not reasonably expected to significantly affect the yield on such Senior Note.

A Senior Note will have a variable rate that is a single objective rate if:

- the rate is not a qualified floating rate, and
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party.

A Senior Note will not have a variable rate that is an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Senior Note's term would be either significantly less than or significantly greater than the average value of the rate during the final half of such Senior Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate, and



- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate, disregarding any restrictions on the rate that are caps, floors or governors that are fixed throughout the term of the Senior Note or that are not reasonably expected to significantly affect the yield on such Senior Note.

A Senior Note will also have a single qualified floating rate or an objective rate if interest on such Senior Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Senior Note that do not differ by more than 0.25 percentage points, or
- the value of the qualified floating rate or objective rate on the issue date is intended to approximate the fixed rate.

In general, if a variable rate Senior Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period of one year or less, all stated interest on such Senior Note is qualified stated interest. In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for such Senior Note.

If a variable rate Senior Note does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, a United States holder generally would determine the interest and OID accruals on such Senior Note by:

- determining a fixed rate substitute for each variable rate provided under such variable rate Senior Note,
- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,
- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and
- adjusting for actual variable rates during the applicable accrual period.

When a United States holder determines the fixed rate substitute for each variable rate provided under a variable rate Senior Note, it generally will use the value of each variable rate as of the issue date of such Senior Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Senior Note.

If a variable rate Senior Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period of one year or less, a United States holder generally would determine interest and OID accruals by using the method described in the previous paragraph. However, a variable rate Senior Note will be treated, for purposes of the first three steps of the determination, as if such Senior Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such variable rate Senior Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

*Short-Term Senior Notes.* In general, if a United States holder is an individual or other cash basis United States holder of a Senior Note with a term of one year or less, or a short-term Senior Note, it is not required to accrue OID, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless it elects to do so (although it is possible that it may be required to include any stated interest in income as it receives it). If a United States holder is an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, it will be required to accrue OID on short-term Senior Notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If a United States holder is not required and does not elect to include OID in income currently, any gain it realizes on the sale or retirement of its short-term Senior

Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless it makes an election to accrue the OID under the constant-yield method, through the date of sale or retirement. In addition, if it is not required and does not elect to accrue OID on its short-term Senior Notes, it will generally be required to defer deductions for interest on borrowings allocable to its short-term Senior Notes in an amount not exceeding the deferred income until the deferred income is realized.

When a United States holder determines the amount of OID subject to these rules, it must include all interest payments on its short-term Senior Note, including stated interest, in the short-term Senior Note's stated redemption price at maturity. In addition, a United States holder may elect to determine the amount of OID subject to these rules by using its tax basis in the short-term Senior Note rather than the short-term Senior Note's issue price.

*Foreign Currency Discount Senior Notes.* If a discount Senior Note is denominated in, or determined by reference to, a foreign currency, the relevant United States holder must determine OID for any accrual period on its discount Senior Note in the foreign currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis United States holder, as described under "—Payments of Interest." When such United States holder receives an amount attributable to OID in connection with a payment of interest or the sale or retirement of such Senior Note, such United States holder may recognize ordinary income or loss attributable to changes in exchange rates between the time of the accrual of the OID and the time of receipt of such amount.

#### *Market Discount*

A United States holder will be treated as if it purchased a Senior Note, other than a short-term Senior Note, at a market discount, and such Senior Note will be a market discount Senior Note, if the difference between such Senior Note's stated redemption price at maturity or, in the case of a discount Senior Note, its revised issue price, and the price such United States holder paid for it is equal to or greater than  $\frac{1}{4}$  of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to the Senior Note's maturity. To determine the revised issue price of such Senior Note for these purposes, a United States holder will generally add such Senior Note's issue price and any OID that has accrued on such Senior Note by prior holders (without regard to any acquisition premium).

If a Senior Note's stated redemption price at maturity or, in the case of a discount Senior Note, its revised issue price, exceeds the price the relevant United States holder paid for it by less than  $\frac{1}{4}$  of 1 percent of the Senior Note's stated redemption price at maturity multiplied by the number of complete years to such Senior Note's maturity, the excess constitutes de minimis market discount, and the rules discussed below are not applicable to the relevant United States holder.

A United States holder must treat any gain it recognizes on the maturity or disposition of a market discount Senior Note as ordinary income to the extent of the accrued market discount on such Senior Note. Alternatively, such United States holder may elect to include market discount in income currently over the life of such Senior Note. If a United States holder makes this election, it would apply to all debt instruments with market discount that the United States holder acquires on or after the first day of the first taxable year to which the election applies. A United States holder may not revoke this election without the consent of the IRS. If a United States holder owns a market discount Senior Note and does not make this election, it will generally be required to defer deductions for interest on borrowings allocable to such Senior Note in an amount not exceeding the accrued market discount on such Senior Note until the maturity or disposition of such Senior Note. In certain cases, however, a United States holder may elect to deduct such interest prior to the maturity or disposition of such Senior Note.

If a United States holder owns a market discount Senior Note, the market discount would accrue on a straight-line basis unless an election is made to accrue market discount using a constant-yield method. If such United States holder makes this election, it would apply only to the Senior Note with respect to which it is made and such United States holder may not revoke it. A United States holder would, however, not include accrued market discount in income unless it elects to do so as described above.

If a market discount Senior Note is denominated in, or determined by reference to, a foreign currency and a United States holder elects to include market discount in income on a current basis, the market discount accruals will be determined in the foreign currency and then translated into U.S. dollars at the average exchange rate for the accrual period. In such case, when such United States holder receives an amount attributable to accrued market discount in connection with the sale or retirement of such market discount Senior Note, such United States holder may recognize ordinary income or loss attributable to changes in exchange rates between the time of the accrual of the market discount and the time of such sale or retirement.

### *Senior Notes Purchased at a Premium*

If a United States holder purchases a Senior Note for an amount in excess of the sum of all amounts payable on the Senior Note after the acquisition date (other than payments of qualified stated interest), it may elect to treat the excess as amortizable bond premium. If it makes this election, it will reduce the amount required to be included in its income each accrual period with respect to interest on such Senior Note by the amount of amortizable bond premium allocable to that accrual period, based on such Senior Note's yield to maturity. In addition, if a United States holder acquires a discount Senior Note at a premium as described above, such United States holder will not be required to include any OID in income with respect to the discount Senior Note.

If the amortizable bond premium allocable to an accrual period exceeds a United States holder's interest income from a Senior Note for such accrual period, such excess is first allowed as a deduction to the extent of interest included in the United States holder's income in respect of the Senior Note in previous accrual periods (after taking into account any bond premium deductions in such accrual periods) and is then carried forward to the United States holder's next accrual period. If the amortizable bond premium allocable and carried forward to the accrual period in which the United States holder's Senior Note is sold, retired or otherwise disposed of exceeds the United States holder's interest income for such accrual period, such United States holder would be allowed an ordinary deduction equal to such excess.

If a Senior Note is denominated in, or determined by reference to, a foreign currency, the relevant United States holder will compute its amortizable bond premium in units of the foreign currency and its amortizable bond premium would reduce its interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the relevant United States holder's amortized bond premium offsets interest income and the time of the acquisition of such Senior Note is generally taxable as ordinary income or loss.

If a United States holder makes an election to amortize bond premium, it would apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that such United States holder holds at the beginning of the first taxable year to which the election applies or that such United States holder thereafter acquires, and such United States holder may not revoke it without the consent of the IRS. See also "—Original Issue Discount—Election to Treat All Interest as Original Issue Discount."

### *Purchase, Sale and Retirement of the Senior Notes*

A United States holder's tax basis in a Senior Note will generally be the U.S. dollar cost, as defined below, of such Senior Note, adjusted by:

- adding any OID or market discount previously included in income with respect to such Senior Note, and then
- subtracting any payments on such Senior Note that are not qualified stated interest payments and any amortizable bond premium to the extent that such premium either reduced interest income on such Senior Note or gave rise to a deduction on such Senior Note.

If a United States holder purchases a Senior Note with foreign currency, the U.S. dollar cost of such Senior Note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if a United States holder is a cash basis taxpayer, or an accrual basis taxpayer if it so elects, and the Senior Note it purchases is traded on an established securities market, within the meaning of the applicable Treasury regulations, the U.S. dollar cost of such Senior Note will be the U.S. dollar value of the purchase price on the settlement date in respect of the Senior Note purchased.

A United States holder will generally recognize gain or loss on the sale or retirement of a Senior Note equal to the difference between the amount it realizes on the sale or retirement, excluding any amounts attributable to accrued but unpaid qualified stated interest (which will be treated as interest payments), and its tax basis in such Senior Note. If such Senior Note is sold or retired for an amount in foreign currency, the amount the relevant United States holder realizes will be the U.S. dollar value of such amount on the date the Senior Note is disposed of or retired, except that in the case of a Senior Note that is traded on an established securities market, within the meaning of the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the foreign currency on the settlement date of the sale.

A United States holder will recognize capital gain or loss on the sale or retirement of a Senior Note held by it, except to the extent:

- described above under “—Original Issue Discount—Short-Term Senior Notes” or “—Market Discount,” or
- attributable to changes in exchange rates as described below.

Any capital gain or loss will be long-term if the Senior Note has been held for more than one year at the time of such sale or retirement. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations.

A United States holder must treat any portion of the gain or loss that it recognizes on the sale or retirement of a Senior Note as ordinary income or loss to the extent attributable to changes in exchange rates between the time of the acquisition of such Senior Note and the time of such sale or retirement. However, it takes exchange gain or loss into account only to the extent of the total gain or loss it realizes on the transaction.

#### *Senior Notes Subject to Special Rules*

The applicable Pricing Supplement will discuss any special United States federal income tax rules with respect to Senior Notes that are Fixed Reset Notes, Indexed Notes, Extendible Notes, Amortizing Notes or Dual Currency Notes, or that are otherwise subject to the special rules that govern contingent payment debt instruments.

#### *Treasury Regulations Requiring Disclosure of Reportable Transactions*

Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a “**Reportable Transaction**”). Under these regulations, if the Senior Notes are denominated in, or determined by reference to, a foreign currency, a United States holder (or a Non-United States holder that holds the Senior Notes in connection with a U.S. trade or business) that recognizes a loss with respect to the Senior Notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on IRS Form 8886 (Reportable Transaction Disclosure Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is U.S.\$50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. A prospective purchaser should consult with its own tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of the Senior Notes.

#### *Subordinated Notes*

##### *Characterization of the Subordinated Notes*

No statutory, judicial or administrative authority directly addresses the characterization of the Subordinated Notes or instruments similar to the Subordinated Notes for United States federal income tax purposes (specifically, debt instruments with a write-down feature). As a result, significant aspects of the United States federal income tax consequences of an investment in the Subordinated Notes are uncertain. However, we intend, absent a change in law, to treat the Subordinated Notes as our equity (rather than debt) for U.S. federal income tax purposes. In general, under the Code, the characterization of an instrument for United States federal income tax purposes as debt or equity of a corporation by its issuer as of the time of issuance is binding on an owner of the instrument unless the owner discloses on its tax return that it is taking an inconsistent position. The issuer’s characterization, however, is not binding on the IRS.

Except as stated below under “—Possible Alternative Treatment of the Subordinated Notes,” the following discussion assumes that the Subordinated Notes will be treated as our equity for United States federal income tax purposes. Treatment of the Subordinated Notes as debt for United States federal income tax purposes may significantly change the tax treatment of the Subordinated Notes in ways that are potentially adverse to holders.

##### *Tax Treatment of Payments on the Subordinated Notes*

Subject to the discussion below under “—PFIC Rules,” payments of stated interest on the Subordinated Notes will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Because we do not expect to

maintain calculations of our earnings and profits under United States federal income tax principles, it is expected that distributions paid to a United States holder generally will be reported as dividends.

Subject to the discussion below under “—PFIC Rules,” dividends received by a non-corporate United States holder may be qualified dividend income taxable at the preferential rates applicable to long-term capital gains; *provided* such holder holds the Subordinated Notes for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, in this case generally the relevant record date in respect of the applicable interest payment date (or, if the dividend is attributable to a period or periods aggregating over 366 days; *provided* such holder holds the Subordinated Notes for more than 90 days during the 181-day period beginning 90 days before the ex-dividend date), and meets other holding period requirements. There is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for United States federal income tax purposes but that grant holders the legal rights of debt holders. You should consult your tax advisor regarding your holding period in the Subordinated Notes in light of your rights under the Subordinated Notes. Amounts we pay with respect to the Subordinated Notes will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

Dividends that exceed certain thresholds in relation to a United States holder’s tax basis in the Subordinated Notes could be characterized as “extraordinary dividends” under the Code. A non-corporate United States holder will be required to treat any loss on the sale or other taxable disposition of the Subordinated Notes as a long-term capital loss (regardless of its holding period) to the extent of any extraordinary dividends such United States holder receives that are treated as qualified dividend income.

If a payment on a Subordinated Note that is treated as a dividend is made in a foreign currency, the dividend income recognized by a United States holder will equal the U.S. dollar value of the payment, based on the exchange rate in effect on the date of receipt, regardless of whether the United States holder actually converted the payment into U.S. dollars.

Dividends that are paid on the Subordinated Notes will generally be treated as income from sources outside the United States for purposes of determining the foreign tax credit allowable to a United States holder. Such amounts will generally be “passive” income for purposes of computing the foreign tax credit. A United States holder will, subject to applicable limitations (including a minimum holding period requirement), generally be entitled to a foreign tax credit for any Mexican withholding tax imposed on dividends that are paid on the Subordinated Notes. United States holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. Instead of claiming a foreign tax credit, a United States holder may deduct any Mexican withholding tax imposed on dividends that are paid on the Subordinated Notes, but only for a taxable year in which such United States holder elects to do so with respect to all foreign income taxes paid or accrued in such taxable year and subject to generally applicable limitations under U.S. law.

#### *Sale, Exchange, Redemption or Write-Down of the Subordinated Notes*

Subject to the discussion below under “—PFIC Rules,” a United States holder will generally recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Subordinated Notes in an amount equal to the difference between the amount realized on such disposition and the holder’s adjusted tax basis in the Subordinated Notes. A holder’s adjusted tax basis in a Subordinated Note generally will be the price it paid for the Subordinated Note. Any capital gain or loss will be long-term if the Subordinated Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations.

A full Write-Down of a Subordinated Note generally will be treated as a taxable disposition of such Subordinated Note for United States federal income tax purposes. It is unclear how a partial Write-Down of a Subordinated Note should be treated for United States federal income tax purposes, and prospective investors should consult their tax advisors regarding the United States federal income tax consequences of a partial Write-Down.

#### *PFIC Rules*

Special United States federal income tax rules would apply to holders of the Subordinated Notes if we were classified as a passive foreign investment company (“PFIC”). We will be classified as a PFIC in any taxable year in

which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable “look-through” rules), either (i) 75% or more of our gross income consists of certain types of “passive income” or (ii) 50% or more of the average quarterly value of our assets is attributable to “passive assets” (assets that produce or are held for the production of passive income). If a company is considered to be an active bank for purposes of the PFIC rules, its “banking income” is treated as active income even if it would otherwise be classified as passive income. Based on our audited consolidated financial statements for the year ended December 31, 2019, we believe that we were not a PFIC for United States federal income tax purposes in 2019 and do not expect to be a PFIC in the foreseeable future. However, this conclusion is a factual determination that is made annually and thus may be subject to change. It is therefore possible that we could become a PFIC in a future taxable year.

If we were to become a PFIC, a United States holder that does not make a “mark-to-market” election may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the Subordinated Notes and on the receipt of payments on the Subordinated Notes to the extent such payments are treated as “excess distributions” under the United States federal income tax rules. In addition, payments on the Subordinated Notes would not be eligible for treatment as qualified dividend income, a United States holder of our Subordinated Notes would be subject to additional U.S. tax form filing requirements, and the statute of limitations for collections may be suspended for a United States holder that does not file the appropriate form.

#### *Possible Alternative Treatment of the Subordinated Notes*

As discussed above, significant aspects of the United States federal income tax consequences of an investment in the Subordinated Notes are uncertain. The IRS could assert that the Subordinated Notes should be characterized as debt for United States federal income tax purposes. If the Subordinated Notes were so treated, interest on the Subordinated Notes would be ordinary income and would not be eligible for the lower rate for “qualified dividends” discussed above in “—Tax Treatment of Payments on the Subordinated Notes.” Moreover, in that event, the Subordinated Notes may be treated as contingent payment debt instruments, with the consequences, among others, that (i) United States holders would be required to accrue interest on the Subordinated Notes even if such holders otherwise use the cash method of accounting for United States federal income tax purposes, (ii) the amount of interest that must be accrued in any period may differ from the amount of stated interest accruing in that period, and (iii) gain from the sale, exchange, redemption or other taxable disposition of the Subordinated Notes would be ordinary income.

Prospective investors should consult their tax advisors as to the tax consequences to them if the Subordinated Notes were characterized as debt for United States federal income tax purposes.

#### *Information with Respect to Foreign Financial Assets*

A United States holder that owns “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with its tax returns. “Specified foreign financial assets” may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. United States holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

#### ***Purchase, Receipt and Exchange of Foreign Currency***

If a United States holder receives foreign currency as interest on a Note held by it or on the sale or retirement of a Note held by it, the tax basis of such United States holder in the foreign currency generally would equal the U.S. dollar value thereof on the date of receipt. If a United States holder purchases foreign currency, it generally would have a tax basis in the foreign currency equal to the U.S. dollar value thereof on the date of purchase. If a United States holder sells or disposes of foreign currency, including if it uses such foreign currency to purchase Notes or exchanges such foreign currency for U.S. dollars, any gain or loss recognized generally would be ordinary income or loss.

#### ***Non-United States Holders***

This subsection describes the tax consequences to a Non-United States holder.

A person is a Non-United States holder if it is a beneficial owner of a Note and it is, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

This subsection does not apply to United States holders.

Under United States federal income tax law, and subject to the discussion of backup withholding and FATCA withholding below, if a person is a Non-United States holder of a Note, interest on such Note paid to such person is exempt from United States federal income tax, including withholding tax, whether or not such person is engaged in a trade or business in the United States, unless:

- such person is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or
- such person both
  - has an office or other fixed place of business in the United States to which the interest is attributable; and
  - derives the interest in the active conduct of a banking, financing or similar business within the United States, or is a corporation with a principal business of trading in stocks and securities for its own account.

A Non-United States holder of a Note will generally not be subject to United States federal income tax on gain realized on the sale, exchange or retirement of such Note unless:

- the gain is effectively connected with such person's conduct of a trade or business in the United States; or
- such person is an individual, is present in the United States for 183 or more days during the taxable year in which the gain is realized and certain other conditions exist.

### ***FATCA Withholding***

Certain non-U.S. financial institutions must comply with information reporting requirements or certification requirements in respect of their direct and indirect United States shareholders and/or United States accountholders to avoid becoming subject to withholding on certain payments. The Issuer and other non-U.S. financial institutions may accordingly be required to report information to the IRS regarding the holders of Notes. The Issuer and other non-U.S. financial institutions may also be required to withhold on a portion of payments under the Notes to certain holders that fail to comply with the relevant information reporting requirements (or hold Notes directly or indirectly through certain noncompliant intermediaries). However, under proposed Treasury regulations (upon which taxpayers may rely until final regulations are issued), such withholding will not apply to payments made before the date that is two years after the date on which final regulations defining the term "foreign passthru payment" are published. Moreover, in the case of Senior Notes, such withholding would only apply to Notes issued at least six months after the date on which final regulations defining the term "foreign passthru payment" are published. Holders are urged to consult their own tax advisors and any banks or brokers through which they will hold Notes as to the consequences (if any) of these rules to them.

### ***Backup Withholding and Information Reporting***

If a holder is a non-corporate United States holder, information reporting requirements, on IRS Form 1099, generally would apply to payments of principal and interest on a Note within the United States, and the payment of proceeds to the non-corporate United States holder from the sale of a Note effected at a United States office of a broker. Information reporting may also apply in respect of any OID that accrues on a Senior Note. Backup withholding may apply to any of the payments described above if a United States holder fails to provide a taxpayer identification number or a certification of exempt status, or fails to report in full dividend and interest income.

In general, payment of the proceeds from the sale of Notes effected at a foreign office of a broker will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could

be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

A Non-United States holder generally will be exempt from information reporting and backup withholding with respect to the Notes if such holder properly certifies to its foreign status or otherwise establishes an exemption.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a holder's United States federal income tax liability provided the required information is timely furnished to the IRS.

## **Certain Mexican Income Tax Consequences**

### ***General***

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder. For purposes of this summary, "**Non-Mexican Holder**" means a holder of the Notes that is not a resident of Mexico for tax purposes and that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico, to which income derived from the Notes is attributable. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, is for general information purposes only and does not constitute tax advice, and does not address all the Mexican tax consequences that may be applicable to specific Non-Mexican Holders. In addition, this summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than Mexico, arising under the laws of any state or municipality within Mexico, or that are applicable to a resident of Mexico for tax purposes in connection with the purchase, ownership and disposition of the Notes. This summary is based upon the provisions set forth in the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*) and the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*) in effect as of the date hereof, which are subject to change or to new or different interpretations, which may have an impact on this description.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect this description and the Mexican withholding tax liability applicable to Non-Mexican Holders.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences, and the consequences under tax treaties to which Mexico is a party and are in effect, of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign, state, municipal or local tax laws. For tax purposes, the acquisition, holding and disposition of the Notes by any investor, including any investor who is a resident of Mexico, will be made under its own responsibility.

For Mexican taxation purposes, an individual is a resident of Mexico for tax purposes if such individual has established his or her home in Mexico, unless such individual also has a home available to him/her in another country; in that case, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" (*centro de intereses vitales*) is located within the territory of Mexico. This will be deemed to occur if, among other considerations, (i) at least 50% of his or her aggregate annual income derives from Mexican sources, or (ii) the main center of his or her professional activities is located in Mexico.

Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered residents of Mexico for tax purposes during the year of filing of the notice of such residence change and during the following three years. Any Mexican nationals that are employed by the Mexican government are deemed residents of Mexico, even if their center of vital interests is located outside of Mexico.

Unless otherwise evidenced, Mexican nationals are deemed residents of Mexico for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual's center of vital interests.

A legal entity (including foreign legal arrangements treated as legal entities for Mexican tax purposes) qualifies as a resident of Mexico for tax purposes if the principal administration of its business or its place of effective



management is located in Mexico. If a legal entity (including foreign legal arrangements treated as legal entities for Mexican tax purposes) or an individual has a permanent establishment in Mexico for tax purposes, any and all income attributable to that permanent establishment of such entity or individual would be subject to Mexican income tax pursuant to applicable law.

#### ***Taxation of Payments of Principal and Interest Under Notes Issued by Us Through the Texas Agency***

Under the Mexican Income Tax Law, payments of principal and interest on the Notes (including any amounts paid in excess of the issue price for the Notes, which are deemed interest under the Mexican Income Tax Law) paid by us, through our Texas Agency, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

#### ***Taxation of Payments of Principal and Interest Under Notes Issued Directly by Us***

Under the Mexican Income Tax Law, payments of interest (including original issue discount and premiums, which are deemed interest under the Mexican Income Tax Law) made by the Bank, acting directly and not through the Texas Agency, in respect of the Notes to a Non-Mexican Holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9%, if, as expected, (i) the Notes are placed outside Mexico, through banks or broker-dealers, in a country with which Mexico has a treaty for the avoidance of double taxation in effect, (ii) a notice is filed before the CNBV describing the main characteristics of the relevant offering of the Notes pursuant to Article 7 of the Mexican Securities Market Law, and (iii) the relevant disclosure requirements set forth from time to time by the Mexican Tax Administration Service (*Servicio de Administración Tributaria*, or the “SAT”) are complied with, including the requirement to timely file with the SAT, fifteen (15) days after the placement of the Notes, information regarding such placement, and on a quarterly basis, information setting forth, among other items, that no party related to us, jointly or individually, directly or indirectly, is the beneficial owner of more than 5% of the aggregate amount of each interest payment, and that we maintain records that evidence compliance with this requirement.

If any of the above requirements is not met, the withholding tax applicable to interest payments under the Notes made directly by the Bank to a Non-Mexican Holder will be imposed at a rate of 10% or higher. In addition, if the beneficiaries, whether acting directly or indirectly, severally or jointly with related parties, receiving more than 5% of the aggregate amount of each interest payment under the Notes are (i) persons holding more than 10% of our shares, directly or indirectly, severally or jointly with related parties, or (ii) corporations or other entities whose stock is more than 20% owned, directly or indirectly, jointly or severally, by persons related to us, the Mexican withholding tax will be applied at substantially higher rates (35% as of the date of this Offering Memorandum). For these purposes, persons will be related if (i) one person holds an interest in the business of the other person, (ii) both persons have common interests or (iii) a third party has an interest in the business or assets of both persons.

Payments of interest in respect of the Notes made directly by the Bank to a non-Mexican pension or retirement fund will be exempt from Mexican withholding tax, *provided* that (i) the applicable fund is organized pursuant to the laws of its country of residence and is the effective beneficiary of the interest payment, (ii) such income is exempt from income taxes in such fund’s country of residence and (iii) such fund provides the aforementioned information to the Bank, that the Bank may in turn provide to the SAT, in accordance with the rules issued by the SAT for these purposes.

Under the Mexican Income Tax Law, payments of principal made by the Bank, acting directly and not through the Texas Agency, in respect of the Notes to a Non-Mexican Holder will not be subject to Mexican withholding taxes.

#### ***Taxation of Capital Gains***

As a general rule, under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder are not subject to income or other tax in Mexico, regardless of whether the Notes are issued by the Issuer or the Bank. Gains resulting from the sale of the Notes issued by the Bank by a Non-Mexican Holder to a purchaser who is a Mexican resident for tax purposes or to a Non-Mexican Holder deemed to have a permanent establishment for tax purposes in Mexico will be deemed interest income and will be subject to withholding tax in Mexico, unless an applicable income tax treaty provides otherwise. The acquisition of the Notes issued by the Bank at a discount by a Non-Mexican Holder will be deemed interest income and subject to income tax in Mexico, if the seller is a Mexican resident for tax purposes or a foreign resident deemed to have a permanent establishment for tax purposes in Mexico; no such taxes will apply if the Notes acquired are issued by the Issuer.

### ***Other Mexican Tax Considerations***

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership or disposition of the Notes, nor will such Non-Mexican Holder be liable for any Mexican stamp, issue, registration or similar taxes.

### **The Proposed Financial Transactions Tax**

In February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. The FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other “Benefit Plan Investor” (as defined below) should consider the fiduciary standards of the U.S. Employee Retirement Income Security Act of 1974 as amended (“**ERISA**”) in the context of the Benefit Plan Investor’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Benefit Plan Investor, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”).

### Prohibited Transaction Rules

Section 406 of ERISA and Section 4975 of the Code impose restrictions on (i) “employee benefit plans” (as defined in Section 3(3) of ERISA), subject to the provisions of part 4 of subtitle B of Title I of ERISA, (ii) “plans” within the meaning of Section 4975(e)(1) of the Code, to which the prohibited transaction provisions of Section 4975 of the Code applies and (iii) entities whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity pursuant to the U.S. Department of Labor regulation codified at 29 C.F.R. 2510.3-101 et seq., as modified by Section 3(42) of ERISA (the “**Plan Assets Regulation**”) (each as described in clauses (i), (ii) and (iii) a “**Benefit Plan Investor**”), from engaging in certain transactions with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (collectively referred to as “**Parties in Interest**”) with respect to such Benefit Plan Investor. Such Parties in Interest could include, without limitation, the Bank, the Dealers, the Trustee, the registrar and each of their respective affiliates and agents. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. In addition, the fiduciary of the Benefit Plan Investor that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) or other arrangements (“**Non-ERISA Arrangements**”) while not necessarily subject to the fiduciary responsibility or prohibited transaction requirements of ERISA or Section 4975 of the Code, may nevertheless be subject to substantially similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“**Similar Laws**”). Fiduciaries of any such Non-ERISA Arrangements should consult with their counsel before purchasing or holding any Notes. Whether or not the underlying assets of the Issuer were deemed to include “plan assets” of a Benefit Plan Investor as described below, the acquisition, holding and/or disposition of the Notes by a Benefit Plan Investor with respect to which we, a Dealer or certain of our or their respective affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired, held and/or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions (“**PTCEs**”) that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than “adequate consideration” in connection with the transaction (the “**service provider exemption**”). Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of Benefit Plan Investors considering acquiring and/or holding the Notes in reliance on these or any other exemption should carefully

review the exemption to assure it is applicable. There can be no assurance that any of the conditions of any such exemption will be satisfied.

### **The Plan Assets Regulations**

The Plan Assets Regulation describes what constitutes the assets of a Plan for purposes of the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Assets Regulation, if a Plan invests in an “equity interest” of an entity that is neither a “publicly-offered security” (within the meaning of the Plan Assets Regulation) nor a security issued by an investment company registered under the Investment Company Act, the Plan’s assets include both the “equity interest” and an undivided interest in each of the entity’s underlying assets unless either (a) . immediately after the most recent acquisition of any “equity interest” in the entity, 25% or more of the value of any class of “equity interest” in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, that have discretionary control over the assets of the entity or provide investment advice to the entity for a fee (direct or indirect) or certain “affiliates” within the meaning of paragraph (f)(3) of the Plan Assets Regulation of such persons) is held by Benefit Plan Investors or (b) the entity is an “operating company” as defined in the Plan Assets Regulation. Under the Plan Assets Regulation, an “operating company” is an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital.

If the Issuer is deemed under the Plan Assets Regulation to hold “plan assets” by reason of a Benefit Plan Investor’s investment in any of the Notes, such “plan assets” would include an undivided interest in the assets held by the Issuer and, among other things, transactions by the Issuer would be subject to the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code and the fiduciary making the investment in the on the Benefit Plan Investor’s behalf may be deemed to have delegated its asset management responsibility to the persons having authority and control over the Issuer’s assets.

It is not anticipated that (i) the Notes will be “publicly-offered securities” for purposes of the Plan Assets Regulation, (ii) the Issuer will be an investment company registered under the Investment Company Act or (iii) the Issuer will monitor whether investment in the Notes by Benefit Plan Investors will remain below the 25% threshold of the Plan Assets Regulations.

The Plan Assets Regulation defines an “equity interest” as any interest in an entity, other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Consequently, under the Plan Assets Regulation, a security which is in the form of debt may be considered an “equity interest” if it has substantial equity features. Although the Plan Assets Regulation is silent with respect to the question of which law constitutes applicable local law for this purpose, the U.S. Department of Labor has stated that these determinations should be made under the state law governing interpretation of the instrument in question. In the preamble to the Plan Assets Regulation, the U.S. Department of Labor declined to provide a precise definition of what features are equity features or the circumstances under which those features would be considered “substantial,” noting that the question of whether a Benefit Plan Investor’s interest has substantial equity features is an inherently factual one.

We believe that we should qualify as an “operating company,” although no assurance can be given in this regard.

### **Deemed Representation by Investors**

Each purchaser and holder of a Note or any interest therein, including any transferee of such Note or interest, will be deemed to have represented and warranted by its purchase and holding of the Notes that it either (1) is not, and for so long as it holds the Notes or any interest therein, will not be a Benefit Plan Investor or a Non-ERISA Arrangement, and it is not purchasing or holding Notes on behalf of or with the assets of any Benefit Plan Investor or Non-ERISA Arrangement or (2) the purchase, holding and disposition of the Notes will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA and Section 4975 of the Code, or, in the case of a Non-ERISA Arrangement, a violation of any applicable Similar Laws.

The preceding discussion is only a summary of certain implications under ERISA and Section 4975 of the Code of an investment in the Notes and does not purport to be complete. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Benefit Plan Investor or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the

PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase, holding or disposition of the Notes under Similar Laws, as applicable.

Neither this discussion nor anything provided in this Offering Memorandum is or is intended to be investment advice to any Benefit Plan Investor or Non-ERISA Arrangement. Each purchaser or holder of a Note or any interest therein has the exclusive responsibility for ensuring that their purchase and holding of the Note complies with the fiduciary responsibility rules of ERISA, the Code and any Similar Laws, as applicable, and does not violate the prohibited transaction rules of ERISA, the Code or applicable Similar Laws. Nothing in this Offering Memorandum is, or should be construed as, a representation or advice as to whether an investment in the Notes is appropriate for Benefit Plan Investors or Non-ERISA Arrangements in general or for any particular Benefit Plan Investor or Non-ERISA Arrangement.

## PLAN OF DISTRIBUTION

### General

Under the terms of the dealer agreement, dated August 6, 2019 (as amended, modified, supplemented and/or restated from time to time, the “**Dealer Agreement**”), we may offer the Notes through the Dealers, each of which has agreed to use its reasonable efforts to solicit offers to purchase the Notes. The Dealers may solicit offers to purchase the Notes through one or more of their affiliates or selling agents. Any agreement of the Dealers to solicit offers to purchase the Notes or to purchase Notes as principal is subject to the satisfaction of the conditions precedent set forth in the Dealer Agreement. In the Dealer Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities, including liabilities under the Securities Act, incurred by them in connection therewith.

We will pay each Dealer through which we sell Notes such commission as we and the applicable Dealer may agree at the time of sale. In addition, we may appoint Dealers in addition to the Dealers that are initially party to the Dealer Agreement. The commission will be specified in the applicable Pricing Supplement. We will have the sole right to accept offers to purchase Notes and may reject any proposed purchase of Notes, in whole or in part, whether placed directly by us or one of our affiliates or through the Dealers. Each Dealer will have the right, in its discretion reasonably exercised without advising us, to reject any proposed purchase of Notes through that Dealer in whole or in part. We may also sell Notes to the Dealers, as principals, at a negotiated discount, for resale to investors or to another broker-dealer — acting as principal for purposes of resale — at varying prices related to prevailing market prices at the time of resale to be determined by the Dealers, or if specified in the applicable Pricing Supplement, at a fixed offering price. Notes may be distributed on a syndicated basis, in which case the applicable Pricing Supplement will identify the Dealers constituting the syndicate, or on a non-syndicated basis. We have also reserved the right to sell Notes directly on our own behalf, in which case no commission will be payable to the Dealers. We can terminate the Program at any time.

### Delivery of Notes

Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. The applicable Pricing Supplement may provide that the original issue date for the Notes may be more than two scheduled business days after the trade date for those Notes. Accordingly, in such a case, if you wish to trade those Notes on any date prior to the second business day before the original issue date for those Notes, you will be required, by virtue of the fact that those Notes initially are expected to settle in more than two scheduled business days after the trade date for those Notes, to make alternative settlement arrangements to prevent a failed settlement.

### Sales Restrictions

The distribution of this Offering Memorandum and the offer and sale or resale of the Notes may be restricted by law in certain jurisdictions. If a jurisdiction requires that an offering of the Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by the Dealers or such affiliates in such jurisdiction. Persons into whose possession this Offering Memorandum comes are required by us and the Dealers to inform themselves about and to observe any such restrictions.

With regard to each Note, the relevant purchaser will be required to comply with the restrictions that we and the relevant purchaser will agree and as will be set out in the applicable Pricing Supplement. These restrictions may include, but are not limited to, the restrictions set forth below.

### *United States*

The Notes have not been and will not be registered under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and

- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

### ***Mexico***

The Notes have not been and will not be registered in Mexico with the RNV maintained by the CNBV and, therefore, may not be offered or sold in Mexico; the Notes may be offered or sold in Mexico, on a private placement basis, to investors that qualify as institutional or qualified investors, solely pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. We will notify the CNBV in respect of the terms and conditions of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV for statistical and informational purposes only, to comply with Article 7, second paragraph, of the Mexican Securities Market Law and regulations thereunder. The delivery to, and receipt by, the CNBV of such notice does not constitute or imply any certification as to the investment quality of the notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this Offering Memorandum. This Offering Memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV, and may not be publicly distributed in Mexico.

### ***Prohibition of Sales to EEA and UK Retail Investors***

Unless the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable,” each Dealer has advised, and each further Dealer appointed under the Program will be required to advise, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable” in relation to each Member State of the EEA and the UK (each, a “**Relevant State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto to the public in that Relevant State, except that it may make an offer of such Notes to the public in that Relevant State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

### ***Restrictions on Marketing and Sales to Retail Investors of the Subordinated Notes***

The Subordinated Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Subordinated Notes to retail investors.

In particular, in June 2015, the United Kingdom Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the “**PI Instrument**”), which took effect from 1 October 2015. In addition, (i) on 1 January 2018, the provisions of the PRIIPs Regulation became directly applicable in all EEA member states and in the UK and (ii) MiFID II was required to be implemented in EEA member states and in the UK by 3 January 2018. Together, the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the “**Regulations**.” The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write-down or convertible securities, such as the Subordinated Notes.

Potential investors in the Subordinated Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Subordinated Notes (or any beneficial interests therein), including the Regulations.

Certain of the Dealers are subject to, and required to comply with, the Regulations, or, if not subject to the Regulations, they will comply with them as if they were subject to the Regulations. In addition, by purchasing, or making or accepting an offer to purchase, any Subordinated Notes (or a beneficial interest in such Subordinated Notes) from the Issuer and/or the Dealers, each prospective investor in relation to the Subordinated Notes (or any beneficial interest therein) will be deemed to represent, warrant, agree with and undertake to the Issuer and each of the Dealers that:

- (1) it is not a retail client in the EEA or in the UK (as defined in MiFID II);
- (2) whether or not it is subject to the Regulations, it will not:
  - (a) sell or offer the Subordinated Notes (or any beneficial interests therein) to retail clients (as defined in MiFID II) in the EEA or in the UK; or
  - (b) communicate (including the distribution of this Offering Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Subordinated Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA or in the UK (as defined in MiFID II). In selling or offering the Subordinated Notes (or any beneficial interests therein) or making or approving communications relating to the Subordinated Notes (or any beneficial interests therein), it may not rely on the limited exemptions set out in the PI Instrument; and
- (3) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA or the UK) relating to the promotion, offering, distribution and/or sale of the Subordinated Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Subordinated Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Subordinated Notes (or any beneficial interests therein) from the Issuer and/or the Dealers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

### ***United Kingdom***

Each Dealer has advised and each further Dealer appointed under the Program will be required to advise that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the “**FSMA**”)) received by it



in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA, with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

### **Belgium**

No action has been taken or will be taken in Belgium to permit a public offer of the Notes in accordance with the Belgian Act of 16 June 2006 on the public offer of securities and admission of securities to trading on a regulated market (the “**Belgian Prospectus Act**”) or a takeover bid in accordance with the Belgian Act of 1 April 2007 on takeover bids (*i.e.*, the Belgian Takeover Act) and no Notes may be offered or sold to persons in Belgium unless either such persons are qualified investors within the meaning of Article 10 of the Belgian Prospectus Act or one or more other exemptions available under Article 3 of the Belgian Prospectus Act and Article 6 (3) of the Belgian Takeover Act apply.

### **Brazil**

The Notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or the “**CVM**”). The Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or an unauthorized distribution under Brazilian laws and regulations. The Notes are not being offered into Brazil. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any public offer for subscription or sale of the Notes to the public in Brazil.

### **British Virgin Islands**

The bonds may not be offered or sold in the British Virgin Islands, except in circumstances that do not constitute a public offering or distribution to the public under the laws and regulations of the British Virgin Islands.

### **Canada**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

### **Chile**

The offer of the Notes is subject to General Rule No. 336 of the *Superintendencia de Valores y Seguros* (the Chilean Securities Commission or “**SVS**”). The Notes being offered will not be registered under the Securities Market Law in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, we are not required to disclose public information about the Notes in Chile. Accordingly, the Notes cannot and will not be offered or sold to persons in Chile unless they are registered in the corresponding securities registry, except in circumstances which have not resulted and will not result in a public offering under Chilean law and in compliance with General Rule No. 336 of the SVS.

*La oferta de los bonos nuevos se acoge a la Norma de Carácter General N°336 de la SVS. Los bonos que se ofrecen no están inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores*

*Extranjeros que mantiene la SVS, por lo que tales valores no están sujetos a la supervisión de dicha SVS. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de divulgar información pública respecto de estos valores en Chile. En virtud de lo anterior, los bonos no podrán ser objeto de oferta pública o venta en Chile en tanto los mismos no sean inscritos en el Registro de Valores correspondiente, excepto en circunstancias en las que no se tenga como resultado una oferta pública de conformidad con las leyes aplicables de Chile y la Norma de Carácter General N°336 emitida por la SVS.*

### **Colombia**

The Notes have not been and will not be registered with or approved by the Superintendence of Finance of Colombia (*Superintendencia Financiera de Colombia*) or the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Accordingly, the Notes cannot be offered or sold in Colombia except in compliance with the applicable Colombian securities regulations.

### **France**

Neither this Offering Memorandum nor any other offering material relating to the Notes described in this Offering Memorandum has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Offering Memorandum nor any other offering material relating to the Notes has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Notes to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Notes may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

### **Hong Kong**

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (cap.32, laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (cap.571, laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (cap.32, laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the securities and futures ordinance (cap. 571, laws of Hong Kong) and any rules made thereunder.

### **Ireland**

The Notes will not and may not be offered, sold, transferred or delivered, whether directly or indirectly, otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish

Companies Act, 1963-2006, and the Notes will not and may not be the subject of an offer in Ireland which would require the publication of a prospectus pursuant to Article 3 of Directive 2003/71/EC.

### ***Japan***

The Notes have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the Notes nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any “resident” of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

### ***Luxembourg***

In relation to the Grand Duchy of Luxembourg (“**Luxembourg**”), which has implemented the Prospectus Directive by the law of 10 July 2005 *relative aux prospectus pour valeurs mobilières* (the “**Prospectus Law**”), the Notes which are subject of the offering contemplated by the this Offering Memorandum may not be offered to the public in Luxembourg, except that the Notes may be offered to the public in Luxembourg:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Law); or
- any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 5 of the Prospectus Law.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in Luxembourg means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes and the expression “Prospectus Directive” means Directive 2003/71/EC.

### ***Netherlands***

In the Netherlands, this Offering Memorandum may only be directed or distributed to, and the Notes may only be offered or sold to, qualified investors (*gekwalficeerde beleggers*) within the meaning of article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### ***Peru***

The Notes and the information contained in this Offering Memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*) or the SMV and the Notes have not been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

### ***Singapore***

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes

be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA, except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), or to any person arising from an offer referred to in Section 275(1A), or Section 276(4)(i)(B) of the SFA; (ii) where no consideration is or will be given for the transfer; (iii) where the transfer is by operation of law; (iv) as specified in Section 276(7) of the SFA; or (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore Securities and Futures Act Product Classification—Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### ***Switzerland***

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Offering Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

### ***Uruguay***

The Issuer represents and agrees that it has not offered or sold, and will not offer or sell, any securities to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The sale of any series of securities hereunder is not and will not be registered with the Central Bank of Uruguay to be publicly offered in Uruguay.

### **Other Matters**

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the price to investors specified in the applicable Pricing Supplement.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for such transactions.

Because BBVA Securities Inc., a Dealer under the Program, is under common control with the Bank, a conflict of interest under Financial Industry Regulatory Authority, Inc. (“FINRA”) Rule 5121 is deemed to exist. Accordingly, an offering of the Notes in which BBVA Securities participates will be conducted in accordance with this rule. Pursuant to FINRA Rule 5121, BBVA Securities Inc. will not confirm sales to any account over which it exercises discretionary authority without the specific prior written approval of the account holder.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the Dealers or their affiliates has a lending relationship with us, certain of those Dealers or their affiliates routinely hedge, and certain other of those Dealers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes issued under the Program. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin for the approval of this document as base listing particulars and for Notes issued under the Program to be admitted to the Official List and trading on the Global Exchange Market for a period of twelve months from the date of this base listing particulars. The Global Exchange Market is not a regulated market for the purposes of MiFID II. There is no assurance that any series of Notes will be listed and admitted to trading on the Global Exchange Market. The Notes may also be listed and traded on other non-EU regulated markets or not be listed at all.

Each series of Notes will constitute a new issue of securities with no established trading market. The Bank cannot assure you that an active trading market for the Notes will develop. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes, the ability of holders to sell the Notes or the prices at which the Notes could be sold. Because the market for any series of Notes may not be liquid, you may have to bear the economic risk of an investment in the Notes for an indefinite period of time. If an active trading market does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Bank's performance and business prospects and other factors.

The Dealers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the Dealers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the Dealers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

**These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.**

Unless otherwise provided in the applicable Pricing Supplement, we have agreed that we will not, for a period of 30 days after the date of the pricing term sheet for the applicable Series of Notes, without the prior written consent of the relevant Dealers, directly or indirectly, sell, contract to sell, grant any option to purchase, or otherwise dispose of any debt securities of similar maturity, terms and conditions as such Notes that have tenor of more than one year, or any securities that represent the right to receive any such debt securities (other than under the Bank's *Programa de Emisión de Certificados Bursátiles* (Program for the Issuance of the Certificates) Revolving Bond Program pursuant to which the Bank may issue up to Ps.20 billion of indebtedness with maturities up to 35 years or any structured securities).

## **GENERAL INFORMATION**

### **Clearing Systems**

We have applied to have the Notes accepted for trading in book-entry form by DTC. In addition, application may be made to have the Notes accepted for clearance through Euroclear and Clearstream.

### **Listing**

Application has been made to Euronext Dublin for the approval of this Offering Memorandum as listing particulars.

The Notes will not be registered with RNV maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to investors that qualify as institutional and accredited investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for statistical and informational purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this Offering Memorandum.

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Notes to the Official List of the Irish Stock Exchange and trading on its Global Exchange Market.

### **Trend Information**

There has been no material adverse change in the prospects of the Bank since December 31, 2019.

### **Legal and Arbitration Proceedings**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during a period covering at least the previous 12 months, which may have, or have had in the recent past, significant effects on the Bank's financial position or profitability.

### **Significant Change in Financial or Trading Position**

There has been no significant change in the financial or trading position of the Bank since December 31, 2019.

### **Documents on Display**

For so long as the Notes are listed on the Global Exchange Market, copies of the following items will be available in physical form for inspection at our principal executive offices, as well as at the corporate trust office of the Trustee, paying agent, transfer agent and registrar, as such address is listed on the inside back cover page of this Offering Memorandum:

- this Offering Memorandum;
- the applicable Pricing Supplement;
- the Bank's Bylaws and Articles of Association;
- a copy of the license of the Texas Agency issued by the State of Texas, pursuant to Section 204.103 of the Texas Finance Code;
- the Senior Notes Indenture or any Subordinated Notes Indenture, as applicable, each as may be amended or supplemented from time to time;
- our published annual audited consolidated financial statements;
- any published quarterly unaudited consolidated financial statements; and
- any other documents related to each offering of the Notes.

**Administrative, Management and Supervisory Bodies' Conflicts Of Interests**

Except as otherwise disclosed herein, there are no potential conflicts of interest between the duties of the members of our Board of Directors and their private interests and/or other duties.

**Authorization**

We have obtained all necessary consents, approvals and authorizations in connection with establishment of the Program.

## **LEGAL MATTERS**

Unless otherwise specified in the applicable Pricing Supplement, the validity of the Notes will be passed upon for us by Galicia Abogados, S.C., Mexican counsel to the Bank, Simpson Thatcher & Bartlett LLP, New York counsel to the Bank, and Morgan, Lewis & Bockius LLP, Texas special counsel to the Bank, and certain legal matters will be passed upon for the Dealers by White & Case LLP, New York counsel to the Dealers, and Ritch, Mueller, Heather y Nicolau, S.C., special Mexican counsel to the Dealers.



## **INDEPENDENT AUDITORS**

The consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and its subsidiaries as of December 31, 2019 and 2018 and for the years then ended and as of December 31, 2018 and 2017 and for the years then ended, included herein, have been audited by KPMG Cardenas Dosal, S.C., independent auditors, as stated in their reports appearing herein.

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**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)

# 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.

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
<p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>- tests of design and implementation of key internal controls and test of operating effectiveness over selective samples.</li> <li>- 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.</li> <li>- through selective tests, substantive test of details procedures were carried out, mainly aimed at recalculating the allowance for loan losses of selected items.</li> </ul>
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
<p>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.</p> <p>Therefore, we have determined the valuation of these financial instruments as a key audit matter.</p>	<p>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.</p>

(Continued)

Risks associated to technology (IT)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The Bank operates through a complex IT environment with different processing centers.</p> <p>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.</p> <p>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.</p>	<p>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.</p>

#### 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.

### **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)

<b>Assets</b>	<b>2019</b>	<b>2018</b>	<b>Liabilities and stockholders' equity</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents (note 4)	\$ 148,372	232,851	Deposits funding (note 18):		
Margin accounts (note 5)	18,329	10,548	Demand deposits	\$ 923,191	864,651
Investment securities (note 6):			Time deposits:		
Trading	281,900	263,419	General public	236,263	222,013
Available-for-sale	147,741	124,201	Money market	17,807	22,498
Held-to-maturity	33,827	22,641	Debt securities issued	85,852	88,162
	463,468	410,261	Global deposit account without movements	4,507	3,565
Debtors on repurchase/resale agreements (note 7)	8,044	66		1,267,620	1,200,889
Derivatives (note 8):			Banks and other borrowings (note 19):		
Trading	109,377	125,804	Demand loan	7,414	-
Hedging	10,932	14,813	Short-term	7,040	9,425
	120,309	140,617	Long-term	7,564	8,436
Valuation adjustments related to financial assets hedged	1,310	(518)		22,018	17,861
Current loan portfolio (note 9):			Creditors on repurchase/resale agreements (note 7)	226,861	203,713
Commercial loans:			Securities lending	1	1
Business and commercial activities	507,622	498,432	Sold/pledged collaterals (note 7):		
Financial institutions	33,162	30,898	Securities lending	47,577	39,438
Government entities	143,725	129,178	Derivatives (note 8):		
	684,509	658,508	Trading	127,913	129,005
Consumer loans	300,302	273,234	Hedging	8,388	9,072
Residential mortgages:				136,301	138,077
Medium class and residential	222,023	197,825	Valuation adjustments related to financial liabilities hedged	3,042	1,485
Low income housing loans	9,190	10,752	Other accounts payable:		
	231,213	208,577	Income tax payable (note 23)	3,765	519
Total current loan portfolio	1,216,024	1,140,319	Employee statutory profit sharing (ESPS) payable	2	2
Past due loan portfolio (note 9):			Creditors on settlement of transactions	67,358	101,467
Commercial loans:			Creditors on cash received as collateral (note 8)	10,318	27,302
Business and commercial	9,518	8,015	Sundry creditors and other accounts payable	28,044	36,729
Consumer loans	10,341	9,034		109,487	166,019
Residential mortgages:			Subordinated bonds issued (note 21)	95,061	99,029
Medium class and residential	7,033	5,603	Deferred credits and advance payments	7,754	7,524
Low income housing loans	562	622	Total liabilities	1,915,722	1,874,036
	7,595	6,225	Stockholders' equity (note 24):		
Total past due loan portfolio	27,454	23,274	Paid-in capital:		
Loan portfolio	1,243,478	1,163,593	Capital stock	24,143	24,143
Less:			Additional paid-in capital	15,860	15,860
Allowance for loan losses (note 11)	(35,411)	(31,811)		40,003	40,003
Total loan portfolio, net	1,208,067	1,131,782	Earned capital:		
Benefits receivable on securitizations transactions (note 12)	25	87	Statutory reserves	6,901	6,901
Other accounts receivable, net (note 13)	94,054	76,778	Retained earnings	121,029	106,475
Foreclosed assets, net (note 14)	1,438	1,759	Unrealized valuation of available-for-sale securities	(84)	(2,246)
Property, furniture and equipment, net (note 15)	38,459	40,169	Unrealized valuation of cash flow hedge derivatives	(113)	(106)
Permanent investments (note 16)	815	534	Cumulative translation effect	440	440
Deferred income tax and ESPS, net (note 23)	20,992	16,667	Remeasurements of employees benefit	(2,602)	(3,342)
Other assets (note 17):			Net income	49,254	46,060
Deferred charges, prepayments and intangibles	6,906	6,658		174,825	154,182
Total assets	\$ 2,130,588	2,068,259	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)

<b>Memorandum accounts</b>	<b>2019</b>	<b>2018</b>
Contingent assets and liabilities	\$ 730	658
Credit commitments (note 9)	<u>632,810</u>	<u>588,114</u>
Assets in trust or under mandate:		
In trust	\$ 426,149	414,525
Under mandate	<u>24,269</u>	<u>24,257</u>
	<u>\$ 450,418</u>	<u>438,782</u>
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	<u>3,243,969</u>	<u>3,570,501</u>
Historical stockholders' equity	<u>\$ 4,248</u>	<u>4,248</u>

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**

\_\_\_\_\_  
Adolfo Arcos González  
General Director of Internal Audit

**SIGNATURE**

\_\_\_\_\_  
Luis Ignacio De la Luz Dávalos  
General Director of Finance

**SIGNATURE**

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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 income**

Years ended December 31, 2019 and 2018

(Millions of Mexican pesos)

	<b>2019</b>	<b>2018</b>
Interest income (note 28)	\$ 201,558	188,632
Interest expense (note 28)	<u>(72,056)</u>	<u>(65,720)</u>
Net interest income	129,502	122,912
Allowance for loan losses (note 11)	<u>(35,713)</u>	<u>(32,299)</u>
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	<u>(63,250)</u>	<u>(59,168)</u>
Net operating income	66,714	63,250
Equity in the income of unconsolidated subsidiaries and associated companies (note 16)	<u>31</u>	<u>36</u>
Income before income tax	66,745	63,286
Current income tax (note 23)	(22,779)	(18,734)
Deferred income tax, net (note 23)	<u>5,288</u>	<u>1,510</u>
Income before non-controlling interest	49,254	46,062
Non-controlling interest	<u>-</u>	<u>(2)</u>
Net income	<u>\$ 49,254</u>	<u>46,060</u>

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**

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Eduardo Osuna Osuna  
General Director

**SIGNATURE**

\_\_\_\_\_  
Adolfo Arcos González  
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**and Subsidiaries**

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)

	<b>Paid-in capital</b>		<b>Earned capital</b>									
	<b>Capital stock</b>	<b>Additional paid-in capital</b>	<b>Statutory reserves</b>	<b>Retained earnings</b>	<b>Unrealized valuation of available-for-sale securities</b>	<b>Unrealized valuation of cash flow hedge derivatives</b>	<b>Cumulative translation effect</b>	<b>Remeasurements of employees' defined benefit plans</b>	<b>Net income</b>	<b>Majority stockholders' equity</b>	<b>Non controlling interest</b>	<b>Total stockholders' equity</b>
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**

Eduardo Osuna Osuna  
General Director

**SIGNATURE**

Luis Ignacio De la Luz Dávalos  
General Director of Finance

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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)

	<b>2019</b>	<b>2018</b>
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
	<u>71,519</u>	<u>69,515</u>
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	<u>(46,109)</u>	<u>46,881</u>
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	<u>(3,951)</u>	<u>(4,792)</u>
Net cash flows used in financing activities - Payment of cash for dividends	<u>(31,506)</u>	<u>(26,322)</u>
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	<u>232,851</u>	<u>217,126</u>
Cash and cash equivalents at the end of the year	<u>\$ 148,372</u>	<u>232,851</u>

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

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Notes to the consolidated financial statements  
Years ended December 31, 2019 and 2018  
(Millions of Mexican pesos, except otherwise noted)

**(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.

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-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).



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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:

<u>Company</u>	<u>Participation in Consolidation</u>	<u>Location</u>	<u>Activity</u>
-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. <sup>(1)</sup>	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.

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- *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.

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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.

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– *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.

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- 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.



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- 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.

**(I) 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 than 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:

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

For purposes of the above:

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

$$Total\ Credit\ Score_i = \alpha \times (Quantity\ Credit\ Score_i) + (1 - \alpha) \times (Quality\ Credit\ Score_i)$$

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Where:

*Quantity Credit*

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

*Qualitative credit*

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

$\alpha$  = It is the relative weight of the quantitative credit score.

*Unsecured loans-*

The LGD<sub>i</sub> 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<sub>i</sub> 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:

$$EAD_i = S_i$$

- II. For other credit lines:

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

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:

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

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  $P_i$  will be determined according to the following formula:

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

For such purposes:

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

$$Total\ Credit\ Score_j = \alpha \times (Quantitative\ Credit\ Score_j) + (1 - \alpha) \times (Qualitative\ Credit\ Score_j)$$

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.

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<i>IB</i>	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
<i>IC</i>	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.
<i>I/A</i>	Local unemployment rate + presence of financial services of regulated entities.
<i>I/B</i>	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:

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

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		
		to	
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		
		to	
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.

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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.

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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.

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**(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.

<b>Allowance for personal property</b>	
<b>Time elapsed as of the repossession or Payment-in-kind (months)</b>	<b>Allowance percentage</b>
Up to 6	0%
More than 6 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%

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**Allowance for real estate property**

<b>Time elapsed as of the repossession or Payment-in-kind (months)</b>	<b>Allowance percentage</b>
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:

	<b>Rate</b>
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.

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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.

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**(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".



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**(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.

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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.

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**(4) Cash and cash equivalents-**

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

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

(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:

	<b>Mexican pesos</b>		<b>U.S. Dollars</b>		<b>Total</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
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
	<u>\$ 1,801</u>	<u>54,352</u>	<u>41,982</u>	<u>30,700</u>	<u>43,783</u>	<u>85,052</u>

(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.

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	<b>Balance in foreign currency (millions)</b>		<b>Mexican peso equivalent</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
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			<u>\$ 66,623</u>	<u>125,517</u>
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			<u>\$ (56,413)</u>	<u>(79,459)</u>

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:

<b>Counterparty</b>	<b>Market Value</b>
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	<u>\$ 9,914</u>

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.

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a. Trading Securities

Instrument	2019				2018
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	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				Total acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
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

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Instrument	2018				Total acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
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
BONDES	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			2018	
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	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
BONDES	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

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

Instrument	Acquisition cost	2019			2018
		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	—
BONDES	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	<u>\$ 26,151</u>	<u>23</u>	<u>(13)</u>	<u>26,161</u>	<u>17,864</u>

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

Instrument	Acquisition cost	2019			2018
		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)
BONDES	—	—	—	—	(132)
UDIBONOS	(2,963)	—	6	(2,957)	(650)
Total	<u>\$ (30,495)</u>	<u>(40)</u>	<u>12</u>	<u>(30,523)</u>	<u>(12,171)</u>

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).

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b. Available-for-sale

Instrument	2019			2018	
	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 <sup>(1)</sup>	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
	<u>\$ 145,441</u>	<u>1,389</u>	<u>911<sup>(2)</sup></u>	<u>147,741</u>	<u>124,201</u>

<sup>(1)</sup> BREMS R are part of the monetary regulation deposit (DMR) (note 4).

<sup>(2)</sup> 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:

Instrument	2019				Total Acquisition cost
	Less than 1 month	Between 1 and 3 months	More than 3 months	Without fixed term	
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	<u>\$ 552</u>	<u>377</u>	<u>116,026</u>	<u>535</u>	<u>117,490</u>



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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 <sup>(1)</sup>	—	—	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				2018
	Acquisition cost	Accrued interest	Increase (decrease) valuation	Carrying amount	Carrying amount
Fixed-rate bonds	\$ 21,722	4	(195)	21,531	19,000
Securitization certificates	—	—	—	—	1,042
CETES	—	—	—	—	3,218
BREMS R <sup>(1)</sup>	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

<sup>(1)</sup> 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			2018
	Acquisition cost	Accrued interest	Carrying amount	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

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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 or 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:

Instrument	2019			2018		
	Asset	Liability	Debit difference	Asset	Liability	Debit difference
	Receivable under repurchase agreement	Sold/pledged Collateral		Receivable under repurchase agreement	Sold/pledged Collateral	
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

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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:

Instrument	2019			2018		
	Memorandum accounts		Liability	Memorandum accounts		Liability
	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

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	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
	<u>\$2,782,726</u>	<u>2,785,927</u>	<u>125,804</u>	<u>129,005</u>

*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
	<u>\$ 105,281</u>	<u>102,737</u>	<u>10,932</u>	<u>8,388</u>	<u>2,544</u>

	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
	<u>\$ 109,680</u>	<u>103,939</u>	<u>14,813</u>	<u>9,072</u>	<u>5,741</u>

- 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:*

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

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

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**Hedging:**

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

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

**Trading:**

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

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

**Hedging:**

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

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

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

<sup>(1)</sup> OTC (Over the Counter) equivalent to Non-Organized Markets

<sup>(2)</sup> 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
Interest rates			Notional amount			
	Peso <sup>(1)</sup>		\$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
Equity				641,989	645,868	(3,879)
	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%.

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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)
				<u>\$ 621,987</u>	<u>613,511</u>	<u>8,476</u>
			Notional amount			
Interest rates	Peso <sup>(1)</sup>		\$ 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
				<u>658,990</u>	<u>658,703</u>	<u>287</u>
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				<u>\$ 1,280,973</u>	<u>1,272,335</u>	<u>8,638</u>

<sup>(1)</sup> 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)
				<u>62,746</u>	<u>60,872</u>	<u>1,874</u>
			Notional amount			
Interest rates	Peso <sup>(1)</sup>		\$ 36,734	14,077	14,646	(569)
	U.S. dollar		78,576	25,773	24,405	1,368
				<u>39,850</u>	<u>39,051</u>	<u>799</u>
				<u>\$ 102,596</u>	<u>99,923</u>	<u>2,673</u>

<sup>(1)</sup> 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%.

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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
			<b>Notional amount</b>			
Interest rates	Peso <sup>(1)</sup>		\$ 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

<sup>(1)</sup> 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:

Collateral received in cash in derivative transactions	2019			2018
	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
Interam 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
	<u>\$ 10,296</u>	<u>22</u>	<u>10,318</u>	<u>27,302</u>



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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.

<b>2019</b>				
	<b>Carrying amount</b>		<b>Balance</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Acquired options	\$ 259	—	259	—
Sold options	—	493	—	493
Swaps	1,610	1,668	159	217
	<u>\$ 1,869</u>	<u>2,161</u>	<u>418</u>	<u>710</u>

<b>2018</b>				
	<b>Carrying amount</b>		<b>Balance</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Acquired options	\$ 550	—	550	—
Sold options	—	586	—	586
Swaps	10,253	9,671	2,067	1,485
	<u>\$ 10,803</u>	<u>10,257</u>	<u>2,617</u>	<u>2,071</u>

**e.1. Embedded options (Underlying):**

*Trading:*

				<b>2019</b>		
		<b>Underlying</b>		<b>Nominal amount</b>	<b>Fair value</b>	
Purchases	OTC options	U.S. dollars		\$ 2,029	4	
		Indexes		22,815	255	
					<u>\$ 259</u>	

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

				<b>2018</b>		
		<b>Underlying</b>		<b>Nominal amount</b>	<b>Fair value</b>	
Purchases	OTC options	U.S. dollars		\$ 1,778	23	
		Indexes		48,485	527	
					<u>\$ 550</u>	

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

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e.2 Embedded swaps (Underlying)

*Trading:*

		<b>2019</b>			
<b>Underlying</b>	<b>Currency</b>	<b>Notional amount</b>	<b>Market value receivable</b>	<b>Market value payable</b>	<b>Fair value</b>
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)
			<u>\$ 1,610</u>	<u>1,668</u>	<u>(58)</u>
		<b>2018</b>			
<b>Underlying</b>	<b>Currency</b>	<b>Notional amount</b>	<b>Market value receivable</b>	<b>Market value payable</b>	<b>Fair value</b>
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
			<u>\$ 10,253</u>	<u>9,671</u>	<u>582</u>

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.

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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) <sup>(1)</sup> and <sup>(2)</sup>	Variable flows from DRM fluctuation of exchange rate in estimated expense cash flows	15 IRS FIXED/TIIE	Jun-20	<u>\$ (32)</u>	6 months	<u>\$ 174</u>	<u>\$ (69)</u>	Interest margin from cash and cash equivalents	Restricted cash	<u>\$ —</u>
Expenses and investment hedge in USD and EUR <sup>(2)</sup>	Change from fixed currency to domestic fixed currency	19 FWD SALE USD/MXN 9 FWD SALE EUR/MXN	Jun-20	<u>\$ (129)</u>	6 months	<u>\$ (172)</u>	<u>\$ (257)</u>	Expenses Interest margin from investments in securities	Property, plant and equipment, advertising, computing	<u>\$ —</u>
Cash flow hedge UMS USD and EUR	Change from fixed currency to domestic fixed currency	13 CCS FIXED/USD FIXED	Jan-25	<u>\$ 188</u>	62 months	<u>\$ —</u>	<u>\$ —</u>	Expenses Interest margin from investments in securities	Restricted cash	<u>\$ —</u>

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

<sup>(2)</sup> 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.

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**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 <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup> and <sup>(3)</sup>	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 <sup>(2)</sup>	Fixed rate on USD, EUR, UDI	33 CCS V/F	2025	\$ (322)	\$ (246)	\$ 251	Investments in securities	\$ –
Hedge of corporate bonds <sup>(2)</sup>	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	\$ –

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

<sup>(3)</sup> 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.

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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) <sup>(1) and (2)</sup>	Variable flows from DRM	15 IRS FIXED/TIE 19 FWD SALE USD/MXN	Jun-20	<u>\$ (206)</u>	18 months	<u>\$ 68</u>	<u>\$ (10)</u>	Interest margin from cash and cash equivalents	Restricted cash	<u>\$ —</u>
Expenses and investment hedge in EUR <sup>(2)</sup> and USD	Fluctuation of exchange rate in estimated expense cash flows	9 FWD SALE EUR/MXN	Sep-19	<u>\$ 43</u>	8 months	<u>\$ (343)</u>	<u>\$ 6</u>	Expenses	Property, plant and equipment, advertising, computing	<u>\$ —</u>

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

<sup>(2)</sup> 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.

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**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 <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup>	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 <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate on V/F notes	27 CCS F/V	2024	\$ 1,832	\$ 479	\$ (479)	Outstanding subordinated obligations	\$ –
Hedge of corporate bonds <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate on USD, EUR, UDI	41 CCS V/F	2025	\$ (342)	\$ (121)	\$ 111	Investments in securities	\$ –
Hedge of corporate bonds <sup>(2)</sup>	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	\$ –

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

<sup>(3)</sup> 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.

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**(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.

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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		Total
	Current	Past due <sup>(1)</sup>	Current	Past due	
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		Total
	Current	Past due <sup>(1)</sup>	Current	Past due	
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

<sup>(1)</sup> 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



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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:

<b>2019</b>					
<b>Period</b>					
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 days to 2 years</b>	<b>Collateral</b>	<b>Total</b>
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	<u>\$ 14,472</u>	<u>6,711</u>	<u>7,766</u>	<u>(1,495)</u>	<u>27,454</u>

<b>2018</b>					
<b>Period</b>					
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 to 2 years</b>	<b>Collateral</b>	<b>Total</b>
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	<u>\$ 14,364</u>	<u>5,762</u>	<u>4,442</u>	<u>(1,294)</u>	<u>23,274</u>

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:

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

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

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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:

	<b>2019</b>	<b>2018</b>
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	<u>\$ 24,166</u>	<u>20,459</u>

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

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

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:

<b>Type of loan</b>	<b>2019</b>			<b>2018 Total</b>
	<b>Interest</b>	<b>Commission</b>	<b>Total</b>	
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	<u>61,783</u>	<u>1,242</u>	<u>63,025</u>	<u>58,705</u>
Consumer loans				
Credit cards	30,928	41	30,969	29,985
Other consumer loans	38,298	782	39,080	34,156
Total Consumer loans	<u>69,226</u>	<u>823</u>	<u>70,049</u>	<u>64,141</u>
Mortgage loans	22,876	41	22,917	20,908
Total, see note 28	<u>\$ 153,885</u>	<u>2,106</u>	<u>155,991</u>	<u>143,754</u>

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

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	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	<u>\$ 1,243,478</u>	<u>100.00%</u>	<u>\$ 1,163,593</u>	<u>100.00%</u>

***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:

Originating trust	Special CETES			Special CETES "C"		
	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		<u>\$ 17,089</u>			<u>\$ 18</u>	

***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.

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*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.

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<b>2019</b>					
<b>Risk category</b>	<b>Total loans</b>	<b>Allowances</b>			<b>Total allowances</b>
		<b>Commercial</b>	<b>Consumer</b>	<b>Mortgage</b>	
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	<u>\$ 1,317,464</u>	<u>9,111</u>	<u>22,151</u>	<u>4,149</u>	<u>35,411</u>

<b>2018</b>					
<b>Risk category</b>	<b>Total loans</b>	<b>Allowances</b>			<b>Total allowances</b>
		<b>Commercial</b>	<b>Consumer</b>	<b>Mortgage</b>	
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	<u>\$ 1,241,309</u>	<u>7,963</u>	<u>20,446</u>	<u>3,402</u>	<u>31,811</u>

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:

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

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**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 <sup>(1)</sup>	37,180	33,837
Applications, write-offs and others	(33,552)	(33,620)
Exchange rate fluctuations	(35)	(2)
Other expenses <sup>(2)</sup>	7	-
Balance at the end of the year	<u>\$ 35,411</u>	<u>31,811</u>

- (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.

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	Trusts				
	711 <sup>(*)</sup>	752 <sup>(*)</sup>	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
			55,090,14		
Securitized debt certificates issued	25,404,498	11,143,185	1	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 ( <i>certificate</i> )	\$ 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:

No. of Trust	847		711 <sup>(*)</sup>	752 <sup>(*)</sup>
	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 <sup>(a)</sup>	\$ 61,044	51,685
Loans to officers and employees <sup>(b)</sup>	14,455	12,879
Sundry debtors	7,363	4,458
Collateral provided through OTC derivatives <sup>(c)</sup>	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.



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

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

(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
	<u>\$ 9,727</u>	<u>10</u>	<u>9,737</u>	<u>6,315</u>

**(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
	<u>4,727</u>	<u>5,212</u>
Allowance for impairment of foreclosed assets	(3,289)	(3,453)
Total	<u>\$ 1,438</u>	<u>1,759</u>

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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	<u>\$ 3,289</u>	<u>3,453</u>

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	<u>\$ 2,885</u>	<u>2,886</u>

**(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
	<u>60,175</u>	<u>58,225</u>
Less- Accumulated depreciation and amortization	(21,716)	(18,056)
Total	<u>\$ 38,459</u>	<u>40,169</u>

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:

Entity	Participation		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. <sup>(1)</sup>	50.00%	50.00%	181	167
Fideicomiso FIMPE	28.50%	28.50%	50	76
Other investments recognized at cost	Various	Various	104	100
Total			<u>\$ 815</u>	<u>\$ 534</u>

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.

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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.

<sup>(1)</sup>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 <sup>(1)</sup> net	\$ 4,352	4,556
Prepaid expenses	2,140	1,715
Other expenses pending amortization	414	387
Total	\$ 6,906	6,658

<sup>(1)</sup> 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.

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**(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 <sup>(a)</sup>	85,852	88,162
Inactive deposits global account	4,507	3,565
Total	<u>\$1,267,620</u>	<u>1,200,889</u>

<sup>(a)</sup> 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	<u>\$ 85,852</u>			<u>\$ 88,162</u>		

**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.

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		<u>MXN</u>		<u>Rate in average %</u>		<u>Average term (days)</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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
		=====	=====	=====	=====	=====	=====
						<u>Average term (years)</u>	
						<u>2019</u>	<u>2018</u>
Long term:							
FIRA	\$	7,063	7,945	7.57	8.10	5	5
Fondo de Operación y							
Financiamiento Bancario							
a la Vivienda (FOVI)		<u>61</u>	<u>85</u>	7.75	9.69	25	25
		=====	=====	=====	=====	=====	=====
	\$	7,124	8,030				
		=====	=====				
						<u>US Dollars</u>	
		<u>MXN equivalent</u>		<u>Rate in average %</u>		<u>Average term (days)</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Loans to other entities:							
Short term:							
FIRA	\$	982	1,480	2.78	3.32	211	193
Instituto de Crédito Oficial (ICO)		-	<u>18</u>	-	1.50	-	182
		=====	=====	=====	=====	=====	=====
	\$	982	1,498				
		=====	=====				
						<u>Average term (years)</u>	
						<u>2019</u>	<u>2018</u>
Long term:							
ICO	\$	52	72	1.50	1.50	2	2
FIRA		<u>388</u>	<u>334</u>	3.02	3.58	5	5
		=====	=====	=====	=====	=====	=====
	\$	440	406				
		=====	=====				
		<u>Total amounts</u>					
		<u>2019</u>	<u>2018</u>				
On demand	\$	7,414	-				
Short term		7,040	9,425				
Long term		<u>7,564</u>	<u>8,436</u>				
		=====	=====				
	\$	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.

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**(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.

<b>2019</b>						
<b>Other retirement benefits</b>						
<b>Pension plan and seniority premium</b>	<b>Comprehensive medical service</b>	<b>Benefit upon Death</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	<b>Total</b>	
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
<b>2019</b>						
<b>Other retirement benefits</b>						
<b>Pension plan and seniority premium</b>	<b>Comprehensive medical service</b>	<b>Benefit upon Death</b>	<b>Retiree sports club</b>	<b>Legal compensation</b>	<b>Total</b>	
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)

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	2019				
	Other retirement benefits				Total
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation
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)
Net interest on net (liabilities) assets for defined benefits:					
Interest cost of defined benefit obligations	(397)	(644)	(76)	(1)	(1)
PA interest income	273	568	102	-	-
Reclassification of remeasurement of net (liabilities) assets by defined benefit to be recognized in OCI:					
Gains on defined benefit obligation	(104)	(106)	20	-	-
PA profits	(37)	(82)	(18)	-	-
Income (cost) of defined benefits	<u>\$ (265)</u>	<u>(264)</u>	<u>28</u>	<u>(1)</u>	<u>(2)</u>

	2019				
	Other retirement benefits				Total
	Pension plan and seniority premium	Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation
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	-
(Loss) gain on the obligation	(581)	(822)	(90)	(3)	-
Reclassification of remeasurement on the obligation	104	106	(20)	-	-
End balance - (loss) gain on the obligation	<u>(1,848)</u>	<u>(1,875)</u>	<u>155</u>	<u>-</u>	<u>-</u>
Initial balance - (loss) gain on return of assets	(493)	(898)	(242)	-	-
Gain (loss) in return of PA	37	82	18	-	-
Reclassification of remeasurement in PA return	546	1,207	220	-	-
End balance - (loss) gain on the obligation	<u>90</u>	<u>391</u>	<u>(4)</u>	<u>-</u>	<u>-</u>
End balance - net (loss) gain recognized in OCI	<u>\$ (1,758)</u>	<u>(1,484)</u>	<u>151</u>	<u>-</u>	<u>-</u>

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2018						
	Pension plan and seniority premium	Other retirement benefits				Total
		Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	
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						
	Pension plan and seniority premium	Other retirement benefits				Total
		Comprehensive medical service	Benefit upon Death	Retiree sports club	Legal compensation	
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)



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	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:

	<b>2019</b>	<b>2018</b>
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%

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**(21) Subordinated debt-**

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

	<u>2019</u>	<u>2018</u>
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	<u>1,680</u>	<u>1,756</u>
Total	<u>\$ 95,061</u>	<u>99,029</u>

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**(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:

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

<sup>(1),(2)</sup>See explanation in the next page.

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

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

<sup>(2)</sup> 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:

	<u>2019</u>		<u>2018</u>	
	<u>Tax</u>	<u>Rate</u>	<u>Tax</u>	<u>Rate</u>
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:

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

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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 Base	Deferred IT	Temporary differences Base	Deferred IT	Variation 2019
<u>Deferred tax assets:</u>					
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 derivatives (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
<u>Deferred tax liabilities:</u>					
	-	-	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.

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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
			<u>\$ 24,143</u>

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).

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*Basic capital:*

<b>Item</b>	<b>Amount</b>
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)
<b>Total</b>	<b>\$ 207,988</b>

The main components of the obligations are shown below:

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

*Supplementary capital*

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

<b>Item</b>	<b>Amount</b>	<b>Maturity date</b>	<b>Calculation percentage</b>	<b>Weighted average (basic capital)</b>
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.....	<u>14,148</u>	13/09/2034	100%	<u>14,148</u>
<b>Total</b>	<b>\$ 65,085</b>			<b>\$45,275</b>

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



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– *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.

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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.

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	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

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	<b>2018</b>		
	<b>Pesos</b>	<b>US Dollars MXN equivalent</b>	<b>Total</b>
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
<b>Total interest income</b>	<b>174,644</b>	<b>13,988</b>	<b>188,632</b>
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)
<b>Total interest expense</b>	<b>(61,019)</b>	<b>(4,701)</b>	<b>(65,720)</b>
<b>Net interest income</b>	<b>\$113,625</b>	<b>9,287</b>	<b>122,912</b>

**(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:

	<b>2019</b>	<b>2018</b>
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
<b>Total</b>	<b>\$ 46,763</b>	<b>43,569</b>

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:

	<b>2019</b>	<b>2018</b>
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)
<b>Total</b>	<b>\$ (17,875)</b>	<b>(15,739)</b>

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**(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:

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

**(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
	<u>129,964</u>	<u>81,756</u>	<u>41,416</u>	<u>3,738</u>	<u>3,054</u>
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	<u>\$ 49,254</u>				

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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 Controllershship 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**

>60 million MXN

>=50 million and <60 million USD

**Segment**

Enterprises

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.

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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
	<u>\$ 498</u>	<u>442</u>	<u>383</u>

	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.

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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%

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

<b>Portfolio</b>	<b>SVE Red flag use</b>	<b>SMF Red flag use</b>
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.

<b><u>Portfolio</u> *</b>	<b><u>Percentage</u></b>
Commercial	0.5%
Consumer	4.6%
Mortgage	0.5%

<b><u>Portfolio</u> *</b>	<b><u>PDs</u></b>	<b><u>Severity</u></b>
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.

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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.

$$\text{EAD} = \text{Disposed Balance} + \text{CCF1} * \text{Undisposed Balance} + \text{CCF2} * \text{Limits}$$

*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.

$$CA_i = \frac{C_i}{C_i} \cdot (1 - H_c^i - H_{FX}^i) \cdot \frac{(t - 0.25)_i}{T - 0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure ( $E^*$ ) is a cyclical process in which each iteration is incorporated into a new collateral ( $CA_i$ ) 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.

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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
<b>Total</b>	<b>\$ 71,153</b>	<b>768,010</b>	<b>438,681</b>	<b>39.55%*</b>	<b>1.88%*</b>	<b>\$ 22,804</b>	<b>231,158</b>
	=====	=====	=====	=====	=====	=====	=====

\* 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%
<b>Total</b>	<b>\$ 122,727</b>	<b>117,126</b>	<b>159,762</b>	<b>76.8%*</b>	<b>7.8%*</b>
	=====	=====	=====		

\* 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.

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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.



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- 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.

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<i>Mexican pesos in millions</i>	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	<u>\$ 107,564</u>	<u>91,576</u>	<u>295,143</u>	<u>125,397</u>	<u>1,207,344</u>	<u>—</u>	<u>1,827,024</u>
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	<u>—</u>	<u>409,905</u>	<u>98,809</u>	<u>33,485</u>	<u>134,197</u>	<u>1,150,628</u>	<u>1,827,024</u>
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.

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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.

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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.

<b>Liquidity Coverage Ratio</b>	<b>Unweighted amount</b>	<b>Weighted amount</b>
<b>Computable liquid assets</b>		
Total computable liquid assets	\$ —	279,603
<b>Cash outflows</b>		
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
<b>Cash inflows</b>		
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%

- Calendar days provided for in the quarter that is disclosed. The reported quarter includes 92 calendar days.
- Main causes of the results of Liquidity Coverage Ratio and the evolution of their main components.

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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	<u>145.59%</u>	<u>138.18%</u>	<u>138.13%</u>	<u>148.77%</u>	<u>145.96%</u>

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	<u>145.67%</u>	<u>138.25%</u>	<u>7.42%</u>

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	<u>\$ 279,602</u>	<u>\$ 284,890</u>	<u>\$ (5,288)</u>
	=====	=====	=====

\* 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.

<u>Sources of financing (December 2019)</u>	<u>% of total liabilities</u>
Deposits funding	73%
Collateralized financing	14%
Securities	5%
Subordinate obligations	6%
Money market	1%
Interbank	<u>1%</u>
Total	100%
	=====

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*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:

<u>Description</u>	<u>4Q-19</u>
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.

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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 Controllershship, GRO Paris and Internal Control Specialists  
The Internal Controllershship 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 Controllershship and authorized by the Board of Directors at the behest of the Audit Committee.

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- 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:

<b><u>Business lines</u></b>	<b><u>% Applicable to each business line</u></b>
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



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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:

	<b>2019</b>	<b>2018</b>
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.

<b><u>Ratings Agency</u></b>	<b><u>Global Scale ME</u></b>		<b><u>Domestic Scale</u></b>		<b><u>Perspective</u></b>
	<b><u>Long Term</u></b>	<b><u>Short Term</u></b>	<b><u>Long Term</u></b>	<b><u>Short term</u></b>	
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).

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**(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:

<b>Initial balance 2019</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance 2019</b>
\$466	360	(196)	630
<b>Initial balance 2018</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance 2018</b>
\$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 claims against the Institution in labor actions for the 2019 and 2018, is shown as follows:

<b>Initial balance 2019</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance 2019</b>
\$719	128	(164)	683
<b>Initial balance 2018</b>	<b>Reserve</b>	<b>Application</b>	<b>Ending balance 2018</b>
\$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 outputs 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.

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- 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.

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- 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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Grupo Financiero BBVA Bancomer  
**and subsidiaries**

Consolidated financial statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)



# Independent Auditors' Report

(Translation from Spanish Language Original)

## 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, 2018 and 2017, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of 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

(note 11 of the consolidated financial statements)

Key audit matter	How the key audit matter was addressed in our audit
<p>In the case of the commercial credit portfolio, allowance for loan losses involves significant judgments for the evaluation of debtors' payment capacity, considering the various factors established in Bank's internal methodologies authorized by the Commission for the commercial credit portfolio rating process.</p> <p>As well, we consider as a key audit matter, the reliability in the documentation and updating thereof, which serves as an input for the determination of the allowance for loan losses for residential mortgages and credit card portfolio, based on Bank's internal methodologies authorized by the Commission.</p>	<p>The audit procedures applied to the determination of the allowance for loan losses and their effect on the results of the year determined by Management, included among others:</p> <ul style="list-style-type: none"> <li>- design and operating effectiveness tests on selective samples of key internal controls.</li> <li>- evaluation through selective tests, both the inputs used and the calculation mechanics for credit portfolios based on the internal methodology authorized by the Commission, with the support of our credit risk specialists.</li> <li>- through selective tests, detailed substantive procedures were carried out, mainly aimed at recalculating the allowance for loan losses.</li> </ul>

### Derivative financial instruments not listed on recognized markets with complex valuation models

(note 8 of the consolidated financial statements)

Key audit matter	How the key audit matter was addressed in our audit
<p>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.</p>	<p>As part of our audit procedures, 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.</p>

(Continued)



Risks associated to technology (IT)	
Key audit matter	How the key audit matter was addressed in our audit
<p>The Bank operates through a complex IT environment with different processing centers.</p> <p>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.</p> <p>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.</p>	<p>According to our audit methodology and through our IT specialists, the evaluation 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.</p>

#### 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, 2018, 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.

(Continued)

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

Management is responsible for the preparation of these consolidated financial statements in accordance with the Accounting Criteria for Financial 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.
- 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 Bank's audit. We remain solely responsible for our audit opinion.

(Continued)

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

We also provide 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.

## **RÚBRICA**

Hermes Castañón Guzmán

México City, February 28, de 2019.

**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, 2018 and 2017

(Millions of Mexican pesos)

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

<b>Assets</b>	<b>2018</b>	<b>2017</b>	<b>Liabilities and stockholders' equity</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents (note 4)	\$ 232,851	217,126	Deposits funding (note 18):	\$ 864,651	835,427
Margin accounts (note 5)	10,548	14,359	Demand deposits		
Investment securities (note 6):			Time deposits:		
Trading	263,419	285,970	General public	222,013	198,542
Available-for-sale	124,201	130,137	Money market	22,498	39,060
Held-to-maturity (note 9)	22,641	14,664	Debt securities issued	88,162	86,280
			Global deposit account without movements	3,565	3,324
	410,261	430,771		1,200,889	1,162,633
Debtors on repurchase/resale agreements (note 7)	66	76	Banks and other borrowings (note 19):		
Derivatives (note 8):			Short-term	9,425	9,164
Trading	125,804	122,524	Long-term	8,436	8,216
Hedging	14,813	16,034		17,861	17,380
	140,617	138,558	Creditors on repurchase/resale agreements (note 7)	203,713	225,828
Valuation adjustments related to financial assets hedged	(518)	286	Securities lending	1	2
Current loan portfolio (note 9):			Collaterals sold or pledged (note 7):		
Commercial loans:			Resale/repurchase agreements (creditor balance)	-	1
Business and commercial activities	498,432	452,669	Securities lending	39,438	50,719
Financial institutions	30,898	27,899		39,438	50,720
Government entities	129,178	124,264	Derivatives (note 8):		
	658,508	604,832	Trading	129,005	134,985
Consumer loans	273,234	257,669	Hedging	9,072	11,363
Residential mortgages:				138,077	146,348
Medium class and residential	197,825	181,286	Valuation adjustments related to financial liabilities hedged	1,485	3,629
Low income housing loans	10,752	12,547	Other accounts payable:		
	208,577	193,833	Income tax payable (note 23)	519	-
Total current loan portfolio	1,140,319	1,056,334	Employee statutory profit sharing (ESPS) payable	2	2
Past due loan portfolio (note 9):			Creditors on settlement of transactions	101,467	65,683
Commercial loans:			Creditors on cash received as collateral (note 8)	27,302	24,394
Business and commercial	8,015	6,366	Sundry creditors and other accounts payable	36,729	37,720
Consumer loans	9,034	9,703		166,019	127,799
Residential mortgages:			Subordinated bonds issued (note 21)	99,029	78,966
Medium class and residential	5,603	5,913	Deferred credits and advance payments	7,524	7,908
Low income housing loans	622	763			
	6,225	6,676	Total liabilities	1,874,036	1,821,213
Total past due loan portfolio	23,274	22,745	Stockholders' equity (note 24):		
Loan portfolio	1,163,593	1,079,079	Paid-in capital:		
Less:			Capital stock	24,143	24,143
Allowance for loan losses (note 11)	(31,811)	(31,596)	Additional paid-in capital	15,860	15,860
Total loan portfolio, net	1,131,782	1,047,483		40,003	40,003
Benefits receivable on securitizations transactions (note 12)	87	159	Earned capital:		
Other accounts receivable, net (note 13)	76,778	80,160	Statutory reserves	6,901	6,901
Foreclosed assets, net (note 14)	1,759	2,602	Retained earnings	106,475	93,654
Property, furniture and equipment, net (note 15)	40,169	41,349	Unrealized valuation of available-for-sale securities	(2,246)	(2,067)
Permanent investments (note 16)	534	1,235	Unrealized valuation of cash flow hedge derivatives	(106)	122
Deferred income tax and ESPS, net (note 23)	16,667	14,931	Cumulative translation effect	440	440
Other assets (note 17):			Remeasurements of employees benefit	(3,342)	(2,459)
Deferred charges, prepayments and intangibles	6,658	7,891	Net income	46,060	39,143
Total assets	\$ 2,068,259	1,996,986		154,182	135,734
			Total controlling interest	194,185	175,737
			Non-controlling interest	38	36
			Total stockholders' equity	194,223	175,773
			Total liabilities and stockholders' equity	\$ 2,068,259	1,996,986

(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, 2018 and 2017

(Millions of Mexican pesos)

<b>Memorandum accounts</b>	<b>2018</b>	<b>2017</b>
Contingent assets and liabilities	\$ 658	565
Credit commitments (note 9)	<u>588,114</u>	<u>566,652</u>
Assets in trust or under mandate:		
In trust	\$ 414,525	419,391
Under mandate	<u>24,257</u>	<u>24,197</u>
	<u>\$ 438,782</u>	<u>443,588</u>
Assets in custody or under management	\$ 183,836	182,857
Collaterals received by the Bank (note 7)	45,855	57,648
Collaterals received and sold		
or pledged by the Institution (note 7)	40,437	53,821
Investment banking operations on behalf		
of third parties, net	1,231,184	1,212,812
Uncollected interest accrued on		
non-performing loans	6,066	4,832
Other memorandum accounts	<u>3,570,501</u>	<u>3,305,997</u>
Historical stockholders' equity	<u>\$ 4,248</u>	<u>4,248</u>

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."

**RÚBRICA**

\_\_\_\_\_  
Eduardo Osuna Osuna  
General Director

**RÚBRICA**

\_\_\_\_\_  
Natalia Ortega Gómez  
General Director of Internal Audit

**RÚBRICA**

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General Director of Finance

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**and subsidiaries**

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

Consolidated statements of income

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

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

	<b>2018</b>	<b>2017</b>
Interest income (note 28)	\$ 188,632	167,665
Interest expense (note 28)	<u>(65,720)</u>	<u>(54,656)</u>
Net interest income	122,912	113,009
Allowance for loan losses (note 11)	<u>(32,299)</u>	<u>(34,071)</u>
Net interest income adjusted for loan losses allowance	90,613	78,938
Commissions and fee income (note 29)	43,569	39,361
Commissions and fee expense (note 29)	(15,739)	(13,540)
Financial intermediation income (note 30)	3,471	4,627
Other operating income	504	1,251
Administrative and promotional expenses	<u>(59,168)</u>	<u>(57,608)</u>
Net operating income	63,250	53,029
Equity in the income of non-consolidated subsidiaries and associated companies (note 16)	<u>36</u>	<u>34</u>
Income before income tax	63,286	53,063
Current income tax (note 23)	(18,734)	(13,864)
Deferred income tax, net (note 23)	<u>1,510</u>	<u>(55)</u>
Income before non-controlling interest	46,062	39,144
Non-controlling interest	<u>(2)</u>	<u>(1)</u>
Net income	\$ <u><u>46,060</u></u>	<u><u>39,143</u></u>

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."

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General Director

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Director of Corporate Accounting

**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 statements of changes in stockholders' equity

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

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

	<b>Paid-in capital</b>		<b>Earned capital</b>							<b>Majority stockholders' equity</b>	<b>Non controlling interest</b>	<b>Total stockholders' equity</b>
	<b>Capital stock</b>	<b>Additional paid-in capital</b>	<b>Statutory reserves</b>	<b>Retained earnings</b>	<b>Unrealized valuation of available-for-sale securities</b>	<b>Unrealized valuation of cash flow hedge derivatives</b>	<b>Cumulative translation effect</b>	<b>Remeasurements of employees' defined benefit plans</b>	<b>Net income</b>			
Balances as of December 31, 2016	\$ 24,138	15,726	6,881	82,742	(3,967)	141	440	(467)	33,311	158,945	37	158,982
Changes resulting from stockholders' resolutions:												
Appropriation of prior year's net income	-	-	-	33,311	-	-	-	-	(33,311)	-	-	-
Share issued (Merger of Hipotecaria Nacional, S. A. de C. V., SOFOM E.R.)	5	134	20	24	-	-	-	-	-	183	-	183
Dividends declared (note 24 (a))	-	-	-	(21,438)	-	-	-	-	-	(21,438)	-	(21,438)
Total	5	134	20	11,897	-	-	-	-	(33,311)	(21,255)	-	(21,255)
Changes related to the recognition of comprehensive income (note 2 (e)):												
Net income	-	-	-	-	-	-	-	-	39,143	39,143	(1)	39,142
Valuation effects of available-for-sale securities	-	-	-	-	1,900	-	-	-	-	1,900	-	1,900
Unrealized valuation of cash flow hedge derivatives	-	-	-	-	-	(19)	-	-	-	(19)	-	(19)
Recognition of allowance for loan losses due to change in credit rating methodology	-	-	-	(985)	-	-	-	-	-	(985)	-	(985)
Remeasurements of employees' defined benefit plans	-	-	-	-	-	-	-	(1,992)	-	(1,992)	-	(1,992)
Total	-	-	-	(985)	1,900	(19)	-	(1,992)	39,143	38,047	(1)	38,046
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

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."

**RÚBRICA**

Eduardo Osuna Osuna  
General Director

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Luis Ignacio De la Luz Dávalos  
General Director of Finance

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Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer  
**and subsidiaries**

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

Consolidated statements of cash flows

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

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

	<b>2018</b>	<b>2017</b>
Net income	\$ 46,060	39,143
Items not requiring cash flows:		
Net impairment effect from investment activities	731	-
Depreciation of property, furniture and equipment	3,164	3,207
Amortization of intangible assets	2,542	2,222
Provisions	(172)	2,506
Current and deferred income tax	17,224	13,919
Equity in income of non-consolidated subsidiaries and associated companies	(36)	(34)
Non-controlling interest	2	1
	<u>69,515</u>	<u>60,964</u>
Operating activities:		
Change in margin accounts	3,807	(5,478)
Change in investment securities	20,234	(28,796)
Change in debtors on repurchase/resale agreements	10	442
Change in derivatives (asset)	(3,280)	26,433
Change in loan portfolio, net	(84,396)	(63,157)
Change in benefits receivable on securitization transactions	71	39
Change in foreclosed assets, net	842	1,264
Change in other operating assets, net	4,780	299
Change in deposit funding	38,360	135,390
Change in bank and other borrowings	482	(1,744)
Change in creditors on resale/repurchase agreements	(22,116)	(38,657)
Change in collateral sold or pledged	(11,282)	16,304
Change in derivatives (liabilities)	(5,979)	(13,043)
Change in subordinated bonds issued with liabilities characteristics	20,110	(10,377)
Change in other operating liabilities	34,928	(2,758)
Change in hedging instruments (from hedged items related to operating activities)	(2,685)	2,039
Payments of income taxes	(16,520)	(15,901)
Net cash provided by operating activities	<u>46,881</u>	<u>63,263</u>
Investment activities:		
Proceeds from property, furniture and equipment disposals	595	649
Payments for property, furniture and equipment acquisitions	(2,580)	(2,642)
Collections from subsidiaries and associates sold	5	2
Collections of cash dividends	2	-
Payments on acquisition of intangible assets	(2,814)	(2,710)
Net cash flows used in investing activities	<u>(4,792)</u>	<u>(4,701)</u>
Financing activities:		
Collections from shares issued	-	6
Payments of cash dividends	(26,322)	(23,903)
Net cash flows used in investing activities	<u>(26,322)</u>	<u>(23,897)</u>
Net increase in cash and cash equivalents	15,767	34,665
Effects of changes in cash and cash equivalents	(42)	(4,288)
Cash and cash equivalents at the beginning of the year	<u>217,126</u>	<u>186,749</u>
Cash and cash equivalents at the end of the year	<u>\$ 232,851</u>	<u>217,126</u>

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."

**RÚBRICA**

Eduardo Osuna Osuna  
General Director

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General Director of Internal Audit

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Sergio Rafael Pérez Gaytán  
Director of Corporate Accounting



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

Notes to the consolidated financial statements

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos, except otherwise noted)

**(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 Financial Institutions Law (*Ley de Instituciones de Crédito*) (the "Law"), and the Accounting Criteria to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Sociedades Controladoras de Grupos Financieros*) (the "Provisions") which regulate any matters corresponding to the National Banking and Securities Commission (the "Commission"), and it focus on among others, receipt 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 Bank's financial information and ordering any modifications thereto.

The main regulatory aspects require that the Multiple 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 Bank satisfactorily complies.

The Bank does not have employees, except for the General Director, 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 28 February, 2019, Eduardo Osuna Osuna, General Director, Luis Ignacio de la Luz Dávalos, General Director of Finance, Natalia Ortega Gómez, General Director on Internal Audit, and Sergio Rafael Pérez Gaytán, Director of Corporate Accounting, authorized the issuance of the accompanying consolidated financial statements and the notes thereto (hereinafter, the "financial statements").

The Bank's shareholders and the Commission are authorized to amend the financial statements after their issuance. The accompanying 2018 financial statements will be submitted to the next Shareholders' Meeting for approval.

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

**Basis of presentation**

**a) Declaration of compliance**

The Bank's financial statements have been prepared in accordance with the accounting criteria for Banking Institutions in Mexico (the "accounting criteria") established by the Commission. The Commission is responsible for inspecting and supervising financial groups 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 (Normas de Información Financiera) (NIF) issued by the Mexican Board for Research and Development of Financial Reporting Standards, (Consejo Mexicano de Normas de Información Financiera, A. C.) ("CINIF" for its Spanish acronym), any absence shall be supplied as established in NIF A-8. Any supplementary standard that belongs to any other regulatory scheme may only be used if the International Financial Reporting Standards (IFRS) referred to in NIF A-8 do not establish an accounting criterion, provided that all requirements established in the NIF are met. The supletoriety should follow the next order: generally accepted accounting principles in the United States of America (USGAAP) 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) Functional and reporting currency**

The aforementioned financial statements are presented in the Bank'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 "\$" means millions of Mexican pesos, and references to "dollars" or "USD" means millions of U.S. dollars.

**c) Use of judgment and estimates**

The preparation of the financial statements, requires Management to make a number of 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 in the next page.

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

-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 properties, furniture and equipment- Impairment tests of fixed assets values, including the key assumptions for determining the recoverable amount of those assets.  
 -Note 20 – Labor obligations: 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 at December 31, 2018 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 properties, 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.

**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 and derivative financial instruments are recognized in the financial statements on the trade date, regardless of the settlement date.

**e) Comprehensive income**

This caption it is composed by the net result of the year plus other items that represent a gain or loss in the same year, which, according to the accounting practices followed by the Bank, are presented directly in the stockholders' equity without the requirement to present an 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 employee's defined benefits plans.

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

**(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, except as explained in note 3 (I) (iii).

***Amendments to accounting criteria issued by the Commission***

On December 27, 2017, the Commission published in the Official Gazette of the Federation a resolution that amends the General Provisions Applicable to Credit Institutions that should be applied from January 1 2019, being able to be applied in advance once the Institution makes the Commission aware of. Among these modifications there are some of the follow:

- Any recovery derived from loan portfolio contracts that were previously written off or eliminated according to the “Provisions”, shall be recognized in the year results under the allowance for loan losses item. Until December 31, 2017, recoveries would be recognized under the “Other operating income (expenses)” item.
- When the allowance for loan losses account balance had exceeded the amount required by the “Provisions”, the differential shall be canceled in the period in which those changes occur recognizing it in the year results, in the same item that originated it initially, therefore, the allowance for loan losses account. Until December 31, 2017, cancelations would be recognized under the “Other operating income (expenses)” item.

The institution let the Commission know in respect of the advanced application of these amendments on May 3, 2018, so the recoveries of loan portfolio contracts that were previously written off or eliminated as of December 31, 2018, were recognized under the allowance for loan losses item, prospectively (see note 9)

**(a) Recognition of the effects of inflation-**

The Bank’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 Bank 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), a unit used to measure inflation and whose value is established by the Central Bank.

Percentages of inflation measured through the value of the UDI for years ended on December 31, 2018, 2017 and 2016 were 4.92%, 6.68% and 3.38%, respectively; therefore, annual accrued inflation of the last three years before December 31, 2018 and 2017 was 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 the inflation until December 31, 2007 are recorded in the consolidated balance sheet as of December 31, 2018 and 2017.

**(b) Principles of consolidation-**

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

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

The subsidiaries consolidated with the Institution as of December 31, 2018 and 2017, are detailed as follows:

<b><u>Company</u></b>	<b><u>Participation in Consolidation</u></b>	<b><u>Location</u></b>	<b><u>Activity</u></b>
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., SOFOM, E. R. <sup>(1)</sup>	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) As of September 2018, the Financiera Ayudamos, S. A. de C. V., SOFOM, E. R. has suspended the granting of its credit products to the public and has initiated the orderly closure of operations and retail branches to focus and centralize its operation mainly to the recovery of assets as of December 31, 2018. As of the date of the issuance of the financial statements, the Management's action plans will be among others, request the Commission to revoke authorization to operate as a "sociedad financiera de objeto multiple" (SOFOM), to continue focusing its activity on current customer's service until the recovery of the loan portfolio, and comply with its liabilities in the established terms as the liquidation of the Company begins, which is estimated to be completed during the second half of 2019 by the administration. As long as the Company continues to be a regulated SOFOM, the corresponding procedures are completed and the Company is liquidated, it will continue to comply with the Provisions applicable to regulated SOFOMs. As of 31 December 2018 and 2017, total assets amount to \$272 and \$500, and stockholders' equity to \$237 and \$444, respectively. For the years ended December 31, 2018 and 2017, the loss and Net income amounted to \$127 and \$135, respectively.

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**(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 in 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. Also includes bank borrowings with original maturities of up to three days ("Call Money"), and monetary regulation deposits in 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 the rural financial entity", 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.

The cash and cash equivalents are recognized at nominal value. For the currencies in dollars, the exchange rate for the translation is the one published by the Central Bank on the same day in accordance with the rules established by the Commission. As of the date of the financial statements, gain 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 sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions", respectively.

**(e) Margin accounts-**

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

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For those margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or shares, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged 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 derived from transactions with 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 Bank on their ownership.

- *Trading securities:*

Trading securities are those 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, and then at fair value using prices provided by an independent price vendor, whose valuation effect is included in the consolidated statement of income under the heading "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 Bank 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 for the year in the same period in which the right to receive the related payment is generated.

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*Transfers between categories:*

Transfers from the category of "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 Commission authorization.

During the years ended December 31, 2018 and 2017, there were no transfers between categories.

*Impairment:*

The Bank 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, 2018 and 2017, the Institution's management has not identified that there is 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 "Assigned values to be settled" caption.

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

Repurchase agreements are recorded as follows:

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 agreements, 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 agreements, the payable accounts are valued at amortized cost and the corresponding accrued interest is recorded in the results for 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 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.



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*Acting as a buyer on repurchase agreements-*

Acting the Institution as a buyer, on the date of contracting the repurchase agreement transaction, 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 will be 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's recognized in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9, "Custody and Administration of Assets" (B-9) until the maturity date of the repurchase/resale agreement.

When the buyer sells the 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 for its sale, 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 then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed 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 are transactions in which the transfer of securities is agreed 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 contracting date of the securities lending, when the Institution acts as lender, it records the security subject matter of the lending 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 that guarantees the securities loaned is recorded in memorandum accounts.

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

When it acts as the borrower, at the contracting date of the securities loan, the Institution 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".

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The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of "Collateral received" by the Institution. The collateral received from other transactions are presented under the caption of "Collaterals sold or pledged".

**(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 "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 qualification and, where appropriate, authorization of risk exposure lines by each one of the counterparts of the financial system that have been authorized by the Central Bank for the execution of this type of operations is required. Prior to carrying out these transactions with corporate customers, a credit line authorized must be granted by the Credit Risk Committee or provide readily realizable guarantees 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 consolidated 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 those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Financial intermediation income".

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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 "Net gain on financial assets and liabilities".

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

In the consolidated balance sheet, the heading 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 in 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 issue 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 options purchased 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 options purchased, 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 options sold, 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.

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*Hedging transactions-*

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

- 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 of the period under the heading "Financial intermediation income".
- b. If they are cash flow hedges, the hedge derivative is measured at fair and the valuation of the effective part of the hedge is recorded in the account "Result from valuation of cash flow hedges" in stockholders' equity. The ineffective part is recorded in results of the period under the heading "Financial intermediation income".
- c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders' equity and the ineffective portion is recognized in results.

*Embedded derivatives-*

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

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar, the reference underlying's are considered to be 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 over-the-counter markets is presented under the heading "Other accounts receivable, net", whereas the account payable generated for the reception of collateral provided in cash is presented under the heading "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 interests prepaid in advance. The "Allowance for loan losses" is presented as a deduction from the total loan portfolio balance.

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The Institution classifies its portfolio under the following captions:

- 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 lease transactions 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"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-business purposes; includes equity loans guaranteed by the home of the borrower 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.

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*Non-performing loan portfolio-*

- Loans with a single payment of principal and interest at maturity are considered non-performing 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 90 days after interest is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 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 of clients that don't have 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 of time (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 in the next page occurs.

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- 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 portfolio until there is evidence of sustained payment. This includes for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, 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 portfolio, including those loans, which, in accordance with the respective contract, capitalize interest to the 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 heading "Interest income".

With regards to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, 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, if applicable, 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.

In the event that the transaction generates interest, it will be recognized as accrued.

The amount 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.

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

- a) Derecognizes 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) Recognizes 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.

Beginning in 2018, recoveries of loan portfolio contracts that were previously written off or eliminated, are recognized under the allowance for loan losses item.

**(I) Allowance for loan losses -**

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

**i) Commercial loan portfolio-**

*Business and comercial-*

For the commercial portfolio classified in the groups denominated "Large Companies" (evidenced by annual sales over 50 million dollars) and "Companies" (annual sales over 60 million pesos and below 50 million dollars), respectively, the Commission approved to the Institution the application of internal rating models to determine the allowance for loan losses with an advanced approach, through official communications 121-1/116843/2014 y 121-1/116844/2014 dated April 21, 2014, which are reviewed annually according to the Regulation.

Likewise, by means of official communications 121-1/118708/2016 and 121-1/118709/2016 dated February 5, 2016, the Commission approved the re-estimation (calibration) of the internal models mentioned in the preceding paragraph for the commercial portfolio groups of Large Companies and Companies, respectively.

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

Probability of Default (PD) - It is 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.



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

Exposure at default (EAD) - This variable is 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 than for Large Companies and Companies*

For rating the commercial portfolio other than the one corresponding to Large Companies and Companies groups, the Institution considers the PD, LGD and EAD factors, according to the Provisions, 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  $i$ th loan.

$PD_i$  = Probability of Default of the  $i$ th loan.

$LGD_i$  = Severity of the Loss on the  $i$ th loan.

$EAD_i$  = Exposure to Default on the  $i$ th loan.

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

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

For purposes of the above:

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

$$Total\ Credit\ Score_i = \alpha \times (Quantity\ Credit\ Score_i) + (1 - \alpha) \times (Quality\ Credit\ Score_i)$$

Where:

*Quantity Credit*

$score_i (QCSt_i)$  = Is the score obtained for the  $i$ th borrower when evaluating the risk factors according to the Regulation.

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*Qualitative credit*

*score<sub>j</sub> (QCSI<sub>j</sub>)* = Is the score obtained for the *in*th borrower when evaluating the risk factors according to the Regulation.

$\alpha$  = Is the relative weight of the quantitative credit score.

*Unsecured loans-*

The LGD<sub>i</sub> 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<sub>i</sub> 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:

$$EAD_i = S_i$$

- II. For other credit lines:

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

Where:

*S<sub>i</sub>*=

The outstanding balance of the *in*th 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.

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*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 Provisions, as follows:

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

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

Where:

$R_i$  = The amount of the allowance for loan losses to be created for the  $i$ th loan.  
 $PD_i$  = Probability of Default of the  $i$ th loan.  
 $LGD_i$  = Severity of the Loss of the  $i$ th loan.  
 $EAD_i$  = Exposure to Default of the  $i$ th loan.

The  $P_i$  will be determined according to the following formula:

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

For such purposes:

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

$$Total\ Credit\ Score_i = \alpha \times (Quantitative\ Credit\ Score_i) + (1 - \alpha) \times (Qualitative\ Credit\ Score_i)$$

Where:

$PCCT_i$  = Quantitative Credit Score =  $IA + IB + IC$   
 $PCCT_i$  = Qualitative Credit Score =  $IIA + IIB$   
 $\alpha$  = 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.

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- 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 LGDi 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<sub>i</sub> will be determined based on the following:

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

Where:

$S_i =$

The outstanding balance of the *i*th 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.

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*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 nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the Commission are 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 following percentages:

<b><u>Risk Level</u></b>	<b><u>Percentages Ranges loss Reserves</u></b>	
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 communications 121-1/1813/2018 dated on 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.

As of December 31, 2018, for rating mortgage loan portfolio, the Institution considers an expected loss model for the next 12 months according to the following:

- PD = it is 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 = it is 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 time of non-compliance by the borrower.

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- EAD - this variable is determined considering the amount of the drawn down 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:

<b><u>Level of risk</u></b>	<b><u>Allowance Percentage Range for Loan Losses</u></b>		
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%

Until November 30, 2018, the Institution would determine the allowance based on the methodology considering PD, LGD and EAD factors according to the Provisions and the description below:

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

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

Where:

- PD<sub>i</sub> = The amount of the allowance for loan losses to be created for the inth loan.
- LGD<sub>i</sub> = Probability of Default of the inth loan.
- EAD<sub>i</sub> = Severity of the Loss of the inth loan.
- El<sub>i</sub> = Exposure to Default of the inth loan.

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For rating housing mortgage portfolio, the Institution would consider a loss model according to the following:

- PD = a percentage of 100% was considered for the portfolio with 4 or more defaults. However, when if the portfolio had less than 4 delays, a different percentage was considered depending on risk coefficients with specific values established in the Provisions, incorporating for their determination the borrower's payment behavior variables -within the Institution and other entities of the Mexican Financial System-, except for loans of mortgage portfolio allocated to housing remodeling or improvement with associated guarantees, where Provisions included specific aspects for such loans.
- LGD = it was obtained depending on the loan recovery rate, considering a percentage of 100% for delays equal to or greater than 60 days. However, for loans with delays less than 60 days, a different percentage was considered depending on cure coefficients with specific values established in the Provisions, incorporating for their determination, variables such as an unemployment insurance, the borrower's payment behavior, guarantees for the property, except for loans of mortgage portfolio allocated to housing remodeling or improvement with associated guarantees, where Provisions included specific aspects for such loans.
- EAD = it corresponded to the principal and interest balance of each loan part of the mortgage loan portfolio.

If the allowance for mortgage loan losses had been determined under the previously mentioned methodology by the 2018 year end, a lower allowance amount would have been recorded by \$962.

**iv) Non-revolving consumer portfolio-**

Pursuant to Resolution issued by the Commission on January 6, 2017 on changes to the methodology applicable to non-revolving consumer loan portfolio, as from July 1, 2017, the Institution determines reserves under this new methodology, which considers PD, LGD and EAD factors, according to the Provisions and the description 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  $i$ th loan.
- $PD_i^x$  = Probability of default of the  $i$ -th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
- $LGD_i^x$  = Loss Given Default of the  $i$ -th loan, classified as ABCD (B), automobile (A), payroll (N), personal (P), other (O).
- $EAD_i^x$  = Exposure to Default of the  $i$ -th loan.
- $X$  = Super index that indicates the loan type corresponding to ABCD (B), automobile (A), payroll (N), personal (P), other (O).

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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 y O), depending on the delays, incorporating in their determination risk coefficients with specific values established in the Provisions 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 y 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:

<b><u>Level of risk</u></b>	<b><u>Allowance Percentage Range for Loan Losses</u></b>		
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 an internal allowance for loan losses credit card rating model with advanced approach per Document 111-1/69930/2009 on June 22, 2009.

Likewise, by means of official communication 121-1/775/2017 dated February 13, 2017, the Commission approved the use of the rating internal system for revolving consumer loans, considering for the estimation of parameters information up to 2015, which have been applied by the Institution as from February 2017.

For rating revolving consumer portfolio, the Institution considers an expected loss model for the next 12 months according to what is mentioned in the next page.



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- PD = it is 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 = it is estimated through the cash flows discount of delinquent exposures recovered at different times, estimated to be recovered, adjusted for the guarantee and period of time of noncompliance by the borrower.
- EAD - this variable is 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:

<b><u>Level of Risk</u></b>	<b><u>Allowance Percentage Ranges for Loan Losses</u></b>		
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%		

As of December 31, 2018 and 2017, the rating and creation of the allowance for loan losses of the consumer loan portfolio is performed with figures as of the last day of each month and is presented to the Commission at the latest as of the 30 days following the month rated, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to loans that are classified within non-performing portfolio.

***vii) Additional reserves-***

Until November 30, 2018, additional mortgage loan allowances set up by the Institution would address the differences between the models established by the Commission in the accounting criteria, and the internal models that consider the application of specific percentages for PD and LGD variables, according to an expected loss model.

***viii) Restructuring and renewal processes-***

A restructuring process is a transaction derived from any of the following situations, mentioned in the next page.

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- 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

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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.

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

By securitizing the mortgage loan portfolio with transfer of 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 small 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 flows from the Trust after payment of the certificates to their holders.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, registered in the National Securities Register of the 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 Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission, applicable as of that date.

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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 above, the Institution, has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752 and 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 trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 12.

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

Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (depends on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the probability of recovery, except of the 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 are recognized on the date on which the foreclosure ruling is issued.

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

On the recording date of the foreclosed assets or assets received through 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 Provisions.

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If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in results of the year 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 "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 heading "Other operating income (expenses)".

Considering the foregoing, and in observance of the Provisions, the determination of the allowance for personal property or real property foreclosed or received in payment over a period of time, is computed based on the tables shown as follows, depending on the type of property in question.

<b>Allowance for personal property</b>	
<b>Time elapsed as of the repossession or Payment-in-kind (months)</b>	<b>Allowance percentage</b>
Up to 6	0%
More than 6 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%

<b>Allowance for real estate property</b>	
<b>Time elapsed as of the repossession or Payment-in-kind (months)</b>	<b>Allowance percentage</b>
Up to 12	0%
More than 6 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, furniture and equipment, net-**

Are 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 is 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 in the next page.

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	<b><u>Rate</u></b>
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%
ATM's	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 estimate is recognized initially recorded on a prospective basis.

Maintenance and minor repair expenses are recognized in results for 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 as a consequence 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 for 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.

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**(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.

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 recorded originally at the face value incurred, and those acquired prior to year 2008 were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from UDIs.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the rate from 20% to the restated expense.

**(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 is recognized in the statement of income on an accrual basis.

**(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 personal.

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

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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 annual 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 other administrative expenses.

All remeasurement resulting from any differences between the projected and actual actuarial hypotheses by the end of the period, are recognized in the period where they are incurred in as part of the OCI within stockholders' equity.

**(x) Accruals-**

They 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 determined 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 for 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.



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*Interest income-*

Interest income comprise returns generated by the loan portfolio, depending on the terms established in agreements entered into with the borrowers and agreed upon interest rates, earned interest income in capital lease transactions, amortization of interest collected in advance, as well as interest from deposits 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 for 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 "Deferred credits and prepayments", and are amortized to earnings under "Interest income", using the straight-line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

*Interest expense-*

Interest expense is comprised of the bank deposit's premiums, 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-*

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred credit that is amortized to results 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.

The 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.

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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 for the year under the heading "Commissions and fees collected".

**(aa) Memorandum accounts-**

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities 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:*

These represent the value of property received in trust, all information concerning the management of each being kept in separate accounts. The mandate is recorded at the goods stated value subject to the mandate agreements entered into by the Institution.

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

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

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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 entity:*

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 entity:*

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 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, 2018 and 2017, the other memorandum accounts present a balance of \$3,570,501 and \$3,305,997, respectively, which comprise mainly collaterals 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-**

At December 31, 2018 and 2017, cash and cash equivalents are comprised as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Cash in hand	\$	50,098	56,257
Banks		85,052	111,331
Restricted cash:			
Foreign currency purchases <sup>(2)</sup>		125,517	73,145
Foreign currency sales <sup>(2)</sup>		(79,459)	(65,589)
Deposits at Central Bank <sup>(1)</sup>		40,275	40,263
Other restricted cash funds		501	579
Bank and other borrowings (call money) <sup>(3)</sup>		9,914	-
Other cash and cash equivalents		<u>953</u>	<u>1,140</u>
Total	\$	232,851	217,126
		=====	=====

(1) (2) and (3) See explanations in the next two pages.

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Banks include deposits in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of \$19.6512 and \$19.6629 pesos per one U.S. dollar, as of December 31, 2018 and 2017, respectively, and are comprised as follows:

	<b>Mexican pesos</b>		<b>U.S. Dollars (in Mexican pesos)</b>		<b>Total</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Deposits with foreign banks	\$ 583	906	29,895	95,821	30,478	96,727
Central Bank	<u>53,769</u>	<u>13,446</u>	<u>805</u>	<u>1,158</u>	<u>54,574</u>	<u>14,604</u>
	\$ 54,352	14,352	30,700	96,979	85,052	111,331
	=====	=====	=====	=====	=====	=====

- (1) As of December 31, 2018 and 2017 the deposits with Central Bank includes Institution's Monetary Regulation Deposits in Central Bank ("DRM" from its Spanish acronym), which amount to \$40,275 and \$40,263, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which purpose Central Bank will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the 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 Provisions establish that the DRM may be comprised of cash, securities or both.

At December 31, 2018 and 2017, the Institution holds BREMS R for the amount of \$32,685 and \$32,682, respectively, which form part of the DRM. These amounts are recorded as restricted under the heading of "Investments in securities" in the category of securities available-for-sale (note 6.b.), this is as a consequence of the bond prospectus establishing that it must only be sold directly or through repurchase/resell transactions to the Central Bank, when determined by the latter through its general provisions.

- (2) As of December 31, 2018 and 2017, foreign currencies to be received and delivered in connection with purchases and sales, respectively, payable in 24 to 96 hours are as follows:

	<b>Balance in foreign currency (millions)</b>			<b>Mexican peso equivalent</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>		<b><u>2018</u></b>	<b><u>2017</u></b>
Purchases of foreign currencies to be received at 24, 48, 72 and 96 hours:					
USD	6,139	3,382	\$	120,633	66,509
EUR	217	281		4,884	6,632
JPY	-	20		-	4
	=====	=====			
Total			\$	125,517	73,145
				=====	=====
Sales of foreign currencies to be settled at 24 and 48, 72 and 96 hours:					
USD	(3,959)	(3,301)	\$	(77,794)	(64,907)
EUR	(74)	(29)		(1,655)	(682)
JPY	(57)	-		(10)	-
	=====	=====			
Total			\$	(79,459)	(65,589)
				=====	=====

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Upon recording foreign currencies to be delivered or received from sales and purchases under "Cash and cash equivalents", the clearing accounts of the counter value of these transactions are recorded in the consolidated balance sheet under "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 8.25%. These borrowings are contracted with 3 financial institutions. Call money loans are 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:

<b>Counterparty</b>		<b>Market value</b>
Banco Inbursa S. A. I. B. M.	\$	200
Banco Santander México, S. A. I. B. M.		6,713
Nacional Financiera, S. N. C.		<u>3,001</u>
Total	\$	9,914
		=====

**(5) Margin accounts-**

As of December 31, 2018 and 2017, margin accounts consist of guarantees granted in cash for derivative financial transactions in organized markets of \$10,548 and \$14,359, respectively.

**(6) Investment securities-**

At December 31, 2018 and 2017, investment securities were as follows:

a. Trading Securities

Unrestricted securities:

	<b>2018</b>			<b>2017</b>	
<b>Instrument</b>	<b>Acquisition Cost</b>	<b>Accrued Interests</b>	<b>Increase (decrease) valuation</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Equity shares, net	\$ 364	-	(28)	336	4,023
American Depositary Receipts (ADRS)	3,285	-	(303)	2,982	5,673
Bank bonds	286	5	-	291	7
Sovereign debt Eurobonds	5,147	79	(139)	5,087	6,464
Fixed-rate government bonds	5,179	25	2	5,206	13,829
Promissory notes with returns settle at maturity (PRLV)	57	-	-	57	47
Federal Mexican Treasury Securities (CETES)	1,750	-	-	1,750	3,525
Federal Government Development Bonds (BONDES)	1,313	6	-	1,319	4
Corporate commercial paper	-	-	-	-	139
Corporate Eurobonds	1,691	11	2	1,704	2,087
Securitization certificates	5,863	67	(115)	5,815	5,780
Exchangeable securitization certificates (CBICS)	683	15	-	698	107
Federal Mexican Government Development Bonds in UDIS (UDIBONOS)	3,851	8	(12)	3,847	6,220
Mexican Bank Saving Protection Bonds (BPA's)	2,221	48	-	2,269	11,845
Treasury notes	<u>98</u>	<u>1</u>	<u>(3)</u>	<u>96</u>	<u>97</u>
Unrestricted securities carried forward	\$ <u>31,788</u>	<u>265</u>	<u>(596)</u>	<u>31,457</u>	<u>59,847</u>

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<u>Instrument</u>	<u>2018</u>				<u>2017</u>
	<u>Acquisition Cost</u>	<u>Accrued Interests</u>	<u>Increase (decrease) valuation</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
Unrestricted Securities brought forward	\$ 31,788	265	(596)	31,457	59,847
Restricted securities:					
Collaterals granted (a.1.)	222,575	227	3,467	226,269	220,008
Value date purchase (a.2.)	17,823	2	39	17,864	16,605
Value date sales (a.3.)	(12,145)	(4)	(22)	(12,171)	(10,490)
Total	\$ 260,041	490	2,888	263,419	285,970
	=====	===	=====	=====	=====

During 2018 and 2017, the Institution recognized losses and gains on valuation from unrestricted securities in a net amount of \$995 and \$1,098, respectively (note 30).

Likewise, as of December 31, 2018 and 2017, the residual terms of these unrestricted investments are as follows:

<u>Instrument</u>	<u>2018</u>				<u>Total acquisition cost</u>
	<u>Less than 1 month</u>	<u>Between 1 and 3 months</u>	<u>More than 3 months</u>	<u>Without a fixed period</u>	
Equity shares	\$ -	-	-	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
	=====	=====	=====	=====	=====

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<b>Instrument</b>	<b>2017</b>				<b>Total acquisition cost</b>
	<b>Less than 1 month</b>	<b>Between 1 and 3 months</b>	<b>More than 3 months</b>	<b>Without a fixed period</b>	
Unrestricted securities:					
Equity shares	\$ -	-	-	4,029	4,029
ADRS	-	-	-	5,534	5,534
Bank bonds	-	-	7	-	7
Sovereign debt Eurobonds	-	-	6,359	-	6,359
Fixed-rate government bonds	-	-	13,592	-	13,592
PRLV	-	-	47	-	47
CETES	9	-	3,515	-	3,524
BONDES	-	-	4	-	4
Corporate commercial paper	137	2	-	-	139
Corporate Eurobonds	-	5	2,021	-	2,026
Securitization certificates	-	-	5,785	-	5,785
CBICS	-	-	105	-	105
UDIBONOS	-	-	6,185	-	6,185
BPAS	-	-	11,675	-	11,675
Treasury notes	-	-	98	-	98
Total	\$ 146	7	49,393	9,563	59,109
	====	=	=====	=====	=====

a.1. The collaterals granted as of December 31, 2018 and 2017 were comprised as follows:

<b>Instrument</b>	<b>2018</b>				<b>2017</b>
	<b>Acquisition cost</b>	<b>Accrued interests</b>	<b>Increase (decrease) valuation</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Collaterals under securities lending:					
Bond IPAB	\$ 25,641	5	-	25,646	27,260
Bonds	15,462	39	-	15,501	21,305
BONDES	-	-	-	-	3,993
Total securities under lending	41,103	44	-	41,147	52,558
Collateral under repurchase/resale agreements:					
Bank securitization certificates	14,517	1	(30)	14,488	493
Bank bonds	131	-	-	131	-
BONDES	1,353	-	-	1,353	11,116
Fixed-rate government bonds	58,144	70	1,908	60,122	46,809
BPAS	56,318	77	1,350	57,745	90,703
CETES	34,020	35	266	34,321	676
UDIBONOS	15,682	-	(27)	15,655	7,501
CBICS	-	-	-	-	7,800
Securitization certificates	1,307	-	-	1,307	2,352
Total collateral under repurchase/resale agreements	181,472	183	3,467	185,122	167,450
Total restricted securities by collaterals granted	\$ 222,575	227	3,467	226,269	220,008
	=====	=====	=====	=====	=====

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a.2. Value date purchases at December 31, 2018, and 2017 are comprised as follows:

<u><b>Instrument</b></u>	<b>2018</b>			<b>2017</b>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interests</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Carrying amount</b></u>
Equity shares, net	\$ 40	-	-	40	619
ADRS	4,041	-	30	4,071	-
Fixed-rate government bonds	3,537	-	10	3,547	10,840
BPAS	-	-	-	-	4,513
BONDES	537	2	2	541	11
CETES	6,453	-	-	6,453	-
UDIBONOS	1,507	-	(3)	1,504	585
Securitization certificates	-	-	-	-	16
Sovereign debt' Eurobonds	<u>1,708</u>	<u>-</u>	<u>-</u>	<u>1,708</u>	<u>21</u>
Total	\$ 17,823	2	39	17,864	16,605
	=====	==	==	=====	=====

a.3. Value date sales at December 31, 2018, and 2017 are comprised as follows:

<u><b>Instrument</b></u>	<b>2018</b>			<b>2017</b>	
	<u><b>Acquisition cost</b></u>	<u><b>Accrued interest</b></u>	<u><b>Increase (decrease) valuation</b></u>	<u><b>Carrying amount</b></u>	<u><b>Carrying amount</b></u>
Equity shares	\$ (70)	-	-	(70)	(829)
ADRS	(3,881)	-	(17)	(3,898)	-
Sovereign debt' Eurobonds	(1,713)	-	-	(1,713)	(6)
CETES	(2,859)	-	-	(2,859)	(647)
Fixed-rate government bonds	(2,842)	(4)	(3)	(2,849)	(6,942)
BONDES	(130)	-	(2)	(132)	(1,414)
UDIBONOS	(650)	-	-	(650)	(545)
Securitization certificates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107)</u>
Total	\$ (12,145)	(4)	(22)	(12,171)	(10,490)
	=====	=	==	=====	=====

During 2018 and 2017, the Institution recognized gains on valuation of restricted securities coming from collaterals granted for a net amount of \$1,629 and \$1,475, respectively (note 30).

For the years ended December 31, 2018 and 2017, the returns associated with all of the securities to be traded recorded in the income for the year amount to \$31,432 and \$26,666, respectively.



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b. Available for sale

<u>Instrument</u>	<u>2018</u>			<u>2017</u>	
	<u>Acquisition cost</u>	<u>Accrued interest</u>	<u>Increase (decrease) due to valuation</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
Unrestricted equity shares, net	\$ 535	-	46	581	589
CETES	20,805	-	(49)	20,756	-
Sovereign debt' Eurobonds	16,078	339	676	17,093	18,925
Corporate Eurobonds	6,770	102	(446)	6,426	8,213
Development bank' Eurobonds	334	3	(9)	328	348
Banking bonds	-	-	-	-	401
Fixed-rate bonds	16,444	62	(711)	15,795	-
Securitization certificates	5,736	75	(367)	5,444	7,414
CEDES UDIS	84	67	(10)	141	134
BREMS R <sup>(1)</sup>	32,656	29	-	32,685	32,682
UDIBONOS	<u>395</u>	<u>-</u>	<u>(35)</u>	<u>360</u>	<u>-</u>
Total unrestricted	99,837	677	(905)	99,609	68,706
Restricted (b.1.)	<u>25,867</u>	<u>17</u>	<u>(1,292)</u>	<u>24,592</u>	<u>61,431</u>
	\$ 125,704	694	(2,197)	124,201	130,137
	=====	===	====	=====	=====

<sup>(1)</sup> BREMS R are part of the monetary regulation deposit (note 4).

At December 31, 2018 and 2017, the remaining scheduled maturities of the available for sale instruments are as follows:

<u>Instrument</u>	<u>2018</u>				<u>Total acquisition cost</u>
	<u>Less than 1 month</u>	<u>Between 1 and 3 months</u>	<u>More than 3 months</u>	<u>Without a fixed term</u>	
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	-	-	32,656	-	32,656
UDIBONOS	<u>-</u>	<u>-</u>	<u>395</u>	<u>-</u>	<u>395</u>
Total unrestricted	\$ -	-	99,302	535	99,837
	=====	=====	=====	===	=====

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<b>Instrument</b>	<b>2017</b>				
	<b>Less than 1 month</b>	<b>Between 1 and 3 months</b>	<b>More than 3 months</b>	<b>Without a fixed term</b>	<b>Total acquisition cost</b>
Unrestricted:					
Equity shares, net	\$ -	-	-	535	535
Sovereign debt' Eurobonds	-	-	16,981	-	16,981
Corporate Eurobonds	-	-	8,489	-	8,489
Development bank' Eurobonds	-	-	333	-	333
Securitization certificates	-	561	6,936	-	7,497
CEDES UDIS	-	-	81	-	81
Banking Bonds	200	-	200	-	400
BREMS R	-	-	32,662	-	32,662
Total unrestricted	\$ 200	561	65,682	535	66,978
	====	====	=====	====	=====

b.1. Collaterals granted (restricted securities) of investments available for sale as of December 31, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>2018</b>			<b>2017</b>	
	<b>Acquisition cost</b>	<b>Accrued interest</b>	<b>Increase (decrease) valuation</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Fixed-rate bonds	\$ 20,226	11	(1,237)	19,000	57,139
Securitization certificates	1,095	-	(53)	1,042	2,727
CETES	3,226	-	(8)	3,218	-
UDIBONOS	-	-	-	-	349
Collateral receivable from repurchase agreements	24,547	11	(1,298)	23,260	60,215
Treasury Bills	1,320	6	6	1,332	1,216
Total restricted	\$ 25,867	17	(1,292)	24,592	61,431
	=====	==	=====	=====	=====

For the years ended December 31, 2018 and 2017, the returns associated with all of the securities available for sale of the Institution recorded in income for the year, amount to \$3,119 and \$2,391, respectively.

c. Held to maturity:

<b>Instrument</b>	<b>2018</b>			<b>2017</b>
	<b>Acquisition cost</b>	<b>Accrued interest</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Debtors Support Program				
Residential Mortgages – Special				
CETES	\$ 15,809	-	15,809	14,664
Fixed-rate bonds	6,808	24	6,832	-
	\$ 22,617	24	22,641	14,664
	=====	==	=====	=====

For the years ended December 31, 2018 and 2017, the yields related to the overall held to maturity portfolio, recorded in the results of the year, amounted to \$1,145 and \$989, respectively.

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d. Collateral received and pledged

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 will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral received or pledged 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 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.

At December 31, 2018 and 2017, 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 transactions and securities lending-**

**a. Repurchase agreement receivables**

As of December 31, 2018 and 2017, repurchase transactions are comprised as follows:

<u>Instrument</u>	<u>2018</u>			<u>2017</u>		
	<u>Asset</u> <u>Receivable</u> <u>under</u> <u>repurchase</u> <u>agreement</u>	<u>Liability</u>  <u>Collateral</u> <u>sold</u> <u>or pledged</u>	<u>Debit</u> <u>difference</u>	<u>Asset</u> <u>Receivable</u> <u>under</u> <u>repurchase</u> <u>agreement</u>	<u>Liability</u>  <u>Collateral</u> <u>sold</u> <u>or pledged</u>	<u>Difference</u> <u>debit</u>
BONDES	\$ 492	492	-	2,077	2,001	76
BPAS	508	508	-	500	500	-
Securitization certificates	-	-	-	600	600	-
CETES	66	-	66	-	-	-
Total	\$ 1,066	1,000	66	3,177	3,101	76
	=====	=====	==	=====	=====	==

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**b. Creditors on repurchase / resale agreements**

As of December 31, 2018 and 2017, creditors on repurchase / resale agreements are comprised as follows:

<b>Instrument</b>		<b>2018</b>	<b>2017</b>
BONDES	\$	324	11,074
Fixed rate Bonds		77,060	104,566
BPAS		56,386	88,641
Securitization certificates		2,530	5,077
Banking Bonds		130	181
CETES		37,264	675
CBICS		14,336	7,769
UDIBONOS		<u>15,683</u>	<u>7,845</u>
Total	\$	203,713	225,828
		=====	=====

At December 31, 2018 and 2017, the interest (premiums) receivable recorded by the Institution were \$1,663 and \$1,194, respectively which is presented in the consolidated statements of income under "Interest income" and "Interest expense". Also, at December 31, 2018 and 2017, the interest (premiums) charged to the Institution were \$21,034 and \$20,340, respectively, see note 28.

- c. Collateral sold or pledged in repurchase/resale agreements and securities lending transactions as of December 31, 2018 and 2017 are as follows:

<b>Instrument</b>	<b>2018</b>			<b>2017</b>		
	<b>Memorandum accounts</b>	<b>Liability</b>	<b>Collateral sold or pledged</b>	<b>Memorandum accounts</b>	<b>Liability</b>	<b>Collateral sold or pledged</b>
	<b>Collateral received</b>	<b>Collateral received and sold or pledged</b>		<b>Collateral received</b>	<b>Collateral received and sold or pledged</b>	
Securities lending:						
Fixed rate bonds	\$ 3,150	3,150	3,150	33,566	33,566	33,566
UDIBONOS	13,102	13,102	13,102	5,383	5,383	5,383
CETES	10,333	10,333	10,333	3,552	3,552	3,552
CBICS	12,649	12,649	12,649	7,906	7,906	7,906
Net equity instruments	<u>699</u>	<u>203</u>	<u>204</u>	<u>668</u>	<u>312</u>	<u>312</u>
	<u>39,933</u>	<u>39,437</u>	<u>39,438</u>	<u>51,075</u>	<u>50,719</u>	<u>50,719</u>
Repurchase agreements:						
Securitization certificates	-	-	-	599	599	1
BONDES	492	492	-	2,003	2,003	-
BPAS	508	508	-	500	500	-
CETES	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,066</u>	<u>1,000</u>	<u>-</u>	<u>3,102</u>	<u>3,102</u>	<u>1</u>
Other collateral's received:	<u>4,856</u>	<u>-</u>	<u>-</u>	<u>3,471</u>	<u>-</u>	<u>-</u>
Total	\$ 45,855	40,437	39,438	57,648	53,821	50,720
	=====	=====	=====	=====	=====	=====

Interest income and expense recognized in the Consolidated Statements of Income during 2018 amounted to \$2 and \$4,337, respectively (in 2017 amounted to \$4 and \$2,860, respectively), see note 28.

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At December 31, 2018 and 2017, the Institution has repurchase agreements for an average period of 27 and 47 days, while transactions involving securities loans are performed over an average period of 14 and 11 days, respectively.

**(8) Derivatives-**

At December 31, 2018 and 2017, securities and derivative transactions are as follows:

- a. As of December 31, 2018 and 2017, the Institution carries out transactions with derivative financial instruments as described as follows. Foreign currency position arising from such derivative financial instruments is shown in the assets and liabilities position shown in note 25.

*Trading:*

		<b>2018</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Futures contracts long position	\$	35,061	35,061	-	-
Futures contracts short position		13,186	13,186	-	-
Forward contracts long position		710,463	721,147	7,070	17,754
Forward contracts short position		738,898	734,053	13,701	8,856
Options acquired		4,145	-	4,145	-
Options sold		-	10,145	-	10,145
Swaps		<u>1,280,973</u>	<u>1,272,335</u>	<u>100,888</u>	<u>92,250</u>
	\$	<u>2,782,726</u>	<u>2,785,927</u>	<u>125,804</u>	<u>129,005</u>
		=====	=====	=====	=====

		<b>2017</b>			
		<b>Book value</b>		<b>Balance</b>	
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Futures contracts long position	\$	103,155	103,155	-	-
Futures contracts short position		30,147	30,147	-	-
Forward contracts long position		612,130	595,004	21,896	4,770
Forward contracts short position		697,286	723,610	2,161	28,485
Options acquired		4,704	-	4,704	-
Options sold		-	10,497	-	10,497
Swaps		<u>1,147,896</u>	<u>1,145,366</u>	<u>93,763</u>	<u>91,233</u>
	\$	<u>2,595,318</u>	<u>2,607,779</u>	<u>122,524</u>	<u>134,985</u>
		=====	=====	=====	=====

*Hedging purposes:*

		<b>2018</b>				
		<b>Notional amount</b>		<b>Balance</b>		
		<b>Net</b>		<b>Asset</b>	<b>Liability</b>	<b>Position</b>
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>	<b>Position</b>
Forward contracts long position	\$	5,119	5,076	56	13	43
Swaps		<u>104,561</u>	<u>98,863</u>	<u>14,757</u>	<u>9,059</u>	<u>5,698</u>
	\$	<u>109,680</u>	<u>103,939</u>	<u>14,813</u>	<u>9,072</u>	<u>5,741</u>
		=====	=====	=====	=====	=====

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		<b>Notional amount</b>		<b>2017 Balance</b>		<b>Net Position</b>
		<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>	
Forward contracts long position	\$	6,378	5,988	390	-	390
Swaps		<u>82,432</u>	<u>78,151</u>	<u>15,644</u>	<u>11,363</u>	<u>4,281</u>
	\$	88,810	84,139	16,034	11,363	4,671
		=====	=====	=====	=====	=====

- b. Future and forward contracts** – For the year ended December 31, 2018, the Institution carried out transactions in organized markets (Mexican Derivatives Market (Mex-Der) and Chicago, obtaining a loss of \$(982) distributed according to the underlying in Rates for \$615, Foreign currency for \$(1,282), Indexes for \$(304) and Securities for \$ (11). For the year ended December 31, 2017, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), obtaining a loss of \$(7,517) distributed in rates of \$(383), currencies of \$(24,072), \$16,648 indexes and securities of \$290.

Likewise, the Bank entered into advanced contracts “Forwards” with the main currencies. As of December 31, 2018, open contracts are as follows:

*Trading:*

<b>Type of transaction</b>	<b>Underlying</b>		<b>Sales</b>		<b>Purchases</b>		<b>Net position</b>
			<b>Receivable</b>	<b>Contract value</b>	<b>Contract value</b>	<b>Payable</b>	
Future contracts	U.S dollars	\$	11,656	11,656	34,159	34,159	-
	Index		813	813	-	-	-
	Bond M10		-	-	655	655	-
	S&P		<u>717</u>	<u>717</u>	<u>247</u>	<u>247</u>	<u>-</u>
		\$	13,186	13,186	35,061	35,061	-
			=====	=====	=====	=====	=====

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

*Hedging:*

<b>Type of transaction</b>	<b>Underlying</b>		<b>Sales</b>		<b>Purchases</b>		<b>Net position</b>
			<b>Receivable</b>	<b>Contract value</b>	<b>Contract value</b>	<b>Payable</b>	
Forward contracts	U.S. dollars	\$	-	-	5,119	5,076	43
			===	===	=====	=====	===

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At year end 2017 the following contracts are open:

*Trading:*

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Future contracts	U.S. dollars	\$ 27,285	27,285	102,161	102,161	-
	Index	2,609	2,609	390	390	-
	Bono M10	-	-	410	410	-
	S&P	241	241	194	194	-
	Euro stock	<u>12</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>
		\$ 30,147	30,147	103,155	103,155	-
		=====	=====	=====	=====	=====

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$ 629,506	656,629	579,998	562,729	(9,854)
	Equity	34,095	33,877	31,850	32,015	53
	Index	482	501	282	260	3
	Bonds	<u>33,203</u>	<u>32,603</u>	<u>-</u>	<u>-</u>	<u>600</u>
		\$ 697,286	723,610	612,130	595,004	(9,198)
		=====	=====	=====	=====	=====

*Hedging:*

<u>Type of transaction</u>	<u>Underlying</u>	<u>Sales</u>		<u>Purchases</u>		<u>Balance</u>
		<u>Receivable</u>	<u>Contract value</u>	<u>Contract value</u>	<u>Payable</u>	
Forward contracts	U.S. dollars	\$ -	-	6,378	5,988	390
		=====	=====	=====	=====	=====

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c. **Options** - At December 31, 2018, options transactions are as follows:

*Trading:*

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Fair Value</u>
Purchases	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 26,171	\$ 841
		Interest rates	136,586	1,669
		Equity securities and indexes	15,976	<u>884</u>
		=====	<u>3,394</u>	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 7,526	749
		U.S. dollars	96	<u>2</u>
		=====	<u>751</u>	
				\$ 4,145
			=====	
	Sales	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 25,355
Interest rates			196,844	1,824
Equity securities and indexes			12,831	<u>6,492</u>
=====			<u>9,188</u>	
OM Options <sup>(2)</sup>		Equity securities and indexes	\$ 14,351	949
		U.S. dollars	840	<u>8</u>
		=====	<u>957</u>	
				\$ 10,145
			=====	

At December 31, 2017, options transactions are show are as follows:

	<u>Type of transaction</u>	<u>Underlying</u>	<u>Reference amount</u>	<u>Fair Value</u>
Purchases	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 62,345	\$ 1,453
		Interest rates	123,482	1,545
		Equity securities and indexes	15,466	<u>1,264</u>
		=====	4,262	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 9,458	<u>442</u>
		=====	\$ 4,704	
			=====	
Sales	OTC Options <sup>(1)</sup>	U.S. dollars	\$ 60,193	\$ 1,444
		Interest rates	142,188	1,623
		Equity securities and indexes	8,500	<u>6,767</u>
		=====	9,834	
	OM Options <sup>(2)</sup>	Equity securities and indexes	\$ 17,676	<u>663</u>
		=====	\$ 10,497	
			=====	

<sup>(1)</sup> OTC (Over The Counter)

<sup>(2)</sup> OM (Organized Markets)



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d. **Swaps** - At December 31, 2018, the Institution swaps transactions are as follows:

*Trading:*

<u>Underlying</u>	<u>Currency</u>	<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
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
			<u>Notional amount</u>			
Interest rates	Peso <sup>(1)</sup>	\$	2,838,072	520,578	518,927	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
			=====			
				659,020	658,733	287
Equities	Mexican Peso	\$	428	26	36	(10)
			=====			
CDS	U.S. Dollar	\$	295	10	10	-
			=====			
	Subtotal			1,281,043	1,272,290	8,753
	Valuation adjustments			(70)	45	(115)
	Total			\$ 1,280,973	1,272,335	8,638
				=====	=====	=====

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

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At December 31, 2017, the Institution swap transactions are as follows:

*Trading:*

<u>Underlying</u>	<u>Currency</u>	<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican Peso	\$ 223,243	207,544	305,915	303,058	2,857
	U.S. Dollar	290,341	253,197	312,191	264,723	47,468
	UDIS	87,955	96,847	-	-	-
	Euro	54,495	91,836	58,624	101,519	(42,895)
	COP	2,339	838	-	-	-
	GBP	1,330	1,330	1,741	1,814	(73)
	CLP	3,809	-	-	-	-
	CHF	-	4,047	-	4,342	(4,342)
		=====	=====	<u>678,471</u>	<u>675,456</u>	<u>3,015</u>
<b><u>Notional amount</u></b>						
Interest rates	Mexican Peso <sup>(1)</sup>	\$ 2,737,741	370,352	369,372	980	
	Euro	186,888	2,988	3,063	(75)	
	U.S. Dollar	1,207,948	94,626	95,926	(1,300)	
	GBP	532	14	24	(10)	
	COP	803	156	152	4	
		=====	<u>468,136</u>	<u>468,537</u>	<u>(401)</u>	
Equities	Mexican Peso	\$ 1,195	19	1,428	(1,409)	
	U.S. Dollar	1,375	1,392	-	1,392	
		=====	<u>1,411</u>	<u>1,428</u>	<u>(17)</u>	
CDS	U.S. Dollar	\$ 492	13	14	(1)	
		=====				
CRA	Mexican Peso	-	(66)	-	(66)	
		=====				
Organized markets	Mexican Peso	\$ 78,148	(69)	(69)	-	
		=====				
		\$	1,147,896	1,145,366	2,530	
			=====	=====	=====	

<sup>(1)</sup>The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at annual rates ranging from 4.07% and 20.26%.

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*Swaps for hedging purposes:*

At December 31, 2018:

<u>Underlying</u>	<u>Currency</u>		<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican 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	-	<u>26,376</u>	<u>(26,376)</u>
			=====	=====			
					<u>71,877</u>	<u>66,773</u>	<u>5,104</u>
				<b><u>Notional amount</u></b>			
Interest rates	Mexican Peso (1)	\$	22,268	10,260	9,230	1,030	
	U.S. Dollar		72,345	<u>22,424</u>	<u>22,860</u>	<u>(436)</u>	
				=====			
					<u>32,684</u>	<u>32,090</u>	<u>594</u>
					<u>\$ 104,561</u>	<u>98,863</u>	<u>5,698</u>
					=====	=====	=====

<sup>(1)</sup> The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.78% and 8.91%.

At December 31, 2017:

<u>Underlying</u>	<u>Currency</u>		<u>Receivable contract value</u>	<u>Payable contract value</u>	<u>Receivable</u>	<u>Payable</u>	<u>Net Position</u>
Currency	Mexican Peso	\$	17,811	21,034	18,704	22,794	(4,090)
	U.S. dollar		31,533	7,013	36,644	7,762	28,882
	GBP		-	1,255	-	1,726	(1,726)
	Euro		-	16,701	-	<u>19,410</u>	<u>(19,410)</u>
			=====	=====			
					<u>55,348</u>	<u>51,692</u>	<u>3,656</u>
				<b><u>Notional amount</u></b>			
Interest rates	Mexican Peso <sup>(2)</sup>	\$	28,770	11,458	11,136	322	
	U.S. dollar		63,976	<u>15,626</u>	<u>15,323</u>	<u>303</u>	
				=====			
					<u>27,084</u>	<u>26,459</u>	<u>625</u>
					<u>\$ 82,432</u>	<u>78,151</u>	<u>4,281</u>
					=====	=====	=====

<sup>(2)</sup> The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.43% and 8.91%.

Collaterals received in OTC derivatives as of December 31, 2018 and 2017 is recorded under the caption "Payables for collateral received in cash" and is shown in the next page.

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<b><u>Collaterals received in cash for derivatives</u></b>	<b><u>2018</u></b>			<b><u>2017</u></b>
	<b><u>Acquisition Cost</u></b>	<b><u>Accrued Interest</u></b>	<b><u>Carrying amount</u></b>	<b><u>Carrying amount</u></b>
Actinver Casa de Bolsa	\$ 5	-	5	5
Alsea	201	-	201	236
Banco Inbursa	701	2	703	1,191
Banco Nacional de México	-	-	-	242
Citi Banamex USA	6,662	-	6,662	3,999
Banco Santander México	706	5	711	487
Banco Ve Por Mas	20	-	20	-
BBVA Madrid	1,935	-	1,935	-
Banco Nacional Comercio Exterior	87	1	88	470
Banco Mercantil del Norte	4,078	9	4,087	3,273
Banco del Bajío	58	1	59	-
Compass Bank	1	-	1	-
Casa de Bolsa Finamex	144	-	144	137
Credit Agricole CIB	889	2	891	1,084
Credit Suisse Securities	137	-	137	343
Deutsche Bank	2,822	6	2,828	2,853
Goldman Sachs Paris	3,501	8	3,509	4,280
HSBC Bank USA NA NY	-	-	-	79
HSBC México	639	1	640	-
MUFG BANK México	49	-	49	-
J. Aron and Company	637	1	638	587
Merrill Lynch Cap.SE	436	1	437	934
Mexichem	-	-	-	107
Morgan Stanley & Co	-	-	-	2
Morgan Stanley Cap S	6	-	6	622
Morgan Stanley SAS	1,552	3	1,555	1,507
Natixis	1,428	3	1,431	965
Nacional Financiera	-	1	1	-
Standard Chartered	3	-	3	-
UBS Ag Zurich	330	1	331	593
Valores Mexicanos	-	-	-	11
Xignux	<u>59</u>	<u>-</u>	<u>59</u>	<u>41</u>
Collaterals received in cash for derivatives	27,086	45	27,131	24,048
Collaterals received in cash other than derivative transactions	<u>171</u>	<u>-</u>	<u>171</u>	<u>346</u>
	\$ 27,257	45	27,302	24,394
	=====	==	=====	=====

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As of December 31, 2018 and 2017, the institution has recorded "received collateral" in memorandum accounts amounting to of \$5,352.

e. **Transactions with embedded derivatives**

Embedded derivatives shown below are part of the derivatives for trading balances.

<b>2018</b>				
	<b>Book value</b>		<b>Balance</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Options acquired	\$ 550	-	550	-
Options sold	-	586	-	586
Swaps	<u>10,253</u>	<u>9,671</u>	<u>2,067</u>	<u>1,485</u>
	\$ 10,803	10,257	2,617	2,071
	=====	=====	=====	=====
<b>2017</b>				
	<b>Book value</b>		<b>Balance</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Options acquired	\$ 585	-	585	-
Options sold	-	1,156	-	1,156
Swaps	13,991	12,897	3,603	2,509
Forward contracts short position	<u>32</u>	<u>34</u>	<u>-</u>	<u>2</u>
	\$ 14,608	14,087	4,188	3,667
	=====	=====	=====	=====

e.1. Embedded options (Underlying):

*Trading:*

				<b>2018</b>	
				<b>Nominal amount</b>	<b>Fair value</b>
<b>Underlying</b>					
Purchases	OTC Options	U.S. dollar	\$	1,778	23
		Indexes		48,485	<u>527</u>
				=====	
					\$ 550
					===
				<b>2018</b>	
				<b>Nominal amount</b>	<b>Fair value</b>
<b>Underlying</b>					
Sales	OTC Options	U.S. dollar	\$	1,271	87
		Indexes		31,989	174
		Interest rates		8,814	<u>325</u>
				=====	
					\$ 586
					===

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				<b>2017</b>	
				<b><u>Nominal amount</u></b>	<b><u>Fair value</u></b>
		<b><u>Underlying</u></b>			
Purchases	OTC Options	U.S. dollar	\$	731	26
		Indexes		30,041	550
		Interest rates		997	<u>9</u>
				=====	
					\$ 585
					===

				<b>2017</b>	
				<b><u>Nominal amount</u></b>	<b><u>Fair value</u></b>
		<b><u>Underlying</u></b>			
Sales	OTC Options	U.S. dollar	\$	737	83
		Interest rates		8,214	1
		Indexes		15,257	<u>1,072</u>
				=====	
					\$ 1,156
					=====

e.2 Embedded swaps (Underlying)

*For trading purposes:*

<b>2018</b>					
<b><u>Underlying</u></b>	<b><u>Currency</u></b>	<b><u>Notional amount</u></b>	<b><u>Receivable market value</u></b>	<b><u>Payable market value</u></b>	<b><u>Fair value</u></b>
Currency	Mexican Peso	\$ 3,305	3,125	3,145	(20)
	U.S. dollar	3,509	3,546	3,516	30
	Euro	315	<u>331</u>	<u>330</u>	<u>1</u>
		=====			
			<u>7,002</u>	<u>6,991</u>	<u>11</u>
Interest rate	Mexican Peso	\$ 30,856	3,226	2,659	567
	U.S. dollar	371	<u>25</u>	<u>21</u>	<u>4</u>
		=====			
			<u>3,251</u>	<u>2,680</u>	<u>571</u>
			\$ 10,253	9,671	582
			=====	=====	=====

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<u>Underlying</u>	<u>Currency</u>	<u>Notional amount</u>	<u>2017</u>		
			<u>Receivable market value</u>	<u>Payable market value</u>	<u>Fair value</u>
Currency	Mexican Peso	\$ 3,974	3,834	3,886	(52)
	U.S. dollar	4,461	4,318	4,241	77
	Euro	379	420	415	5
		=====			
			<u>8,572</u>	<u>8,542</u>	<u>30</u>
Interest rate	Mexican Peso	\$ 38,741	5,345	4,298	1,047
	U.S. dollar	791	74	57	17
		=====			
			<u>5,419</u>	<u>4,355</u>	<u>1,064</u>
			\$ 13,991	12,897	1,094
			=====	=====	=====

**e.3** Forward embedded (Underlying)

*For trading purposes:*

As of December 31, 2018, the Institution does not have implicit forwards. As of December 31, 2017, it held the following:

<u>Underlying</u>		<u>2017</u>		
		<u>Sales</u>		<u>Balance</u>
		<u>Receivable</u>	<u>Contract value</u>	
Forward contracts	U.S. dollar	\$ 32	34	(2)
		==	==	=

According to the structured banking bonds issuance programs, the Institution has recorded options and swaps with nominal value of \$ 33,902 and \$ 38,356, respectively (options, swaps and embedded forwards for \$ 55,978, \$ 48,346 and \$ 33, respectively, as of December 31, 2017), with underlying interest rates for swaps and currencies, indexes and interest rates for options.

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

**Type of hedge relationship:** Cash Flow Hedges

<u>Description of the hedge item</u>	<u>Risk hedge</u>	<u>Hedge instrument</u>	<u>Maximum maturity date of hedge</u>	<u>Fair value hedge instrument</u>	<u>Periods in which flows affect results</u>	<u>Amount recognized in comprehensive income of the period</u>	<u>Amount that is reclassified from equity to income statement</u>	<u>Caption in the Consolidated income statement where the hedge is being applied</u>	<u>Caption in the Consolidated Balance Sheet where the primary position is recognized</u>	<u>Ineffectiveness recognized</u>
Partial Coverage of Monetary Regulation Deposit DRM <sup>(1)</sup>	Variable flows from the DRM	15 IRS Fixed/TIIE	jun-20	\$ (206) ===	18 months	\$ 68 ==	\$ (10) ===	Interest Margin from cash and cash equivalents	Restricted cash	\$ - ==
Coverage of expenses and investment in EUR <sup>(1)</sup> and USD	Exchange rate in estimated expense cash flows	19 FWD Sale Usd/Mxp 9 FWD Sale Eur/Mxp	sep-19	\$ 43 ===	8 months	\$ (343) ==	\$ 6 ===	Expenses	Property, furniture and equipment marketing	\$ - ==

As of December 31, 2018, \$ 36 were recognized, net of deferred taxes, due to amortization of early maturity of DRM coverage swaps.

<sup>(1)</sup> At December 31, 2018, the remaining balance of maturities of hedging forwards amounts to \$(140).

\* Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.



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Type of hedge relationship: Fair Value

<u>Description of the hedge</u>	<u>Nature of the records covered</u>	<u>Hedge instrument</u>	<u>Maximum maturity of hedge</u>	<u>Fair value hedge instrument</u>	<u>Gain/Loss hedge instrument for December 18</u>	<u>Gain/Loss hedging element for December 18</u>	<u>Caption in the balance sheet where the primary position is recorded</u>	<u>Ineffectiveness recognized</u>
Hedge of loans in USD and MXN from fixed Rate to floating rate <sup>(2)</sup>	Fixed Rate Risk on loans in USD and Fixed rate in MXN	2 IRS pays fixed Interest in USD and Receives 2 variable IRS pays fixed Interest in MXP and Receives Variable	2040	\$ 998 =====	\$ 522 ===	\$ (501) ===	Performing Loan Portfolio	\$ - ==
Hedge of Mexican sovereign bonds in EUR/USD/GBP <sup>(2)</sup>	Fixed rate on bonds UMS in EUR/USD/GBP	70 CCS V/F	2025	\$ (5,392) =====	\$ (120) ===	\$ 139 ===	Investment in securities	\$ - ==
Hedge of issuance of subordinate notes USD <sup>(2)</sup>	Fixed rate on notes issued USD V/F	33 IRS F/V	2028	\$ (676) =====	\$ 1,719 ===	\$ (1,727) ===	Subordinated debt	\$ - ==
Hedge of issuance of subordinated notes USD <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in notes USD V/F	27 CCS F/V	2024	\$ 1,832 =====	\$ 479 ===	\$ (479) ===	Subordinated debt	\$ - ==
Hedge of corporate bonds <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in foreign currency USD, EUR, UDI	41 CCS V/F	2025	\$ (342) =====	\$ (121) ===	\$ 111 ===	Investment in securities	\$ - ==
Hedge of corporate bonds <sup>(2)</sup>	Fixed rates in bonds USD	25 IRS V/F (22 MXN y 3 USD)	2025	\$ 350 =====	\$ 49 ===	\$ (52) ===	Investment in securities	\$ 1 ==
Hedge of Asset Grupo Carso	Fixed rate risk from loans in Eur	3 CCS	2023	\$ 266 =====	\$ 95 ===	\$ (94) ===	Investment in securities	\$ - ==

<sup>(2)</sup> At December 31, 2018, the balance of interest from hedging derivatives open position amounts to \$1,051.

<sup>(3)</sup> At 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.

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As of December 31, 2017, the Institution has entered into the following hedge contracts as follow:

**Type of hedge relationship:** Cash Flow Hedges

<u>Description of the hedge</u>	<u>Risk hedge</u>	<u>Hedge instrument</u>	<u>Maximum maturity date of hedge</u>	<u>Fair value hedge instrument</u>	<u>Periods in which flows affect results</u>	<u>Amount recognized in comprehensive income of the period</u>	<u>Amount that is reclassified from equity to income statement</u>	<u>Caption in the Consolidated income statement where the hedge is being applied</u>	<u>Caption in the Consolidated Balance Sheet where the primary position is recorded</u>	<u>Ineffectiveness recognized</u>
Partial Coverage of Monetary Regulation Deposit DRM <sup>(1) y (2)</sup>	Variable flows from the DRM	24 IRS Fixed/TIIE	jun-20	\$ (274) ===	32 months	\$ 28 ==	\$ (293) ===	Interest Margin from cash and cash equivalents	Restricted cash	\$ - ==
Coverage of expenses and investment in EUR <sup>(2)</sup> and USD	Exchange rate in estimated expense cash flows	24 FWD Sale Usd/Mxp 12 FWD Sale Eur/Mxp	dec-18	\$ 386 ===	11 months	\$ (3) ==	\$ (194) ===	Expenses	Property, furniture and equipment, marketing	\$ - ==

<sup>(1)</sup> At December 31, 2017, the remaining balance of maturities of hedging forwards amounts to \$3.

At December 31, 2017, amortization of early-expiration of DRM hedging swaps amounting to \$36, net of deferred tax, is recognized in earnings.

<sup>(2)</sup> At December 31, 2017, the balance of interest from hedging derivatives open position amounts to \$52.

\* Up to date, all cash flows from foreseen transactions occurred within the terms originally agreed upon.

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Type of hedge relationship: Fair Value

<u>Description of the hedge</u>	<u>Nature of the records covered</u>	<u>Hedge instrument</u>	<u>Maximum maturity of hedge</u>	<u>Fair value hedge instrument</u>	<u>Gain/Loss hedge instrument for December 17</u>	<u>Gain/Loss hedging element for December 17</u>	<u>Caption in the balance sheet where the primary position is recognized</u>	<u>Ineffectiveness recognized</u>
Hedge of loans in USD and MXN from fixed Rate to floating rate <sup>(2)</sup>	Fixed Rate Risk on loans in USD and Fixed rate in MXN	4 IRS Pays fixed Interest in USD and receives variable IRS Pays fixed Interest in MXP and Receives Variable	2040	\$ 100 =====	\$ (34) ===	\$ 34 ===	Performing Loan Portfolio	\$ - ==
Hedge of Mexican sovereign bonds in EUR/USD/GBP <sup>(2)</sup>	Fixed rate on bonds UMS in EUR/USD/ GBP	70 CCS V/F	2025	\$(6,744) =====	\$ 126 ===	\$ (153) ===	Investment in securities	\$ - ==
Hedge of issuance of subordinate notes USD <sup>(2)</sup>	Fixed rate on notes issued USD V/F	31 IRS F/V	2024	\$ 260 =====	\$ (611) ===	\$ 611 ===	Subordinated debt	\$ - ==
Hedge of issuance of subordinated notes USD <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in notes USD V/F	24 CCS F/V	2024	\$ 2,900 =====	\$ (758) ===	\$ 779 ===	Subordinated debt	\$ - ==
Hedge of corporate bonds <sup>(2)</sup> and <sup>(3)</sup>	Fixed rate in foreign currency USD, EUR, UDI	49 CCS V/F	2025	\$ (674) =====	\$ 69 ===	\$ (98) ===	Investment in securities	\$ - ==
Hedge of corporate bonds <sup>(2)</sup>	Fixed rates on bonds USD/	42 IRS V/F (39 MXN y 3 USD)	2025	\$ 480 =====	\$ (41) ===	\$ 97 ===	Investment in securities	\$ (61) ==

<sup>(2)</sup> At December 31, 2017, the balance of interest from hedging derivatives open position amounts to \$52.

<sup>(3)</sup> At December 31, 2017, there is an effect for the exchange rate component amounting to \$8,182.

\* 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.

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**(9) Loan portfolio-**

Loans classified by type of loan at December 31, 2018 and 2017, are as follows:

	<b>Performing portfolio</b>		<b>Past due portfolio</b>		<b>Total</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Commercial loans -						
Denominated in Mexican pesos:						
Commercial	\$ 328,385	291,001	7,735	6,186	336,120	297,187
Rediscounted portfolio	11,534	11,739	24	28	11,558	11,767
Finance Lease	1,805	1,686	13	28	1,818	1,714
Denominated in UDIS's (equivalent in Mexican pesos)						
Commercial	4	4	1	2	5	6
Denominated in foreign currency (equivalent in Mexican pesos):						
Commercial	154,347	146,297	242	121	154,589	146,418
Rediscounted portfolio	916	904	-	-	916	904
Finance Lease	<u>1,441</u>	<u>1,038</u>	<u>-</u>	<u>1</u>	<u>1,441</u>	<u>1,039</u>
Total Commercial or business activity loans	498,432	452,669	8,015	6,366	506,447	459,035
Denominated in Mexican pesos:						
Financial entities	29,503	22,780	-	-	29,503	22,780
Government entities	116,854	112,204	-	-	116,854	112,204
Denominated in foreign currency (equivalent in Mexican pesos):						
Financial entities	1,395	5,119	-	-	1,395	5,119
Government entities	<u>12,324</u>	<u>12,060</u>	<u>-</u>	<u>-</u>	<u>12,324</u>	<u>12,060</u>
Total commercial loans	<u>658,508</u>	<u>604,832</u>	<u>8,015</u>	<u>6,366</u>	<u>666,523</u>	<u>611,198</u>
Consumer loans-						
Credit card	107,093	105,273	4,402	4,738	111,495	110,011
Other consumer loans	<u>166,141</u>	<u>152,396</u>	<u>4,632</u>	<u>4,965</u>	<u>170,773</u>	<u>157,361</u>
Total consumer loans	<u>273,234</u>	<u>257,669</u>	<u>9,034</u>	<u>9,703</u>	<u>282,268</u>	<u>267,372</u>
Mortgage loans-						
Denominated in Mexican pesos:						
Residential and non –residential	193,120	175,589	5,266	5,461	198,386	181,050
Low income	10,752	12,547	622	762	11,374	13,309
Denominated in UDI's (equivalent in Mexican pesos):						
Residential and non –residential	4,686	5,670	336	451	5,022	6,121
Low income	-	-	-	1	-	1
Denominated in foreign currency (equivalent in Mexican pesos):						
Residential and non –residential	<u>19</u>	<u>27</u>	<u>1</u>	<u>1</u>	<u>20</u>	<u>28</u>
Total mortgage loans	<u>208,577</u>	<u>193,833</u>	<u>6,225</u>	<u>6,676</u>	<u>214,802</u>	<u>200,509</u>
Total loan portfolio	\$ 1,140,319	1,056,334	23,274	22,745	1,163,593	1,079,079
	=====	=====	=====	=====	=====	=====

At December 31, 2018 and 2017 mortgage loan portfolio includes restricted securitized performing portfolio of \$3,222 and \$3,923, respectively; and non-performing portfolio of \$63 and \$76, respectively.

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Commercial loans are described below; the distressed and non-distressed performing and non-performing portfolios at December 31, 2018 and 2017, 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.

2018						
		<u>Distressed</u>		<u>Non-distressed</u>		
		<u>Current</u>	<u>Past due<sup>(1)</sup></u>	<u>Current</u>	<u>Past due</u>	
					<u>Total</u>	
Business or commercial activity	\$	-	6,155	468,275	370	474,800
Loans to financial entities		-	-	30,807	-	30,807
Loans to government entities		-	-	129,154	-	129,154
Credit card Small-Medium enterprises		5	1,478	30,200	1,289	32,972
Credit card Small business		-	13	291	5	309
Total	\$	5	7,646	658,727	1,664	668,042
		=	=====	=====	=====	=====
2017						
		<u>Distressed</u>		<u>Non-distressed</u>		
		<u>Current</u>	<u>Past due<sup>(1)</sup></u>	<u>Current</u>	<u>Past due</u>	
					<u>Total</u>	
Business or commercial activity	\$	-	4,824	420,926	469	426,219
Loans to financial entities		-	-	27,497	-	27,497
Loans to government entities		-	-	124,264	-	124,264
Credit card Small-Medium enterprises		-	1,378	31,675	1,264	34,317
Credit card Small business		-	4	241	-	245
Total	\$	-	6,206	604,603	1,733	612,542
		=	=====	=====	=====	=====

<sup>(1)</sup> It includes loans written off from the consolidated balance sheet (financially written-off portfolio).

The restructured and renewed portfolio at December 31, 2018, and 2017 were as follows:

<b>2018</b>			<b>Prior years</b>		
<b>Restructured Portfolio</b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Current</u></b>	<b><u>Past due</u></b>	<b><u>Total</u></b>
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
	=====	=====	=====	=====	=====

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<b>Restructured Portfolio</b>	<b>2017</b>		<b>Prior years</b>		<b>Total</b>
	<b>Current</b>	<b>Past due</b>	<b>Current</b>	<b>Past due</b>	
Commercial	\$ 26,376	273	16,733	760	44,142
Financial entities	42	-	-	-	42
Government entities	1,674	-	22,711	-	24,385
Consumer loans	133	1,500	13	793	2,439
Mortgage loans	<u>250</u>	<u>1,763</u>	<u>12,965</u>	<u>4,273</u>	<u>19,251</u>
Total	\$ 28,475	3,536	52,422	5,826	90,259
	=====	=====	=====	=====	=====

At December 31, 2018 and 2017, the Institution holds collateral in real property for the amount of \$8,742 and \$9,399, respectively and it holds collateral in securities for the amount of \$1,386 in both years, for restructured commercial loans.

As of December 31, 2018 and 2017 aging of non current portfolio is as follows:

	<b>2018</b>				
	<b>Period</b>				
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 to 2 years</b>	<b>Collateral</b>	<b>Total</b>
Business or commercial activity	\$ 4,029	3,293	1,987	(1,294)	8,015
Consumer loans	8,454	580	-	-	9,034
Mortgage loans	<u>1,881</u>	<u>1,889</u>	<u>2,455</u>	<u>-</u>	<u>6,225</u>
Total	\$ 14,634	5,762	4,442	(1,294)	23,274
	=====	=====	=====	=====	=====

	<b>2017</b>				
	<b>Period</b>				
	<b>1 to 180 days</b>	<b>181 to 365 days</b>	<b>366 to 2 years</b>	<b>Collateral</b>	<b>Total</b>
Business or commercial activity	\$ 2,108	2,643	3,182	(1,567)	6,366
Consumer loans	9,154	549	-	-	9,703
Mortgage loans	<u>1,789</u>	<u>1,906</u>	<u>2,981</u>	<u>-</u>	<u>6,676</u>
Total	\$ 13,051	5,098	6,163	(1,567)	22,745
	=====	=====	=====	=====	=====

At December 31, 2018 and 2017, unaccrued commissions for initial loan origination by type of loan and average amortization period are comprised as shown on the following page.

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		<b>2018</b>			
		<b>By amortization period</b>			
		<b><u>1 to</u></b>	<b><u>6 to</u></b>	<b><u>More than</u></b>	
		<b><u>5 years</u></b>	<b><u>15 years</u></b>	<b><u>15 years</u></b>	<b><u>Total</u></b>
Business or commercial activity	\$	968	416	148	1,532
Consumer loans		486	635	-	1,121
Mortgage loans		<u>-</u>	<u>13</u>	<u>201</u>	<u>214</u>
Total	\$	1,454	1,064	349	2,867
		=====	=====	=====	=====

		<b>2017</b>			
		<b>By amortization period</b>			
		<b><u>1 to</u></b>	<b><u>6 to</u></b>	<b><u>More than</u></b>	
		<b><u>5 years</u></b>	<b><u>15 years</u></b>	<b><u>15 years</u></b>	<b><u>Total</u></b>
Business or commercial activity	\$	916	458	157	1,531
Consumer loans		302	479	-	781
Mortgage loans		<u>-</u>	<u>15</u>	<u>173</u>	<u>188</u>
Total	\$	1,218	952	330	2,500
		=====	=====	=====	=====

As of December 31, 2018 and 2017, the balances of non-performing credit loan portfolio fully reserved and eliminated from the balance sheet are as follows:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Business or commercial activity	\$	<u>9,552</u>	<u>5,825</u>
Consumer loans:			
Credit card		3,027	3,389
Other consumer loans		<u>2,639</u>	<u>2,756</u>
		5,666	6,145
Mortgage loans		<u>5,241</u>	<u>5,387</u>
Total	\$	20,459	17,357
		=====	=====

As of December 31, 2018 and 2017, the amounts of portfolio sold without including securitization transactions, are as follows:

<b><u>Loan portfolio</u></b>		<b><u>2018</u></b>	<b><u>2017</u></b>
Business or commercial activity	\$	1,059	1,101
Consumer loans		21,878	39,335
Residential mortgage		<u>2,234</u>	<u>2,419</u>
Total	\$	25,171	42,855
		=====	=====

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As of December 31, 2018 and 2017, the amount of lines of credit and letters of credit recorded in memoranda accounts amount to \$588,114 and \$566,652, respectively.

As of December 31, 2018 and 2017, the revenues from interest income and commissions recorded in the net interest income, segmented by type of loan, are composed as follows:

<b>Type of loan</b>	<b>2018</b>			<b>2017</b>
	<b>Interest</b>	<b>Commissions</b>	<b>Total</b>	<b>Total</b>
Commercial loans-				
Denominated in Mexican pesos:				
Commercial	\$ 35,177	1,175	36,352	29,743
Rediscounted portfolio	1,338	-	1,338	1,288
Finance Lease	195	-	195	170
Denominated in U.S. foreign currency (equivalent in Mexican pesos):				
Commercial	7,860	-	7,860	6,067
Rediscounted portfolio	170	-	170	99
Finance Lease	63	-	63	55
Business or commercial activity	44,803	1,175	45,978	37,422
Loans to financial entities	2,251	7	2,258	1,772
Loans to government entities	10,392	77	10,469	9,916
Total commercial loans	57,446	1,259	58,705	49,110
Consumer loans-				
Credit card	29,940	45	29,985	29,589
Other consumer loans	33,534	622	34,156	31,671
Total Consumer loans	63,474	667	64,141	61,260
Mortgage loans	20,871	37	20,908	19,683
Total, see note 28	\$ 141,791	1,963	143,754	130,053
	=====	=====	=====	=====

As of December 31, 2018 and 2017, the amount of recoveries of previously written off or eliminated loan portfolio from the balance sheet were \$1,538 and \$907.

At December 31, 2018 and 2017, loans classified by economic sectors are as follows:

<b>Sector</b>	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Concentration Percentage</b>	<b>Amount</b>	<b>Concentration Percentage</b>
Private (companies and individuals)	\$ 506,440	43.53%	459,030	42.54%
Credit card and consumer	282,268	24.26%	267,373	24.78%
Mortgage	214,802	18.46%	200,509	18.58%
Government entities	129,178	11.10%	124,264	11.52%
Financial	29,254	2.51%	26,143	2.42%
Foreign (non-Mexican entities)	1,644	0.14%	1,755	0.16%
Other past-due loans	7	-	5	-
Total	\$ 1,163,593	100.00%	1,079,079	100.00%
	=====	=====	=====	=====



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Related-party loans- At December 31, 2018 and 2017, loans granted to related parties in accordance with the provisions of article 73 of credit institutions law, amounted to \$44,061 and \$40,172, respectively. The amount of related-party loans at December 31, 2018 and 2017 comprises \$19,471 and \$16,482, of 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, 2018, the remnant of the special Cetes and special "C" Cetes is composed as follows:

<b>Originating trust</b>	<b>Special Cetes</b>			<b>Special "C" Cetes</b>		
	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>	<b>No. of securities</b>	<b>Amount</b>	<b>Maturity date</b>
422-9	128,738,261	\$ 14,493	07/07/2022	-	\$ -	-
423-9	10,656,993	1,200	01/07/2027	468,306	17	01/07/2027
431-2	964,363	<u>99</u>	04/08/2022	1,800	<u>-</u>	04/08/2022
Total		\$ 15,792			\$ 17	
		=====			==	

**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 Credit Institutions Law, the conservative credit 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 promotion 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 on the next page.

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*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*

At December 31, 2018, and 2017, 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:

- At December 31, 2018 and 2017, the Institution keeps loans granted to a debtor or groups of persons representing a common risk for an individual amount of \$24,616 and \$22,507, respectively, which represents 12.76% and 12.73%, respectively, of the Institution's basic capital.
- As of December 31, 2018 and 2017, the maximum amount of financing with the three largest debtors amounts to \$41,925 and \$40,510, respectively and represent 21.74% and 22.91%, respectively of the 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-**

At December 31, 2018 and 2017, restructured loans denominated in UDIS amounted to \$982 and \$1,774, respectively.

**(11) Allowance for loan losses-**

Loan ratings of the Institution 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.

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<b>2018</b>						
<b><u>Risk category</u></b>		<b><u>Total loans</u></b>	<b><u>Allowance for the losses</u></b>			<b><u>Total allowance</u></b>
			<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Mortgage</u></b>	
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		<u>16,257</u>	<u>3,064</u>	<u>6,775</u>	<u>375</u>	<u>10,214</u>
Total	\$	1,241,309	7,963	20,446	3,402	31,811
		=====	=====	=====	=====	=====

<b>2017</b>						
<b><u>Risk category</u></b>		<b><u>Total loans</u></b>	<b><u>Allowance for the losses</u></b>			<b><u>Total allowance</u></b>
			<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Mortgage</u></b>	
A1	\$	826,507	1,343	1,200	298	2,841
A2		102,001	616	1,018	43	1,677
B1		69,658	198	1,874	21	2,093
B2		44,326	115	1,909	28	2,052
B3		30,754	393	1,264	25	1,682
C1		20,912	153	1,432	137	1,722
C2		20,527	39	3,326	283	3,648
D		13,267	1,251	1,504	1,040	3,795
E		<u>15,704</u>	<u>2,693</u>	<u>7,380</u>	<u>753</u>	<u>10,826</u>
Total		1,143,656	6,801	20,907	2,628	30,336
Additional allowance		<u>-</u>	<u>-</u>	<u>-</u>	<u>1,260</u>	<u>1,260</u>
Total	\$	1,143,656	6,801	20,907	3,888	31,596
		=====	=====	=====	=====	=====

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 at December 31, 2018 and 2017 is determined based on the balance of the portfolio at that date.

The allowance for loan losses at December 31, 2018 and 2017 covers 100% of non-performing interest.

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The amount of the allowance for loan losses at December 31, 2018 and 2017 includes the classification of loan granted in foreign currency valued at the exchange rate in effect on December 31, 2018 and 2017.

As mentioned in note 3 (l) (iii), the Institution has implemented an internal methodology for determining the mortgages' allowance for loan losses, which is based on an internal model of expected losses, which was approved by the Commission on November 16, 2018. At December 31, 2017 the Institution had set up reserves based on its internal methodology for the amount of \$3,888, which were above the methodology established by the Commission for the amount of \$1,260.

At December 31, 2018 and 2017, the allowance for loan losses represents 136.68% and 138.91%, respectively, of the non-performing loan portfolio.

At December 31, 2018 and 2017, allowance for loan losses by type of portfolio is comprised as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Commercial loans:		
Commercial	\$ 7,181	6,276
Financial entities	401	326
Government entities	<u>381</u>	<u>199</u>
	7,963	6,801
Consumer	20,446	20,907
Mortgage	<u>3,402</u>	<u>3,888</u>
For loan losses total allowance	\$ 31,811	31,596
	=====	=====

***Changes in the allowance for loan losses*** - There is an analysis below of the allowance for loan losses for years ended on December 31, 2018 and 2017:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Balance at the beginning of the year	\$ 31,596	30,005
Allowance for loan losses charged to the year earnings <sup>(1)</sup>	33,837	34,071
Reserves created against previous years	-	1,408
Applications, write-downs and others	(33,620)	(33,877)
Exchange rate fluctuations	<u>(2)</u>	<u>(11)</u>
Balance at end of year	\$ 31,811	31,596
	=====	=====

<sup>(1)</sup>The recoveries amounted for \$1,538 are presented under the allowance for loan losses item in the consolidated income statement, therefore, the net allowance for loan losses variation in the year earnings for the year ended on December 31, 2018, is for \$32,299.

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**(12) Securitization operations-**

Mortgage portfolio securitizations-

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

***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 contract established the initial value of guarantees with respect to the loan backing the certificate, which amount is recorded for accounting purposes under "Benefits receivable from securitized transactions" for BBVA Bancomer.

**- 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.

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***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.

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The specific characteristics of each trust are detailed below:

	<b>Trusts</b>				
	<b><u>711</u></b>	<b><u>752</u></b>	<b><u>847</u></b>	<b><u>881</u></b>	<b><u>989</u></b>
Execution date of trust contract	Dec-19-07	Mar-13-08	Dec-08-08	Aug-03-09	Jun-21-13
Number of loans assigned	2,943	1,587	18,766	15,101	10,830
Amount of portfolio	\$ <u>2,644</u>	<u>1,155</u>	<u>5,823</u>	<u>6,545</u>	<u>4,413</u>
Securitized debt certificates issued	25,404,498	11,143,185	55,090,141	59,101,116	41,920,673
Face value per securitized debt certificates (in Mexican pesos)	\$ <u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>	<u>100 pesos</u>
Amount of issue of securitized debt certificates	\$ <u>2,540</u>	<u>1,114</u>	<u>5,509</u>	<u>5,910</u>	<u>4,192</u>
Tranche A1	\$ -	-	-	<u>562</u>	-
Tranche A2	\$ -	-	-	<u>1,732</u>	-
Tranche A3	\$ -	-	-	<u>3,616</u>	-
Gross annual interest rate	9.05%	8.85%	9.91%	-	6.38%
Tranche A1	-	-	-	6.14%	-
Tranche A2	-	-	-	8.04%	-
Tranche A3	-	-	-	10.48%	-
Effective duration of the SMC (years)	20.5	20.42	22	20.08	20
Value of certification	\$ 103	40	314	635	221
	=====	=====	=====	=====	=====
Loan to value %	3.9%	3.5%	5.4%	9.7%	5.0%
Total cash flow received for the assignment	\$ 2,507	1,091	5,475	5,733	4,129
	=====	=====	=====	=====	=====

As of December 31, 2018 and 2017, amounts reported under "Benefits to be received in securitization transactions", of \$87 and \$159, respectively, represent the outstanding trust certificates of non-consolidable securitizations.

The summarized financial information of non-consolidable securitization trusts as of December 31, 2018 and 2017, are shown below:

<b><u>Trust Number</u></b>	<b><u>711</u></b>		<b><u>752</u></b>		<b><u>847</u></b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Assets	\$ 306	418	164	222	897	1,166
Liabilities	282	384	150	201	826	1,071
Stockholders' equity	24	34	14	21	71	95
Net result	\$ 2	5	(1)	5	13	18
	===	===	===	===	=====	=====

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**(13) Other accounts receivable, net-**

Other accounts receivable as of December 31, 2018 and 2017 are as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Debtors from pending settlement transactions <sup>(a)</sup>	\$	51,685	54,260
Loans to officers and employees <sup>(b)</sup>		12,879	11,575
Sundry debtors		4,458	3,502
Collateral provided through OTC derivatives <sup>(c)</sup>		6,315	9,789
Other		<u>1,726</u>	<u>1,342</u>
		77,063	80,468
Allowance for uncollectible accounts		<u>(285)</u>	<u>(308)</u>
	\$	76,778	80,160
		=====	=====

- (a) The receivables from pending to be settle transactions as of December 31, 2018 and 2017, are as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Foreign currencies	\$	35,627	45,683
Investments in securities		15,102	7,297
Derivatives		<u>956</u>	<u>1,280</u>
	\$	51,685	54,260
		=====	=====

- (b) Corresponds to officials and employees belonging to 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, 2018 and 2017 is comprised in the next page.



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		<u>2018</u>		<u>2017</u>
	<u>Acquisition</u> <u>cost</u>	<u>Accrued</u> <u>interest</u>	<u>Carrying</u> <u>amount</u>	<u>Carrying</u> <u>amount</u>
Collateral granted through derivatives:				
Actinver Casa Bolsa GFA	\$ 5	-	5	-
BBVA Servex	-	-	-	1,292
Banca Afirme, S. A.	-	-	-	2
Banca Mifel, S. A. IBM	25	-	25	28
Banco Actinver IBM	-	-	-	5
Banco Interacciones	-	-	-	202
Banco Invex	90	-	90	100
Banco Regional de Monterrey	224	1	225	61
Banco Monex	66	-	66	52
Banco Base S. A.	18	-	18	-
Banco Nacional de México	391	3	394	-
Banco Nacional de Obras	1,855	13	1,868	1,532
Banco Scotiabank	81	1	82	50
Banco of Nova Scotia	9	-	9	-
Barclays Bank Plc	145	1	146	147
BBVA Chile	-	-	-	31
BBVA Colombia S. A.	86	-	86	13
BNP Paribas	599	1	600	2,636
Nacional Financiera	4	-	4	-
HSBC México, S. A.	-	-	-	613
JP Morganchase Bank NY	1,738	4	1,742	41
Banco JP Morgan S. A.	-	-	-	2,145
Royal Bank of Scotland	14	-	14	36
Societe Generale	<u>939</u>	<u>2</u>	<u>941</u>	<u>803</u>
	\$ 6,289	26	6,315	9,789
	=====	==	=====	=====

**(14) Foreclosed assets, net -**

Foreclosed assets account balance at December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Buildings	\$ 3,567	4,148
Land	1,622	1,745
Securities and rights	<u>23</u>	<u>24</u>
	5,212	5,917
Less - Allowance for impairment of foreclosed assets	<u>(3,453)</u>	<u>(3,315)</u>
Total	\$ 1,759	2,602
	=====	=====

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The changes in the reserve for decreases in value of foreclosed assets are summarized below, for the years ended December 31, 2018 and 2017:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Opening balance	\$	3,315	2,984
Reserves created against "Other operating expenses"		707	1,030
Merge of Hipotecaria Nacional, S. A. de C. V., SOFOM ER		-	33
Reserve applications for foreclosure sales and others		<u>(569)</u>	<u>(732)</u>
Ending balance	\$	3,453	3,315
		=====	=====

Fully reserved foreclosed assets at December 31, 2018 and 2017 are as follows:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Premises – Foreclosed value	\$	2,106	1,813
Lands – Foreclosed value		1,828	1,340
Securities and rights – Foreclosed value		<u>20</u>	<u>20</u>
Total	\$	3,954	3,173
		=====	=====

**(15) Property, furniture and equipment, net-**

Property, furniture and equipment at December 31, 2018 and 2017 are as follows:

		<b><u>2018</u></b>	<b><u>2017</u></b>
Furniture and equipment	\$	15,145	14,249
Office buildings		19,570	19,692
Installation costs		17,896	17,867
Land		<u>5,614</u>	<u>5,921</u>
		58,225	57,729
Less- Accumulated depreciation and amortization		<u>(18,056)</u>	<u>(16,380)</u>
Total	\$	40,169	41,349
		=====	=====

For the year ended December 31, 2018, the amount of depreciation and amortization which are recognized in the results of the year were \$3,164 y \$949, respectively (for the year 2017, it were \$3,207 and \$811, respectively).

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**(16) Equity investments-**

As of December 31, 2018 and 2017, 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:

<u>Entity</u>	<u>Participation</u>		<u>2018</u>	<u>2017</u>
	<u>2018</u>	<u>2017</u>		
Fideicomiso No.1729 INVEX - Disposal of Portfolio <sup>(1)</sup>	32.25%	32.25%	\$ -	758
Servicios Electrónicos Globales, S. A. de C. V.	46.14%	46.14%	191	143
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%	50.00%	167	151
Fideicomiso FIMPE.	28.50%	28.50%	76	77
Other investments recognized at cost	Various	Various	<u>100</u>	<u>106</u>
Total			\$ 534	1,235
			===	=====

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, 2018 and 2017, dividends received from associated companies and other permanent investments amounted to \$102 and \$81, respectively. Recognized in the results of the year in the item "Other income from the operation".

For years ended on December 31, 2018 and 2017, participation in results of associated companies amounted to \$36 and \$34, respectively.

Contributions made by the Institution and the movement of the reserve, in the trust 1729 for the year ended December 31, 2018 and 2017 are as follows:

<u>Concept</u>	<u>2018</u>	<u>2017</u>
Total contributions	\$ 1,243	1,243
Associated reserve	<u>(485)</u>	<u>(485)</u>
Net value	758	758
Reserve for impairment value	<u>(758)</u>	-
Net value	\$ -	758
	===	===

<sup>(1)</sup>In October 2013, the Trust number 1729, 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 real estate buildings located in different parts of Mexico.

The Institution recorded in the year earnings during the year ended December 31, 2018, an impairment reserve on the participation of the Trust number 1729, which amounted to \$ 758.

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**(17) Other assets-**

The balance of deferred charges, advance payments and intangibles assets at December 31, 2018 and 2017 is comprised as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Software <sup>(1)</sup> net	\$	4,556	4,284
Prepaid expenses		1,715	2,281
Recoverable taxes		-	1,038
Other deferred charges		<u>387</u>	<u>288</u>
Total	\$	6,658	7,891
		=====	=====

<sup>(1)</sup>As of December 31, 2018 and 2017, the amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

At December 31, 2018 and 2017, the amount of the historical cost and software amortization are detailed below:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Historical cost	\$	17,240	15,377
Accumulated amortization		<u>(12,684)</u>	<u>(11,093)</u>
Total	\$	4,556	4,284
		=====	=====

For the year ended December 31, 2018 and 2017 the amount of amortization recognized in the results of the years are \$1,593 y \$1,411, respectively.

**(18) Deposits-**

At December 31, 2018, average rates of bank deposits (unaudited) in "local currency", according to their short and long-term demand are 1.51% and 5.97% and 0.06% and 0.94%, in "Foreign currency", respectively, (at December 31, 2017, these were 1.04% and 4.69% in "local currency" and 0.11% and 0.31% in "Foreign currency", respectively, unaudited).

		<u><b>2018</b></u>	<u><b>2017</b></u>
Deposit funding:			
Demand deposits	\$	864,651	835,427
Time deposits:			
PRLV		200,550	181,125
Time deposits		43,961	56,477
Credit instruments issued <sup>(a)</sup>		88,162	86,280
Inactive deposits global account		<u>3,565</u>	<u>3,324</u>
Total	\$	1,200,889	1,162,633
		=====	=====

<sup>(a)</sup> Credit instruments see in the next page.

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Description of the principal programs

As of December 31, 2018 and 2017, the Institution has placed short-term and long-term, composed as follows:

	<b>2018</b>			<b>2017</b>		
	<b>Amount</b>	<b>Term (days)</b>	<b>Rate</b>	<b>Amount</b>	<b>Term (days)</b>	<b>Rate</b>
Long term Banking bonds	\$ 27,856	1,353	8.26%	\$ 27,908	1,348	7.39%
Short term Banking bonds	4,869	221	8.41%	6,013	289	7.19%
Securitized debt certificates MXP	19,437	2,028	8.28%	17,342	2,063	7.69%
Securitized debt certificates UDI's	21,117	5,355	4.03%	20,125	5,355	4.03%
Senior Notes	<u>14,883</u>	3,653	4.38%	<u>14,892</u>	3,653	4.38%
		=====	=====		=====	=====
Total	\$ 88,162			\$ 86,280		
	=====			=====		

**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 the mechanism for determining the liquidity coefficient for liabilities denominated in foreign currency.

According to aforementioned regime, during 2018 and 2017, the Institution generated a liquidity requirement of 986 and 2,306 US million dollars, respectively and kept an investment in liquid assets of 1,666 and 5,041 US million dollars with a surplus of 1,665 million and 2,735 million US dollars, respectively.

**(19) Interbank loans and loans from other entities-**

At December 31, 2018 and 2017, interbank loans and loans from other entities are as follows:

	<b>Mexican pesos</b>		<b>U.S. dollars in Mexican pesos</b>		<b>Total</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Instituto de Crédito Oficial	\$ -	-	90	126	90	126
Trusts Instituted in Relation to Agriculture (FIRA)	<u>15,957</u>	<u>15,308</u>	<u>1,814</u>	<u>1,946</u>	<u>17,771</u>	<u>17,254</u>
	\$ 15,957	15,308	1,904	2,072	17,861	17,380
	=====	=====	=====	=====	=====	=====

As of December 31, 2018 interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from 2 days and up to 2 years (4 days and up to 3 years in 2017) at annual USD rates ranging between 1.5% and 8.25% (between 1.50% and 7.25% annual rates in 2017).

The Institution has a liquidity line of credit in the Central Bank of an amount equivalent to up to the DRM (see note 4). Such line of credit amounted to \$40,230 at December 31, 2018 and 2017, without considering interest in both years. At December 31, 2018 and 2017, the Institution did not use such line of credit.

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**(20) Labor obligations**

The Institution has liabilities for labor obligations arising from employee benefits, resulting from post-employment benefits, which consider the payment of seniority premiums upon retirement, post-retirement obligations for payment of integrated medical services to retirees and their economic dependents, life insurance and sports 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 NIF D-3. Plan assets are managed through an irrevocable trust.

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

Below is the breakdown of the net liabilities for defined benefits at December 31, 2018 and 2017, and it is included in the caption "Sundry creditors and other accounts payable".

	2018					
	Pension plan and seniority premium	Other retirement benefits				Total
		Comprehensive medical services	Death benefit	Retiree sports club	Legal compensation	
As of December 31, 2018, net (liability) from defined benefits are as follows:						
Benefit obligations	\$ (4,042)	(6,428)	(736)	(12)	(6)	(11,224)
Plan assets	<u>2,793</u>	<u>5,662</u>	<u>1,414</u>	<u>(1)</u>	<u>-</u>	<u>9,868</u>
Net (liability) for defined benefits	\$ (1,249)	(766)	678	(13)	(6)	(1,356)
	=====	=====	=====	=====	=====	=====

2018						
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retiree sports club	Legal compensation	Total
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)
Ending balance of defined benefit obligations	\$ 4,042	6,428	736	12	6	11,224
	=====	=====	=====	=====	=====	=====

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		2018					
		Pension plan and seniority premium	Other retirement benefits			Legal compensation	Total
			Comprehensive medical services	Death benefit	Retired sport club		
As of December 31, 2018, the Plan Assets ("PA") are comprised 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 generated in the period		(432)	(779)	(210)	-	-	(1,421)
Paid benefits		<u>(491)</u>	<u>(462)</u>	<u>(6)</u>	<u>(1)</u>	<u>-</u>	<u>(960)</u>
PA at the end of the year	\$	2,793	5,662	1,414	(1)	-	9,868
		=====	=====	=====	==	=	=====
Net assets (liabilities) for 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 (losses) gains recognized in OCI during the period		<u>(793)</u>	<u>(212)</u>	<u>(214)</u>	<u>2</u>	<u>-</u>	<u>(1,217)</u>
Net assets (liabilities) for defined benefits at the end of the year							
	\$	(1,249)	(766)	678	(13)	(6)	(1,356)
		=====	=====	=====	==	=	=====
As of December 31, 2018, the (cost) defined benefit income for the period is comprised as follows:							
Current service cost	\$	-	-	-	-	(1)	(1)
Net interest on the (liability) net asset 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 assets (liabilities) net defined benefit to recognize in the OCI:							
Gains on the obligation for defined benefits		(92)	(157)	25	-	-	(224)
PA profits		<u>(6)</u>	<u>(11)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
Income (Cost) Net of the Period	\$	(135)	(340)	99	(1)	(1)	(378)
		=====	=====	=====	==	==	=====

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2018						
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retired sport club	Legal compensation	Total
As of December 31, 2018, the remeasurements of the net (liability) asset for defined benefit recognized in the OCI, are comprised as follows:						
Reconciliation of actuarial (loss) gains:						
Opening balance (losses) gains on the obligation	\$ (1,102)	(1,883)	294	1	-	(2,690)
(Losses) gains in the obligation	(361)	567	(4)	2	-	204
Reclassification of remeasurement of the obligation	<u>92</u>	<u>157</u>	<u>(25)</u>	<u>-</u>	<u>-</u>	<u>224</u>
Ending balance (losses) gains on the obligation	<u>(1,371)</u>	<u>(1,159)</u>	<u>265</u>	<u>3</u>	<u>-</u>	<u>(2,262)</u>
Opening balance (losses) gains on return on assets	(67)	(130)	(35)	-	-	(232)
Gains (losses) on the PA return	6	11	3	-	-	20
Reclassification of remeasurement in the PA return	<u>(432)</u>	<u>(779)</u>	<u>(210)</u>	<u>-</u>	<u>-</u>	<u>(1,421)</u>
Ending balance (losses) gains on the obligation	<u>(493)</u>	<u>(898)</u>	<u>(242)</u>	<u>-</u>	<u>-</u>	<u>(1,633)</u>
Final balance (losses) net gains recognized in OCI	\$ (1,864) =====	(2,057) =====	23 ==	3 =	- =	(3,895) =====
2017						
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retiree sports club	Legal compensation	Total
As of December 31, 2017, net (liability) asset from defined benefits are as follows:						
Benefit obligations	\$ (3,831)	(6,833)	(676)	(14)	(5)	(11,359)
Plan assets	<u>3,412</u>	<u>4,927</u>	<u>1,491</u>	<u>-</u>	<u>-</u>	<u>9,830</u>
Net (liability) for defined benefits	\$ (419) ===	(1,906) =====	815 ===	(14) ==	(5) =	(1,529) =====
As of December 31, 2017, the defined benefit obligations are as follows:						
Initial balance	\$ 2,996	5,033	838	13	4	8,884
Service Cost	-	-	-	-	1	1
Financial cost	276	479	79	1	-	835
Actuarial gains and (losses) of the period	1,028	1,818	(236)	1	-	2,611
Paid benefits	<u>(469)</u>	<u>(497)</u>	<u>(5)</u>	<u>(1)</u>	<u>-</u>	<u>(972)</u>
Defined benefit obligations	\$ 3,831 =====	6,833 =====	676 ===	14 ==	5 =	11,359 =====



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	2017					
		Other retirement benefits				
	Pension plan and seniority premium	Comprehensive medical services	Death benefit	Retired sport club	Legal compensation	Total
As of December 31, 2017, the PA are comprised as follows:						
PA at the beginning of the year	\$ 3,481	4,858	1,345	-	-	9,684
PA expected return	324	462	130	-	-	916
Actuarial gains of in the period	76	104	21	-	-	201
Paid benefits	(469)	(497)	(5)	-	-	(971)
PA at the end of the year	\$ 3,412	4,927	1,491	-	-	9,830
	=====	=====	=====	==	=	=====
Net assets (liabilities) for defined benefits at the beginning of the year						
	\$ 485	(175)	507	(13)	(4)	800
Service Cost	-	-	-	-	(1)	(1)
Net interest	48	(17)	50	(1)	-	80
Payments made	-	-	-	1	-	1
Actuarial (losses) gains recognized in OCI during the period	(952)	(1,714)	258	(1)	-	(2,409)
Net assets (liabilities) for defined benefits at the end of the year						
	\$ (419)	(1,906)	815	(14)	(5)	(1,529)
	=====	=====	===	==	=	=====
As of December 31, 2017, the (cost) defined benefit income for the period is integrated as follows:						
Current service cost	\$ -	-	-	-	(1)	(1)
Net interest on the (liability) net asset for defined benefits:						
Interest cost of defined benefit obligations	(276)	(479)	(79)	(1)	-	(835)
PA interest income	324	462	130	-	-	916
Reclassification of remeasurement of assets (liabilities) net defined benefit to recognize in the OCI:						
Gains on the obligation for defined benefits	(6)	(5)	5	-	-	(6)
PA profits	(12)	(19)	(5)	-	-	(36)
Income (cost) Net of the Period	\$ 30	(41)	51	(1)	(1)	38
	==	==	==	==	==	==

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	<b>2017</b>					<b>Total</b>
	<b>Pension plan and seniority premium</b>	<b>Other retirement benefits</b>				
	<b>Comprehensive medical services</b>	<b>Death benefit</b>	<b>Retired sport club</b>	<b>Legal compensation</b>		
As of December 31, 2017, the remeasurements of the net asset (liability) for defined benefit recognized in the OCI, are integrated as follows:						
Reconciliation of actuarial (loss) gains:						
Opening balance (losses) gains on the obligation	\$ (80)	(70)	63	1	-	(86)
(Losses) gains in the obligation	(1,028)	(1,818)	236	(1)	-	(2,611)
Reclassification of remeasurement of the obligation	<u>6</u>	<u>5</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>6</u>
Ending balance (losses) gains on the obligation	(1,102)	(1,883)	294	-	-	(2,691)
Opening balance (losses) gains on return on assets	(155)	(252)	(60)	-	-	(467)
Gains (losses) on the PA	76	104	21	-	-	201
Reclassification of replenishments in the PA return	<u>12</u>	<u>19</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>36</u>
Ending balance (losses) gains on the obligation	<u>(67)</u>	<u>(129)</u>	<u>(34)</u>	<u>-</u>	<u>-</u>	<u>(230)</u>
Final balance (losses) net gains recognized in OCI	\$ (1,169) =====	(2,012) =====	260 =====	- =	- =	(2,921) =====

Since year end 2010, the sports plan for retirees is 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.

At December 31, 2018 and 2017, the legal compensation plan and the sports club plan for retirees have no assets for financing the obligations for defined benefits.

At December 31, 2018 and 2017, plan assets were invested in government securities. Likewise, expected profit of the plan assets to those dates was estimated in the amount of \$895 and \$916 of surplus, respectively. Real profit to the same dates in the amount of \$526 and \$1,117 of surplus, respectively.

The main actuarial hypotheses used in 2018 and 2017 are shown below:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Nominal discount rate used to estimate the obligation's present value	10.45%	9.48%
Yield rate expected for plan assets	10.45%	9.48%
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%

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**(21) Subordinated debt-**

Subordinated obligations are comprised as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Junior notes of USD 1,000 million, 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 1,000 dollars each.	\$ 19,651	19,663
Senior notes of USD 1,250 million, 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 1,000 dollars each.	24,564	24,579
Senior notes of USD 1,000 million, 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 1,000 dollars each.	29,477	29,494
Senior notes of USD 200 million, 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 1,000 dollars each.	3,390	3,933
Senior notes of USD 1,000 million, 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 1,000 dollars each.	19,651	-
Unpaid accrued interest	<u>1,756</u>	<u>1,297</u>
Total	\$ 99,029 =====	78,966 =====

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**(22) Related parties -**

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

	<u><b>2018</b></u>	<u><b>2017</b></u>
Banco Bilbao Vizcaya Argentaria, S. A.:		
Derivative financial instruments <sup>(1)</sup>	\$ 11,118	(1,773)
Repurchase/resell agreements payable <sup>(1)</sup>	-	(4,238)
	=====	=====
BBVA Bancomer Operadora, S. A. de C. V.:		
Administrative services fees <sup>(2)</sup>	\$ 11,391	12,282
Accounts payables <sup>(1)</sup>	2,918	3,511
	=====	=====
BBVA Bancomer Servicios Administrativos, S. A. de C. V.:		
Administrative services fees <sup>(2)</sup>	\$ 12,596	10,772
Accounts payables <sup>(1)</sup>	3,087	2,609
	=====	=====
Seguros BBVA Bancomer, S. A. de C. V.:		
Comissions income <sup>(2)</sup>	\$ 1,877	1,976
Paid insurance premiums <sup>(2)</sup>	105	163
	=====	=====
BBVA Bancomer Gestión, S. A. de C. V.:		
Comissions income <sup>(2)</sup>	\$ 3,604	2,888
	=====	=====
Aplica Tecnología Avanzada, S. A. de C. V.:		
Deposits <sup>(1)</sup>	\$ 611	779
Loans portfolio <sup>(1)</sup>	-	1,005
	=====	=====
Income:		
Interest <sup>(2)</sup>	\$ 15	41
Loans origination commissions <sup>(2)</sup>	58	31
	=====	=====
Administrative services fees <sup>(2)</sup>	\$ 42	44
	=====	=====
Expense:		
Processing and systems development <sup>(2)</sup>	\$ 2,500	2,374
	=====	=====

<sup>(1),(2)</sup>See explanation on the next page.

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	<u>2018</u>	<u>2017</u>
Facileasing Equipment, S. A. de C. V.:		
Income:		
Interest <sup>(2)</sup>	\$ -	113
Administrative services fees <sup>(2)</sup>	-	31
	=====	=====
BBVA Leasing México, S. A. de C. V. (before Facileasing, S. A. de C. V.):		
Deposits <sup>(1)</sup>	\$ 151	258
	=====	=====
Loans portfolio <sup>(1)</sup>	\$ 8,581	12,086
	=====	=====
Income:		
Interest <sup>(2)</sup>	\$ 649	296
Administrative services fees <sup>(2)</sup>	-	65
	=====	=====

<sup>(1)</sup> Balances of accounts payable/receivable at December 31, 2018 and 2017, respectively.

<sup>(2)</sup> It relates to the income or (expense) recorded in the income statement for years ended on December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, there are other related parties transactions that are regarded as non-significant they 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:

	<u>2018</u>		<u>2017</u>	
	<u>Tax</u>	<u>Rate</u>	<u>Tax</u>	<u>Rate</u>
Statutory rate	\$ 18,975	30.00%	\$ 15,909	30.00%
Increase (reduction from):				
Non-deductible expenses	464	0.73%	458	0.86%
Effects of inflation	(3,209)	(5.07%)	(2,987)	(5.63%)
Reversal on revenues/expenses from previous years	928	1.47%	571	1.08%
Other	<u>66</u>	<u>0.10%</u>	<u>(32)</u>	<u>(0.06%)</u>
Effective rate	\$ 17,224	27.23%	\$ 13,919	26.25%
	=====	=====	=====	=====

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

At December 31, 2018 and 2017, the Institution has an IMPAC of \$282 and \$199, respectively.

*Other tax issues:*

At December 31, 2018 and 2017, balances are as follows:

		<u><b>2018</b></u>	<u><b>2017</b></u>
Net after-tax profit account	\$	108,365	80,840
Capital contributions account		70,628	66,773
		=====	=====

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:

		<u><b>2018</b></u>		<u><b>2017</b></u>		
		<u><b>Temporary differences</b></u>		<u><b>Temporary differences</b></u>		<u><b>Movement</b></u>
		<u><b>Base</b></u>	<u><b>Deferred IT</b></u>	<u><b>Base</b></u>	<u><b>Deferred IT</b></u>	<u><b>for the 2018 year</b></u>
<u>Deferred tax assets:</u>						
Allowance for loan losses (not deducted)	\$	34,809	10,443	31,596	9,479	964
Fees and interest charged in advance		8,144	2,443	8,092	2,427	16
Provisions		6,147	1,844	6,990	2,097	(253)
Other assets		4,195	1,259	4,946	1,484	(225)
Foreclosed assets		4,687	1,406	4,458	1,337	69
Valuation of available-for-sale securities (comprehensive income)		3,208	962	2,953	886	76
Valuation of hedging derivatives and available-for-sale securities (comprehensive income)		163	49	-	-	49
Employee benefits		640	192	-	-	192
Market valuation results		-	-	2,616	785	(785)
Total asset		<u>61,993</u>	<u>18,598</u>	<u>61,651</u>	<u>18,495</u>	<u>103</u>
<u>Deferred tax liabilities:</u>						
Market valuation (income)		5,946	1,784	-	-	1,784
Valuation of hedging derivatives and available-for-sale securities (comprehensive income)		-	-	112	34	(34)
Pre-maturity of derivative financial instruments		381	114	10,868	3,260	(3,146)
Employee benefits		-	-	813	244	(244)
Other liabilities		<u>110</u>	<u>33</u>	<u>87</u>	<u>26</u>	<u>7</u>
Total liabilities		<u>6,437</u>	<u>1,931</u>	<u>11,880</u>	<u>3,564</u>	<u>(1,633)</u>
Net deferred assets	\$	55,556	16,667	49,771	14,931	1,736
		=====	=====	=====	=====	=====
Movement in results for the year						\$ (1,510)
Movement in equity						\$ (226)
						===

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In assessing the recoverability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

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 IT 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 at December 31, 2018 and 2017, was as follows:

Number of shares at Par Value of \$0.28 Mexican pesos per shared			
	<b>Capital stock</b>	<b>Capital stock Unsubscribed</b>	<b>Paid-in</b>
Series "F"	9,107,142,859	(1,370,063,922)	7,737,078,937
Series "B"	<u>8,749,999,999</u>	<u>(1,316,335,923)</u>	<u>7,433,664,076</u>
Total	17,857,142,858 =====	(2,686,399,845) =====	15,170,743,013 =====
Historical amount			
	<b>Capital stock</b>	<b>Capital stock Unsubscribed</b>	<b>Paid-in</b>
Series "F"	\$ 2,550	(384)	2,166
Series "B"	<u>2,450</u>	<u>(368)</u>	<u>2,082</u>
Subtotal	\$ 5,000 =====	(752) =====	4,248
Reordering of capital updates			10,971
December 2007, update to pesos			<u>8,924</u>
Total			\$ 24,143 =====

At General Ordinary Stockholders' Meeting held on February 28, 2018, it was agreed distribution of dividends for up to \$27,400, which \$26,322 were declared from the account "Retained Earnings ", on the basis of \$1.73505015393 pesos per share, which were 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.

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At General Ordinary Stockholders' Meeting held on February 28, 2017, it was agreed distribution of dividends for up to \$23,318, which \$21,438 were declared from the account "Retained Earnings ", on the basis of \$1.413114702532 pesos per share, which were paid to shareholders as follows: on March 21, 2017, June 21, 2017, September 20, 2017 and December 21, 2017, for \$3,025, \$7,138, \$4,637 and \$6,638, respectively.

Through an Extraordinary Stockholders' Meeting held on January 27, 2017, it was approved to carry out the merger of the Institution, as a merging company that subsists, with the companies Hipotecaria Nacional, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero BBVA Bancomer (Hipotecaria Nacional); Desitel Tecnología y Sistemas, S. A. of C. V. and; Betese, S. A. of C. V. (these last two were subsidiaries of the Institution until that date), as merged companies that become extinct, having effect as of February 15, 2017. The effects of the merger of Hipotecaria Nacional represented an increase in the Institution's stockholders equity of \$183.

**(b) Comprehensive income-**

Comprehensive income for years ended on December 31, 2018 and 2017, amounted to \$44,772 and \$38,046, 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 according to the applicable accounting criteria, recorded directly in stockholders' equity (result from valuation of securities available for sale, result from valuation of cash flow hedging, initial effect of the application of provisions in effect in year 2017, corresponding to one of the above mentioned items and remeasurements for employees' defined benefits.)

**(c) Stockholders' equity restrictions-**

The Law obliges the Institution to separate 10% of its profits annually in order to establish capital reserves, up to the amount of 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.



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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 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 y 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 at December 31, 2018 amounted to 15.27% of total risk (market, credit and operational) and 21.60% of credit risk, which are 4.02% and 10.35% points above the minimum required, including in addition the conservation the equity are 2.5% and 0.75% of supplementary for the risk systematic.

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The Commission authorized on November 16, 2018 the internal model for the mortgage loan portfolio to be used as of December 2018.

The amount of net capital, made up 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:*

<b><u>Concept</u></b>	<b><u>Amount</u></b>
Stockholders' equity	\$ 193,745
Capitalization instruments	6,241
Instruments of subordinated debt in relation to securitization programs	(450)
Deductions of investments in shares of financial entities	(695)
Organization expenses and other intangibles	(5,233)
Deferred taxes for tax losses	<u>(756)</u>
Total	\$ 192,852 =====

The main features of the obligations are shown below:

<b><u>Concept</u></b>	<b><u>Valued amount</u></b>	<b><u>Maturity date</u></b>	<b><u>Calculation percentage</u></b>	<b><u>Weighted average (basic capital)</u></b>
Non-convertible- Computable in basic capital: Computable capitalization instruments	\$ 29,477 =====	30/09/2022	40%	\$ 11,791 =====

- *Supplementary capital:*

<b><u>Concept</u></b>	<b><u>Amount</u></b>
Obligations and capitalization instruments	\$ 43,697
Allowance for loan losses	<u>110</u>
Total	\$ 43,807 =====
Net capital	\$ 236,659 =====

<b><u>Concept</u></b>	<b><u>Valued amount</u></b>	<b><u>Maturity date</u></b>	<b><u>Calculation percentage</u></b>	<b><u>Weighted average (basic capital)</u></b>
Computable capitalization instruments	\$ 24,564	10/03/2021	40%	\$ 9,826
Computable capitalization instruments	19,651	22/04/2020	40%	7,860
Computable capitalization instruments	3,930	12/11/2029	40%	1,572
Computable capitalization instruments	<u>19,651</u>	18/01/2033	100%	<u>19,651</u>
Total	\$ 67,796 =====			\$ 38,909 =====

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Assets on risk are comprised as follows:

– *Assets subject to market risk:*

<u>Concept</u>	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Transactions in Mexican pesos with nominal rate	\$ 248,882	19,911
Transactions in Mexican pesos, with real rate or denominated in UDIS	26,301	2,104
Return rate referred to the general minimum wage	7,436	595
Transactions in foreign currency with nominal rate	39,942	3,195
Positions in UDIS or with return referred to the NCPI	63	5
Positions in foreign currencies with return indexed to the exchange rate	15,831	1,266
Positions in shares or with return indexed to the price of a share or group of shares	14,265	1,141
Transactions referred to the general minimum wage	233	19
Gamma (RC-18)	8,044	644
Vega (RC-18)	101	8
Spread	<u>5,821</u>	<u>466</u>
Total market risk	\$ 366,919 =====	29,354 =====

– *Assets subject to credit risk:*

<u>Concept</u>	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Weighted at 10%	\$ 2,286	183
Weighted at 11.5%	2,079	166
Weighted at 20%	21,745	1,740
Weighted at 23%	31	2
Weighted at 50%	9,092	727
Weighted at 57.5%	312	25
Weighted at 100%	389,565	31,165
Weighted at 115%	4,715	377
Weighted at 150%	2,645	212
Weighted at 1250%	857	69
CCC / E and C Internal methodology	609,910	48,793
CVA	18,646	1,492
ECC	116	9
Counterparty	15,523	1,242
Related	18,228	1,458
Repurchase agreements and Spot	<u>55</u>	<u>4</u>
Total credit risk	\$ 1,095,805 =====	87,664 =====
Operational risk	\$ 87,240 =====	6,979 =====

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

In turn, the periodic processes to guarantee that the 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 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.

Based on the foregoing, it is determined 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 Provisions "Supplementary Information for the fourth quarter of 2018", in compliance with the obligation to disclose information on the Capitalization Index, available on the webpage <https://investors.bancomer.com/>.

**(25) Foreign currency position -**

Central Bank Regulations establish 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. At December 31, 2018 and 2017, the Institution kept an exchange rate risk position within the mentioned limit.

At December 31, 2018 and 2017, 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 \$19.6512 Mexican pesos and \$19.6629 Mexican pesos per U.S. dollar, respectively, and the position in foreign currency was as described in the following page.

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	<b>Millions of U.S Dollars</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Assets	15,486	16,963
Liabilities	<u>(14,977)</u>	<u>(16,511)</u>
Net assets position in U.S. dollars	509	452
	=====	=====
Net assets position in Mexican pesos (nominal value)	\$ 10,002	8,888
	=====	=====

As of February 28, 2019, date of issuance of the audited financial statements, the last known exchange rate established by the Mexican central bank was 1 USD = MXN \$19.2201.

According to the provisions of the Central Bank of Mexico, the position reported to that institution as of December 31, 2018 and 2017 was USD \$360 million and USD \$312 million long, which includes delta FX options, 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-**

At December 31, 2018 and 2017, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of \$6.226631 and \$5.934551 Mexican pesos per UDI, respectively, as follows:

	<b>Millions of UDIS</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>
Assets	6,819	5,051
Liabilities	<u>(7,281)</u>	<u>(5,357)</u>
Net liability position in UDIS	(462)	(306)
	=====	=====
Net liability position in Mexican pesos (nominal value)	\$ (2,877)	(1,816)
	=====	=====

As of February 28, 2019, date of issuance of the audited financial statements, the last known UDIS exchange rate of that date was \$6.250861 Mexican pesos 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.

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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 2018 and 2017, contributions made by the financial group to IPAB for insurance deposits amounted to \$5,217 and \$4,917, respectively.

**(28) Net interest income-**

For the years ended December 31, 2018 and 2017, the main items comprising the net interest income were as follows:

		<b>2018</b>		
		<b>Mexican Pesos</b>	<b>Dollars</b>	<b>Total</b>
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
Commissions collected on loan originations (note 9)		1,952	11	1,963
Other		<u>1,493</u>	<u>563</u>	<u>2,056</u>
Total interest income		<u>174,644</u>	<u>13,988</u>	<u>188,632</u>
Interest expense:				
Deposits' interest		(29,376)	(836)	(30,212)
Interest from loans provided by banks and other entities		(1,670)	(20)	(1,690)
Interest on subordinated obligations		(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 from loan originations		(1,116)	-	(1,116)
Other		<u>(1,113)</u>	<u>(86)</u>	<u>(1,199)</u>
Total interest expense		(61,019)	(4,701)	(65,720)
Net interest income	\$	113,625	9,287	122,912
		=====	=====	=====

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	<b>2017</b>		
	<b>Mexican Pesos</b>	<b>Dollars</b>	<b>Total</b>
Interest income:			
Interest and returns on loan portfolio (note 9)	\$ 118,296	10,215	128,511
Interest and return on securities (note 6 (a), 6 (b) and 6 (c)).	29,611	1,058	30,669
Interest on cash and cash equivalents	3,080	978	4,058
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))	1,198	-	1,198
Interest on margin accounts	353	-	353
Commissions collected on loan originations (note 9)	1,542	-	1,542
Other	<u>1,254</u>	<u>80</u>	<u>1,334</u>
Total interest income	<u>155,334</u>	<u>12,331</u>	<u>167,665</u>
Interest expense:			
Deposits' interest	(22,262)	(709)	(22,971)
Interest from loans provided by banks and other entities	(1,501)	(30)	(1,531)
Interest on subordinated obligations	(1,257)	(3,467)	(4,724)
Interest and premiums on repurchase/resale agreements and securities lending (note 7 (b) and 7 (c))	(23,200)	-	(23,200)
Expenses from loan originations	(410)	-	(410)
Other	<u>(1,760)</u>	<u>(60)</u>	<u>(1,820)</u>
Total interest expense	<u>(50,390)</u>	<u>(4,266)</u>	<u>(54,656)</u>
Net interest income	\$ 104,944	8,065	113,009
	=====	=====	=====

**(29) Commissions and fee income-**

For the years ended December 31, 2018 and 2017, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

	<b>2018</b>	<b>2017</b>
Credit and debit cards	\$ 23,598	21,531
Bank commissions	7,298	6,864
Investment funds	3,604	2,888
Insurance	1,747	1,893
Other	<u>7,322</u>	<u>6,185</u>
Total	\$ 43,569	39,361
	=====	=====

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During 2018 and 2017, the amount of revenues earned by the Institution in trust operations amounted to \$423 and \$406, respectively.

For the years ended December 31, 2018 and 2017, the main items for which the Institution recorded commission and fee expense in the consolidated statement of income were as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Credit card	\$ (9,999)	(8,307)
Effective credit card reward points	(2,734)	(2,445)
Promotion fund collateral	(666)	(619)
Cash management and fund transfers	(393)	(391)
Credit placement	(333)	(388)
Appraisals	(265)	(338)
Sale of foreclosed assets	(135)	(308)
Purchase-sale of securities	(231)	(255)
Other	<u>(983)</u>	<u>(489)</u>
Total	\$ (15,739)	(13,540)
	=====	=====

**(30) Net gain on financial assets and liabilities-**

For the years ended December 31, 2018 and 2017, the main items comprising the net gain on financial assets and liabilities were as follows:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Valuation:		
Derivatives	\$ 9,349	(17,512)
Foreign currency	(2,525)	15,349
Investments in securities (note 6)	<u>634</u>	<u>2,573</u>
	<u>7,458</u>	<u>410</u>
Purchase-sale result:		
Derivatives	(7,030)	2,466
Foreign currency	5,727	4,339
Investments in securities	<u>(2,684)</u>	<u>(2,588)</u>
	<u>(3,987)</u>	<u>4,217</u>
Total	\$ 3,471	4,627
	=====	=====

**(31) Segment information-**

The Institution and its subsidiaries take part 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 the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.



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Below are presented the revenues obtained during the years 2018 and 2017, which show the different segments as indicated in the preceding page.

<b>2018</b>					
<b>Item</b>	<b>Total</b>	<b>Commercial Bank</b>	<b>Corporate and Government Banking</b>	<b>Market Operations</b>	<b>Other Segments</b>
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 loan losses allowance	90,613	64,805	25,343	694	(229)
Commissions and fees, net	27,830	19,062	8,630	276	(138)
Net gain on financial assets and liabilities	3,471	2,264	772	757	(322)
Other operating income (expenses)	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 associates	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				
	=====				
<b>2017</b>					
<b>Item</b>	<b>Total</b>	<b>Commercial Bank</b>	<b>Corporate and Government Banking</b>	<b>Market Operations</b>	<b>Other Segments</b>
Net interest income	\$ 113,009	88,545	25,448	1,707	(2,691)
Allowance for loan losses	(34,071)	(31,271)	(2,800)	-	-
Net interest income adjusted for loan losses allowance	78,938	57,274	22,648	1,707	(2,691)
Commissions and fees, net	25,821	19,007	7,384	251	(821)
Net gain on financial assets and liabilities	4,627	1,720	671	3,269	(1,033)
Other operating income (expenses)	1,251	644	277	-	330
	110,637	78,645	30,980	5,227	(4,215)
		=====	=====	=====	=====
Administrative and promotional expenses	(57,608)				
Net operating revenues	53,029				
Equity in the income of non-consolidated subsidiaries and associates	34				
Income before income tax	53,063				
Current income tax	(13,864)				
Deferred income tax (net)	(55)				
Income before non-controlling interest	39,144				
Non-controlling interest	(1)				
Net income	\$ 39,143				
	=====				

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

Organizational structure

The Risk Department reports directly to senior management of the Institution, thus guaranteeing 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, PyMEs 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 Controllershship 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 corporate entities 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.

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The Board of Directors' Risk Committee Representative is responsible for performing a risk analysis and providing periodic risk follow-up within the sphere of corporate entity 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 limited 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.

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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 corporate entities, 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.

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**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 wholesaler 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 companies and corporate portfolios; 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 millions mxp

Enterprises

>=50 millions and <60 millions 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 bank or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

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### 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:

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.

	<b><u>4Q 2017</u></b>	<b><u>3Q 2018</u></b>	<b><u>4Q 2018</u></b>
VaR of trading securities:			
VaR 1 day	\$ 138	124	90
VaR 10 days	<u>432</u>	<u>397</u>	<u>293</u>
	\$ 570	521	383
	===	===	===
	<b>VaR 1 day</b>	<b>VaR 10 days</b>	
Value at risk, trade securities			
Interest rate	\$ 80	\$ 262	
Equity securities	\$ 41	\$ 134	
Foreign currency	\$ 15	\$ 55	
Interest rate Vega	\$ 24	\$ 78	

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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 back testing 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, commercial portfolio, among others.
- Evolution of products which do not have a maturity date: for sight deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

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.

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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**

<b><u>Portfolio</u></b>	<b><u>(100) bp</u></b>	<b><u>+100 bp</u></b>	<b><u>Red flag use</u></b>
Mexican pesos	\$ 1,671	(2,025)	15.2%
Foreign currency	<u>(4,086)</u>	<u>3,473</u>	<u>58.4%</u>
Total	\$ (2,415)	1,448	18.2%
	=====	=====	=====

**Net interest income Sensitivity Projected to 12 Months**

<b><u>Portfolio</u></b>	<b><u>(100) bp</u></b>	<b><u>+100 bp</u></b>	<b><u>Red flag use</u></b>
Mexican pesos	\$ (3,658)	3,628	64.0%
Foreign currency	<u>(1,305)</u>	<u>1,275</u>	<u>36.5%</u>
Total	\$ (4,963)	4,903	69.4%
	=====	=====	=====

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):

<b><u>Portfolio</u></b>	<b><u>Use Alert SVE</u></b>	<b><u>Use Alert SMF</u></b>
Mexican pesos	14.5%	60.2%
Foreign currency	<u>57.3%</u>	<u>44.8%</u>
Total	18.6%	70.6%
	=====	=====

In terms of annual consumption for 2018, exposures are as follows (percentage of use of alerts, average of monthly closings):

<b><u>Portfolio</u></b>	<b><u>Use Alert SVE</u></b>	<b><u>Use Alert SMF</u></b>
Mexican pesos	10.1%	61.5%
Foreign currency	<u>58.8%</u>	<u>41.5%</u>
Total	34.0%	69.9%
	=====	=====



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- 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 Severity of Loss x Exposure
- 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.
- Severity of Loss 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.

<b><u>Portafolio *</u></b>	<b><u>Percentage</u></b>	
Commercial	0.6%	
Consumer	3.6%	
Mortgage	0.5%	
<b><u>Portafolio *</u></b>	<b><u>PD's</u></b>	<b><u>Severity</u></b>
Commercial	1.6%	33.7%
Consumer	6.9%	75.8%
Mortgage	2.6%	20.4%

\*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 our 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.

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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 model approval**

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 January 16, 2017 for credit cards, on August 16, 2017 for companies and on February 5, 2016 for large companies; on April 6, 2017, the authorization for this portfolio was extended.

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#### Exposure at Default

The exposure to 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.

$$\text{EAD} = \text{Disposed Balance} + \text{CCF1} * \text{Undisposed Balance} + \text{CCF2} * \text{Limits}$$

#### 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 Severity of Loss.

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 severity 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 to default.

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Severity = 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 Severity of the Loss 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.

$$CA_i = \frac{C_i}{C_1} \cdot (1 - H_c^i - H_{FX}^i) \cdot \frac{(t - 0.25)_i}{T - 0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure (E\*) is a cyclical process in which each iteration is incorporated into a new collateral (CA<sub>i</sub>) 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 (Pymes) according to the sales volume (customers with transactions valued at less than MX \$ 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 in the next page.

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**Closing E&LE December 2018**

<u>Scale</u>	<u>Available</u>	<u>Balance</u>	<u>Exposure to default</u>	<u>Weighted median severity</u>	<u>Weighted median risk</u>	<u>Exposure non-financial security interest</u>	<u>Exposure security interest</u>
A1	\$ 64,399	624,738	383,566	39.66%	0.42%	\$ 18,292	150,101
A2	2,510	62,241	12,955	38.18%	2.98%	944	13,785
B1	998	21,797	5,363	39.56%	4.45%	164	4,107
B2	12	7,182	3,071	37.58%	6.15%	143	3,989
B3	1,173	13,361	5,078	38.03%	9.57%	725	5,742
C1	64	1,769	303	36.83%	20.37%	33	506
C2	-	1,898	348	37.38%	30.36%	-	-
D	5	5,251	629	39.67%	88.22%	55	219
E	<u>2</u>	<u>5,983</u>	<u>3,710</u>	64.32%	98.15%	<u>201</u>	<u>7,216</u>
Total	\$ 69,163	\$744,220	415,023	40%*	1.76%*	\$ 20,557	185,665
	=====	=====	=====	=====	=====	=====	=====

\* 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 CUB. 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 2018**

<u>Scale</u>	<u>Available</u>	<u>Balance</u>	<u>Exposure to default</u>	<u>Weighted median severity</u>	<u>Weighting average weighted risk</u>
A1	\$ 49,372	45,139	64,707	76.30%	1.50%
A2	15,547	15,387	20,022	77.70%	3.90%
B1	8,941	9,093	11,542	77.50%	5.90%
B2	8,559	8,080	10,971	78.00%	7.60%
B3	8,726	8,931	11,124	78.40%	9.20%
C1	9,254	8,910	11,834	78.20%	11.40%
C2	10,040	10,251	13,212	76.00%	24.60%
D	2,750	2,618	3,565	77.20%	46.70%
E	<u>2,619</u>	<u>2,290</u>	<u>3,183</u>	82.30%	73.00%
Total	\$ 115,808	110,699	150,160	77.10%*	8.60%*
	=====	=====	=====		

\* Average weighted percentage

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- *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 2018 is detailed below.

<b>Backtesting 3Q 18</b>				
<b><u>Loan Portfolio</u></b>	<b><u>EL MI Sep17</u></b>	<b><u>Clean-up Oct17-Sep18</u></b>	<b><u>DIF \$ (OL - EL)</u></b>	<b><u>%USE EL sep 17</u></b>
Credit card	\$ 10,374	12,880	2,506	124%
EyGE	<u>3,028</u>	<u>995</u>	<u>(2,033)</u>	33%
Total	\$ 13,402	13,875	473	104%
	=====	=====	=====	

\* OL = Observed Loss

\*\* EL = Expected Loss

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 types of credit risk model, which are clearly differentiated by the portfolio to which they are applied and the informatic 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.).

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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 collaterals received and the principal sources of financing.

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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 2017 Liquidity risk exposure: average monthly closing.

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

LtSCD	11%
FCP 12m	\$ 213,954
CB 30d	69%

\* 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 Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Provisions, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of Banxico.

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



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<i>Millions of Mexican pesos</i>	<i>At sight</i>	<i>30 days</i>	<i>6 months</i>	<i>1 year</i>	<i>More than 1 year</i>	<i>No expiration date</i>	<i>Total</i>
Cash and cash equivalents	\$ 238,511	4,558	11,408	5,580	18,685	40,230	318,972
Loan portfolio	-	75,066	197,356	106,040	746,151	12,372	1,136,985
Securities portfolio	-	103	60,844	14,312	337,719	-	412,978
Total assets	\$ 238,511	79,727	269,608	125,932	1,102,555	52,602	1,868,935
	=====	=====	=====	=====	=====	=====	=====
Deposits	\$ -	154,320	63,747	3,899	53	864,707	1,086,726
Debt and subordinated debt	-	3,207	22,149	20,203	163,879	-	209,438
Creditors on repurchase/resale agreements	-	204,457	284	-	-	-	204,741
Other, net	-	-	-	-	-	368,029	368,029
Total liabilities	\$ -	361,984	86,180	24,102	163,932	1,232,736	1,868,934
	=====	=====	=====	=====	=====	=====	=====
Off-balance-sheet	\$ -	(1,311)	671	2,257	922	-	2,539
Liquidity gaps	238,511	(238,567)	184,098	104,087	939,544	(1,180,134)	2,539
Accumulated gaps	238,511	(45,056)	139,042	243,129	1,182,673	2,539	-
	=====	=====	=====	=====	=====	=====	=====

\* *The 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 \$33,902. Likewise, the entity has interest rates and foreign currency swaps with a nominal of \$38,356 and forwards of \$0.

**Qualitative information**

- I. The 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.

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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.

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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 takes into account 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.

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Likewise, this plan is approved by the 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 Provisions on Liquidity Requirements for Banking Entities, below, there is a Liquidity Coverage Ratio Disclosure Form for the fourth quarter of 2018.

<u>Liquidity Coverage Ratio</u>	<u>Unweighted amount</u>	<u>Weighted amount</u>
<b>Computable liquid assets</b>		
Total computable liquid assets	\$ -	291,665
	=====	=====
<b>Cash outflows</b>		
Stable financing	\$ 490,167	24,508
Less stable financing	<u>107,921</u>	<u>10,792</u>
Non-guaranteed retail financing	<u>598,088</u>	<u>35,300</u>
Operational deposits	117,495	26,774
Non-operational deposits	295,908	123,621
Non-guaranteed debt	<u>3,519</u>	<u>3,519</u>
Non-guaranteed wholesale financing	416,922	153,914
Guaranteed wholesale financing	212,132	857
Outflows related to derivative financial instruments	28,611	21,209
Facilities and liquidity	506,835	30,467
Additional requirements	535,446	51,676
Other contractual financing obligations	97,895	16,366
Total cash outflows	-	258,113
	=====	=====
<b>Cash inflows</b>		
Cash inflows from guaranteed transactions	\$ 21,673	-
Cash inflows from non-guaranteed transactions	89,685	53,723
Other cash inflows	<u>4,581</u>	<u>4,581</u>
Total cash inflows	\$ 115,939	58,304
	=====	=====
Total computable liquid assets	\$ -	291,665
Total net cash outflows	-	199,809
Liquidity Coverage Ratio	-	145.90%
	=====	=====

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- 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 LCR improves due to an increase in the client attraction, mainly retailers, improving the composition with a more stable fund, being greater than that of credit activity.

Fund attraction growth allowed to keep more liquid assets, which are mostly of high quality (government debt and deposits in central banks).

<b>Description</b>	<b>4Q-17</b>	<b>1Q-18</b>	<b>2Q-18</b>	<b>3Q-18</b>	<b>4Q-18</b>
Liquid assets	\$ 299,196	294,502	276,727	263,438	291,665
Outlays	\$ 214,366	199,893	204,162	195,884	199,809
	=====	=====	=====	=====	=====
LCR	139.58%	147.55%	135.88%	134.42%	145.9%
	=====	=====	=====	=====	=====

- c) Changes of the main components in the reported quarter.

<b>Description</b>	<b>3Q-18</b>	<b>4Q-18</b>	<b>Variance</b>
Liquid assets	\$ 263,438	291,665	28,227
Outlays	249,785	258,113	8,328
Receipts	53,901	58,304	4,403
Net outputs	195,884	199,809	3,925
	=====	=====	=====
LCR	134.42%	145.9%	11.48%
	=====	=====	=====

- d) Evolution of the composition of Eligible and Computable Liquid Assets

<b>Computable Liquid Assets</b>	<b>3Q-18</b>	<b>4Q-18</b>	<b>Variance</b>
N1 Cash	\$ 137,358	125,737	(11,621)
N1 Securities	107,985	151,147	43,162
N2 A	14,439	11,698	(2,741)
N2 B	<u>3,656</u>	<u>3,083</u>	<u>(573)</u>
Total	\$ 263,438	291,665	28,227
	=====	=====	=====

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\* 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.

<b><u>Sources of financing (December 2018)</u></b>	<b><u>% of total liabilities</u></b>
Customers' deposits	72%
Collateralized financing	13%
Securities	6%
Subordinate obligations	7%
Money market	1%
Interbank	<u>1%</u>
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:

<b><u>Description</u></b>	<b><u>4Q-18</u></b>
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.

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- h) Degree of centralization of liquidity management and interaction between the group'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 2018 were of \$1,130 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.

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- 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.



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- 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 Controllershship, GRO Paris and Internal Control Specialists  
  
The Internal Controllershship 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 Controllershship 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.

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*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 Provisions 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 totalling 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:

<b><u>Business lines</u></b>	<b><u>% Applicable to each business line</u></b>
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 2018 were of \$107, mainly due to fraud or operational errors.

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**(33) Financial indicators (unaudited)-**

As of December 31, 2018 and 2017, according to article 182 of the Provisions, the Institution's financial indicators are as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Delinquency ratio	2.0%	2.11%
Hedge ratio of portfolio of non-performing loans	136.68%	138.91%
Operating efficiency	2.91%	3.12%
ROE	24.90%	22.36%
ROA	2.27%	1.98%
Capitalization ratio credit and market risk	15.27%	14.25%
Basic capital 1 on credit, market and operational risk	12.44%	12.23%
Liquidity	70.99%	74.98%
Net adjusted interest margin (MIN) /Average Productive Assets	4.81%	4.62%

**(34) Ratings-**

At December 31, 2018, the ratings assigned to main subsidiaries the Institution are as follows:

<u><b>Ratings Agency</b></u>	<u><b>Global Scale ME</b></u>		<u><b>National Scale</b></u>		<u><b>Perspective</b></u>
	<u><b>Long Term</b></u>	<u><b>Short Term</b></u>	<u><b>Long Term</b></u>	<u><b>Short term</b></u>	
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Stable
Moody's	A3	P-2	Aaa.mx	MX-1	Stable
Fitch	A-	F1	AAA (mex)	F1+ (mex)	Negative

**(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 at December 31, 2018 and 2017, the total expense for leases amounted to \$5,286 and \$4,991, respectively and is included in the heading "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 these concept was \$23,987 and \$23,054, in 2018 and 2017, respectively, and are included in the caption "Administrative and promotional expenses" in the consolidated statement of income (note 22).

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**(c) Contingencies-**

At December 31, 2018 and 2017, there are claims against the Institution in ordinary 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, at December 31, 2018 and 2017, the Institution has weighted the impacts of each one of them and has recorded a reserve for these contentious matters of \$466 and \$393, respectively.

The legal contingencies movement for the 2018 and 2017, financial years is as follows:

	<b>Beginning balance <u>2017</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	393	326	(253)	466

	<b>Beginning balance <u>2016</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	298	279	(184)	393

At December 31, 2018 and 2017, there are claims against the Institution in labor actions; 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, at December 31, 2018 and 2017, the Institution has weighted the impacts of each claim and has recorded a reserve for these labor matters of \$719 and \$428, respectively.

The movement of the claims against the Institution in labor actions for the 2018 and 2017, is as follows:

	<b>Beginning balance <u>2017</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	428	383	(92)	719

	<b>Beginning balance <u>2016</u></b>	<b><u>Reserve</u></b>	<b><u>Application</u></b>	<b>Final balance <u>2018</u></b>
\$	281	228	(81)	428

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 outputs of resources, as well as the eventuality obtaining reimbursements.

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**(36) Regulatory pronouncements recently issued-**

**a) Accounting Criteria**

On December 27, 2017, the Commission announced, through the Official Gazette of the Federation (DOF for its Spanish acronym), in the Fourth Transitory article of the 105 amendment resolution, the incorporation to the accounting criterion A-2 "Application of Particular Rules" of Annex 5 of the Provisions and the Financial Reporting Standards (NIF) mentioned below issued by the Mexican Council of Financial Information Standards, AC (CINIF), and that its application and entry into force for credit institutions It was planned from the 1st January, 2019, however, on November 15, 2018, the Commission announced, through the DOF, the amendment to the Fourth Transitory article contained in the aforementioned amending resolution where the term for application and entry is extended in force of the mentioned NIF from the 1st January 2020:

**NIF 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 provisions contained in this NIF cause changes in the valuation or disclosure of any element of the financial statements, the Institution must comply with the regulatory provisions of each NIF in particular that corresponds prospectively.

**NIF C-3 "Accounts receivable"** - The main characteristics issued for this NIF, 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 uncollectibility 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.

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**NIF 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 NIF 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 NIF will not generate accounting changes in the financial statements.

**NIF 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.

**NIF C-19 "Financial instruments payable" -**

The main characteristics issued for this NIF, are shown below:

- It is established 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 their 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.

**NIF C-20 "Financial instruments to collect principal and interest"** - The main characteristics issued for this NIF, are shown below:

The way to classify 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.

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- 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.

***NIF D-1 "Revenue from contracts with customers"*** - The main characteristics issued for this NIF are shown below:

- 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.

***NIF D-2 "Revenue 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.

***NIF D-5 "Leases"*** - It comes into force for the exercises that start from the 1st. January 2019. Early application is permitted for those who use NIF D-1 "Revenue from contracts with customers" and NIF D-2 "Costs from contracts with customers", before the date of initial application of this NIF. Disregards Bulletin D-5 "Leases". The application for the first time of this NIF generates accounting changes in the financial statements mainly for the lessee and grants different options for recognition. Among the main changes are the following:

- Eliminates the classification of leases as operative or capitalizable 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

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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 NIF 2019***

In December 2018 the CINIF issued the document called "Improvements to NIF 2019", which contains specific amendments to some existing NIFs. The improvements made to the NIFs do not generate accounting changes in the annual financial statements.

The Management of the Institution is performing an evaluation process to determine the effects of adopting the accounting criteria and the new NIFs and the improvements to the NIF in financial statements.

\* \* \*



## ANNEX A – SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“**Mexican Banking GAAP**”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“**MFRS**”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this Offering Memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this Offering Memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this Offering Memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

### Loan Loss Reserve

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the “General Regulations Applicable to Credit Institutions” issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan. For the commercial portfolio classified in the groups denominated “Large Companies” (evidenced by annual sales of over 50 million dollars) and “Companies” (annual sales over of 60 million pesos and below 50 million dollars), respectively, an expected loss model for the following 12 months is applied, according to the following: (1) Probability of Default (PD) - it is estimated based on scores of a rating model pursuant to a master scale computed using the borrower’s financial information; for a past due portfolio, 100% is considered for this variable, (2) Loss Given Default (LGD) - it is estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period of time on which the borrower has been in non-compliance, and (3) Exposure at Default (EAD) - this variable is determined considering the amount of the disbursed loan balance at the end of each month, plus a percentage on the undrawn balance of the loan. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected losses for the following 12 months. In certain cases, such as ours, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretionary reserves based on preventative criteria.

We assign an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Past due loans are classified as past due under the following circumstances: (1) loans with a single payment of principal and interest at maturity are considered past due 30 days after the date of maturity, (2) loans with a single payment of principal at maturity and with periodic interest payments are considered past due 90 days after interest is due, (3) loans whose principal and interest payments have been agreed in periodic installments are considered past due 90 days after an installment becomes due, (4) if debts are comprised of revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due, (5) mortgage loans with periodic installments of principal and interest are considered past due when a payment is 90 days or more in arrears, (6) all loans are classified as past due when there is evidence that the customer has declared bankruptcy, and (7) immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents,” of the CNBV when not collected within the allotted period of time (2 or 5 days as appropriate).

Under U.S. GAAP, estimated loan losses are determined using incurred loss models. Accordingly, such losses should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

Specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for homogenous pools of smaller-balance impaired loans and unimpaired loans, loan provisions are estimated based on historical experience.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

### **Past Due Loans**

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as past due based on the criteria established by the CNBV.

Under U.S. GAAP, the accrual of interest income is discontinued for loans placed on nonaccrual status.

### **Fair Value of Financial Instruments**

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### **Securitized Transactions and the Consolidation of Special-Purpose Entities**

Under Mexican Banking GAAP, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and Derecognition of Financial Assets" in order to be considered a sale and transfer of assets. If such requirements are not met, the assets must remain on the balance sheet, together with the respective debt issuances. Furthermore, a company must consolidate a special-purpose entity ("SPE") when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, the guidance surrounding the derecognition of financial assets is focused on an evaluation of control. In a transfer of financial assets (*e.g.*, a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. A transfer of financial assets in which the transferor surrenders control

over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy.
- Each transferee (or, if the transferee is a qualifying SPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

### **Business Combinations**

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolio, which is measured based on the criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under U.S. GAAP, an acquirer in a business combination recognizes assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date.

### **Definition of a Business**

Under Mexican Banking GAAP, no initial “screen” test is applied for determining when a set of assets constitutes a business, or not.

Under U.S. GAAP, an entity is required to determine whether substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is reached, the set is not a business.

### **Employee Retirement Obligations**

Under Mexican Banking GAAP, companies must determine whether termination benefits, such as severance indemnity benefits, are provided in accordance with employee contracts or implied based on past practice regarding the payment of such benefits, in which case they are accounted for as post-employment benefits and a provision is recognized as employee services are provided. Otherwise, termination benefits are recognized when an event occurs (such as a restructuring) that gives rise to an obligation to pay such benefits.

Companies reporting under U.S. GAAP are generally required to recognize a pension liability for severance indemnity liabilities.

### **Guarantees**

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

### **Accounting Changes**

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

## **Deferred Income Tax**

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recent cumulative losses, little weight, if any, may be placed on future taxable income as evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

## **Consolidation**

Under Mexican Banking GAAP, an investor is required to consolidate subsidiaries over which it has established control. An investor controls an investee when the investor has all the following:

- (a) power over the investee,
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect the amount of the investor’s returns.

Under U.S. GAAP, entities consolidate the financial statements all investees over which a controlling financial interest is held (either through a majority voting interest or through the existence of other control factors).

Entities over which a controlling financial interest is achieved through means other than voting rights are known as variable-interest entities (“VIEs”). Generally, VIEs are to be consolidated by the primary beneficiary which is the entity that has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

## **Effects of Inflation**

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items unless the company operates in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

## **Leases**

For Mexican Banking GAAP purposes, lessees continue to classify leases as capital or operating leases. The total expense for operating leases is included in the heading “Administrative and promotional expenses” in the consolidated statement of income.

As of January 1, 2019, public business entities reporting under U.S. GAAP are required to recognize a right of use asset and related lease liability on the balance sheet for all lease arrangements in which the entity is lessee. The income statement classification of lease expenses depends on whether the lease is an operating lease or a capital lease.

## ANNEX B – SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND IFRS

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“**Mexican Banking GAAP**”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“**MFRS**”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP differs in certain significant respects from International Financial Reporting Standards (“**IFRS**”). Such differences might be material to the financial information contained in this Offering Memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this Offering Memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and IFRS, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this Offering Memorandum a reconciliation of our Mexican Banking GAAP financial statements to IFRS.

### Classification and Measurement of Financial Assets

Under Mexican Banking GAAP, investments in financial assets are accounted for as follows:

- *Trading securities*: Trading securities are those securities in which the Bank invests to take advantage of short-term market fluctuations and are accounted for at fair value.
- *Value date transactions*: This heading records the “Value date transactions” which refer to purchase-sale transactions of securities assigned but not settled, which are valued and recorded as negotiable instruments, recording the reception and departure of the instrument subject matter of the transaction at the time it is performed against the respective debit or credit settlement account. If the amount of the negotiable instruments is insufficient to cover the amount of the securities to be delivered for these operations, the credit balance is presented under the heading “Securities assigned to be settled.”
- *Securities available-for-sale*: Securities available-for-sale consist of debt instruments and equity securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. The transaction costs for the acquisition of the securities are recognized as part of the investment. These securities are valued in the same manner as trading securities with unrealized valuation gains or losses recognized in stockholders’ equity.
- *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 initially recorded at fair value, which presumably reflects the agreed price, plus the transaction costs for the acquisition of securities. They are subsequently 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.

Under IFRS, financial assets are classified on the basis of both (1) the entity’s business model for managing them and (2) their contractual cash flow characteristics. Three classification categories are used for debt securities:

- *Amortized Cost*: The assets are held within a business model with the objective to collect contractual cash flows that are solely payments of principal and interest (“**SPPI**”).
- *Fair Value Through Other Comprehensive Income (FVTOCI)*: The assets have contractual cash flows that are SPPI and are held within a business model with the objective of both collecting contractual cash flows and selling financial assets.

- Fair Value Through Profit or Loss (FVTPL): The assets have contractual cash flows that are not SPPI or are not held within a business model with the objective to (1) collect contractual cash flows or (2) both collect contractual cash flows and sell financial assets.

Equity instruments are required to be measured at FVTPL except:

- Certain qualifying investments in equity instruments that are not held for trading, or
- Certain investments in equity instruments for which the holder elects to account for at FVTOCI.

## **Loan Loss Reserve**

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the “General Regulations Applicable to Credit Institutions” issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan. For the commercial portfolio classified in the groups denominated “Large Companies” (evidenced by annual sales of over 50 million dollars) and “Companies” (annual sales over of 60 million pesos and below 50 million dollars), respectively, an expected loss model for the following 12 months is applied, according to the following: (1) Probability of Default (PD), which is estimated based on scores of a rating model pursuant to a master scale computed using the borrower’s financial information; for a past due portfolio, 100% is considered for this variable, (2) Loss Given Default (LGD), which is estimated through the discount of estimated cash flows to be collected, adjusted depending on the guarantee and the period of time on which the borrower has been in non-compliance, and (3) Exposure at Default (EAD), which is determined considering the amount of the disbursed loan balance at the end of each month, plus a percentage on the undrawn balance of the loan. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected losses for the following 12 months. In certain cases, such as ours, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretionary reserves based on preventative criteria.

We assign an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Past due loans are classified as past due under the following circumstances: (1) loans with a single payment of principal and interest at maturity are considered past due 30 days after the date of maturity, (2) loans with a single payment of principal at maturity and with periodic interest payments are considered past due 90 days after interest is due, (3) loans whose principal and interest payments have been agreed in periodic installments are considered past due 90 days after an installment becomes due, (4) if debts are comprised of revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, 60 or more days after payment is due, (5) mortgage loans with periodic installments of principal and interest are considered past due when a payment is 90 days or more in arrears, (6) all loans are classified as past due when there is evidence that the customer has declared bankruptcy, and (7) immediate collection documents referred to in Accounting Criterion B-1, “Cash and cash equivalents,” of the CNBV when not collected within the allotted period of time (2 or 5 days as appropriate).

Under IFRS, impairment of loans is determined using an expected loss model. At each reporting date, an entity shall assess whether the credit risk on a financial asset has increased significantly since initial recognition. Estimated credit losses on a financial asset for which the risk of credit loss has not increased significantly since initial recognition are equal to credit losses expected to occur over the following 12-month period. An entity shall measure the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For IFRS, loans should be written-off in the period in which the entity has no reasonable expectations of recovering the asset in its entirety or a portion thereof.

### **Interest Accrual on Past Due Loans**

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as past due based on the criteria established by the CNBV.

Under IFRS, the accrual of interest income on past due loans is adjusted based on the amounts expected to be recovered.

### **Fair Value of Financial Instruments**

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, IFRS establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### **Business Combinations**

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolio, which is measured based on criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under IFRS, an acquirer in a business combination recognizes assets acquired and liabilities assumed at fair value as of the acquisition date. Noncontrolling interest is measured at fair value or the proportionate share held in the acquiree's identified net assets.

### **Employee Benefits**

Under Mexican Banking GAAP, actuarial gains and losses recycled to other comprehensive income are amortized to income over the estimated service life of the employees. Under IFRS, actuarial gains or losses recorded directly stockholders' equity and are not subsequently recycled to earnings.

The benchmark rate used to discount employee benefits liabilities to present value for purposes of Mexican Banking GAAP is the market rate for high quality corporate bonds denominated in Mexican pesos. Under IFRS, the benchmark rate is the market rate for debit issued by the Mexican government.

### **Deferred Statutory Profit Sharing ("PTU") Benefits**

Under Mexican Banking GAAP, entities are required to recognize deferred PTU assets and liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

For purposes of IFRS, PTU benefits are accounted for as a short-term employee benefit under IAS 19, *Employee Benefits*. This accounting model does not contemplate the recognition of deferred PTU assets or liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

**Guarantees**

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For IFRS purposes, an entity recognizes, at the inception of a guarantee, a provision for the fair value of the obligation undertaken in issuing such guarantee.

**Accounting Changes**

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under IFRS, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

**Effects of Inflation**

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under IFRS, historical costs must be maintained in the basic financial statements unless the entity is deemed to operate in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.



## ANNEX C – FORM OF PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which will be completed for each series of Notes issued under the Program.*

**[PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”) or in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]<sup>1</sup>

**[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

**BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer[, acting through its Texas Agency]**

**Issue of [Aggregate Nominal Amount of Series] [Title of Notes]  
under the U.S.\$10,000,000,000  
Medium-Term Notes Program**

### **PART A – CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the section entitled “Description of the Notes” in the offering memorandum dated April 23, 2020 [and the supplement[s] to it dated [●] [and [●]] (together, the “**Offering Memorandum**”). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Offering Memorandum. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Memorandum. The Offering Memorandum has been published on the website of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).]

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<sup>1</sup> Legend to be included on front of the Pricing Supplement if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA and UK retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable.”

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “N/A” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

1. Issuer: BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer[, acting through its Texas Agency]
  2. (a) Title: [ ]
  - (b) Series Number: [ ][N/A]
  - (c) Tranche Number: [ ][N/A]
  - [The Notes will be consolidated and form a single Series with the [●] Notes issued [●] on [the Issue Date/the date that is 40 days after the Issue Date]<sup>2</sup>
  3. Specified Currency or Currencies: [ ]
  - (a) Specified Principal Payment Currency (if different from Specified Currency): [ ]
  - (b) Specified Interest Payment Currency (if different from Specified Currency): [ ]
  4. Aggregate Nominal Amount: [ ]
  - (a) Series: [ ]
  - (b) Tranche: [ ]
  5. Issue Price: [ ] percent of the Aggregate Nominal Amount [plus accrued interest from [Insert Date]] [(if applicable)]
  6. (a) Minimum Denominations: [ ]
  - (b) Calculation Amount: [ ]
  7. (a) Issue Date: [ ]
  - (b) Interest Commencement Date: [ ][Issue Date][N/A]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes)*

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<sup>2</sup> To be included for Additional Notes only.

8. Maturity Date:<sup>3</sup> [ ]
9. Interest Basis: [[ ] percent Fixed Rate]
- [Fixed Reset Rate][Fixed/Floating Rate][Floating/Fixed Rate]
- [CD Rate/Commercial Paper Rate/CMT Rate/Federal Funds Rate/LIBOR/EURIBOR/Treasury Rate/Prime Rate/[Other]] +/- [ ] percent Floating Rate]
- [N/A]
- (see paragraph[s] [13]/[14]/[15] below)
10. Change of Interest Basis: [*Specify the date when any fixed to floating rate change (or vice versa) occurs or cross refer to paragraph[s] [13]/[15] below*][N/A]
11. Investor Put/Issuer Call Option: [Investor Put/Issuer Call][N/A]
- (see paragraph[s] [17]/[18]/[19]/[20]/[23] below)
12. Status of the Notes: [Senior/Subordinated]
- (a) Status of Senior Notes: [Senior][N/A]
- (b) Status of Subordinated Notes: [Tier 2 Subordinated][N/A]
- (c) [Date of [Board] approval for issuance of Notes obtained:] [ ] [N/A]
- (*N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes*)

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Note Provisions: [Applicable for the period to (but excluding) [ ] [the Maturity Date]][N/A]
- (*If N/A, delete the remaining subparagraphs of this paragraph*)
- (a) Rate(s) of Interest: [ ] percent per annum payable in arrears on each [Interest Payment Date]
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (*Amend appropriately in the case of irregular coupons*)

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<sup>3</sup> Include amortization schedule for Amortizing Notes.

- (c) Regular Record Date(s): [ ]
- (d) Fixed Day Count Fraction: [30/360][Actual/360][Other]
- (e) Interest Determination Date(s): [[ ] in each year][N/A]
- (Only relevant where Fixed Day Count Fraction is Actual/Actual (ISDA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
14. Fixed Reset Note Provisions: [Applicable][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Initial Fixed Reset Interest Rate: [ ] percent per annum payable in arrears on each [Interest Payment Date] up to, but excluding, the Fixed Reset Date
- (b) Interest Payment Dates: [ ] in each year up to and including the Maturity Date
- (Amend appropriately in the case of irregular coupons)*
- (c) Initial Fixed Reset Interest Period: [ ]
- (d) Regular Record Date(s): [ ]
- (e) Fixed Coupon Amount to (but excluding) the Reset Date: [[ ] per Calculation Amount]
- (f) Fixed Day Count Fraction: [30/360][Actual/360][Other]
- (g) Fixed Reset Date: [ ] [N/A]
- (h) Subsequent Reset Date(s): [ ] [N/A]
- (i) Reset Determination Date[s]: [ ]
- (j) Reset Reference Rate: [Treasury Yield (as defined in the Offering Memorandum)][Other][N/A]
- (k) Reset Margin: [+/-][ ] basis points
- (l) Calculation agent/Party responsible for calculating the Rate of Interest: [ ]
15. Floating Rate Note Provisions: [Applicable for the period to (but excluding) the Maturity Date][N/A]

*(If N/A, delete the remaining subparagraphs of this paragraph)*

- (a) Interest Payment Date(s)/Specified Periods: [ ], subject to adjustment in accordance with the Business Day Convention set out in (c) below/, not subject to any adjustment, as the Business Day Convention in (c) below is specified to be N/A]
- (b) Regular Record Date(s): [ ]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention] [N/A]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination][Other]
- (e) Calculation agent/Party responsible for calculating the Rate of Interest and Interest Amount: [ ]
- (f) Screen Rate Determination: [Applicable][N/A]

*(If N/A, delete the remaining sub-paragraphs of this paragraph)*

- Reference Rate: Reference Rate: [ ] month CD Rate/Commercial Paper Rate/CMT Rate/Federal Funds Rate/LIBOR/EURIBOR/Treasury Rate/Prime Rate/[Other]]
  - Specified Time: [ ]
  - Interest Determination Date(s): [ ]
  - Relevant Screen Page: [ ]
  - Reference Rate Replacement: [Applicable][N/A]
- (g) Linear Interpolation: [N/A][Applicable. The Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation of [ ] and [ ]]
- (h) Margin(s): [+/-] [ ] percent per annum

- (i) Minimum Rate of Interest: [ ] percent per annum
- (j) Maximum Rate of Interest: [ ] percent per annum
- (k) Floating Day Count Fraction: [[Actual/Actual]][Actual/Actual (ISDA)][Actual/365 (Fixed)][Actual/360][30/360][360/360][Bond Basis]

## PROVISIONS RELATING TO REDEMPTION

- 17. Tax Redemption: [Applicable][N/A]
- 18. Make-Whole Redemption: [Applicable][N/A]  
*(If N/A, delete the remaining subparagraphs of this paragraph)*
  - (a) Make-Whole Redemption Date(s): [ ]  
*(N.B., the redemption date for any Floating Rate Note will be an Interest Payment Date.)*
  - (b) Make-Whole Redemption Price: [ ]
    - (i) Benchmark Security(ies): [Insert applicable Benchmark Security]
    - (ii) Reference Time: [ ]
    - (iii) Make Whole Margin: [ ] basis points
    - (iv) Par Redemption Date: [ ]
    - (v) Linear Interpolations: [Applicable][N/A]
    - (vi) Calculation Agent (if other than the Bank): [ ][N/A]
- 19. Special Event Redemption: [Applicable][N/A]
  - Notice Periods: Minimum period: [ ] days  
Maximum period: [ ] days
- 20. Subordinated Notes Optional Redemption: [Applicable][N/A]
  - (a) Subordinated Notes Optional Redemption Date: [ ]
  - (b) Notice Periods: Minimum period: [ ] days  
Maximum period: [ ] days

21. [Early Redemption Amount payable on redemption for taxation reasons, on an event of default or upon the occurrence of a Special Event Redemption or Subordinated Notes Optional Redemption:] [[ ] per Calculation Amount]
22. Final Redemption Amount: [ ] per Calculation Amount
23. Investor Put: [Applicable][N/A]
- (If N/A, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Repayment Date(s): [ ]
- (b) Notice Periods: Minimum period: [ ] days
- Maximum period: [ ] days

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Registered Notes:
- [Regulation S Global Note ([ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream/a common safekeeper for Euroclear and Clearstream]]/[Rule 144A Global Note ([ ] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream /a common safekeeper for Euroclear and Clearstream])] (specify nominal amounts)]
- [Global Note exchangeable for definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Global Note.]
25. Additional Notes: [Applicable][N/A]
26. Additional Events of Default: [Applicable][N/A]
27. Other Terms: [N/A][Insert different/additional/other terms]<sup>4</sup>
- (When adding any other terms consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Memorandum. If the*

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<sup>4</sup> Include tax consequences not described in the Offering Memorandum and any details related to Indexed Notes, Extendible Notes or Dual Currency Notes.

*Notes are SDG Notes, specify the Bank's website where the SDG Framework will be published.)*

## **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the pricing supplement required for issue [and] [admission to trading on Euronext Dublin (the “**Global Exchange Market**”) and for listing on the Official List of Euronext Dublin] of the Notes described herein pursuant to the listing of the U.S.\$10,000,000,000 Medium-Term Note Program of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer[, acting through its Texas Agency]:

By: \_\_\_\_\_  
*Duly authorized*



## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: Application [has been/is expected to be] made for the Notes to be admitted to the Official List of Euronext Dublin.
- (ii) Admission to trading: Application [has been/is expected to be] made for the Notes to be admitted to trading on the Global Exchange Market.
- (iii) [Estimate of net proceeds (gross [ ] proceeds less commissions):]
- (iv) Estimate of total expenses related [ ] to admission to trading:

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated:][The following rating[s] reflect[s] ratings assigned to Notes of this type issued under the Program generally:]

*[insert details] by [insert legal name of the relevant credit rating agency]*

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Program generally or, where the issue has been specifically rated, that rating.)*

*[[Insert the legal name of the relevant credit rating agency entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).]*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for [any fees/the fees] *[of insert relevant fee disclosure]*] payable to the [Dealers] [as discussed in “Plan of Distribution”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.] [The [Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests.*]

### 4. USE OF PROCEEDS

[ ]

*(See “Use of Proceeds” wording in Offering Memorandum – if reasons for offer are different from general corporate purposes and there is a particular identified use of proceeds, this will need to be stated here.)*

### 5. YIELD *(Fixed Rate Notes Only)*

Indication of yield:

[ ] [N/A]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

### 6. OPERATIONAL INFORMATION

(i) ISIN Code: [ ]

(ii) CUSIP: [ ]

(iii) Common Code: [ ]

(iv) Issuer Legal Entity Identifier Code: [ ]

(v) Clearing System(s): [DTC][Euroclear][Clearstream][Other Clearing System]

(vi) Names and addresses of additional Agent(s) (if any): [ ] [N/A]

(vii) Delivery: Delivery [against/free of] payment

### 7. DISTRIBUTION

(i) If syndicated, names [and [N/A][give names, addresses and underwriting addresses] of Dealers [and commitments] underwriting commitments]:

*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on*

*a “best efforts” basis if such entities are not the same as the Arrangers)*

- (ii) Arranger(s): [N/A][give names, addresses and underwriting commitments]
- (iii) Stabilizing Manager(s) (if any): [N/A][give name]
- (iv) If non-syndicated, name [and address] of Dealer(s): [N/A][give name(s) and address(es)]
- (v) [Total commission and [[ ] percent of the Aggregate Nominal Amount] concession:]
- (vi) U.S. Selling Restrictions: [N/A][give details and address]
- (vii) Prohibition of Sales to EEA and UK Retail Investors: [N/A][Applicable]

## ISSUER

### **BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer**

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United States of America

## DEALERS

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United States of America

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United States of America

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United States of America

**LISTING AGENT**

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Ireland

*As of September 15, 2020*

**PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** – The senior notes described herein (the “**Senior Notes**”) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”) or in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Senior Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Senior Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

In the UK, this communication is being distributed only to, and is directed only at, qualified investors (as defined in the Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Order**”), or (ii) high net worth entities and other persons to whom it may be lawfully be communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Senior Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Senior Notes in the UK will be engaged in only with, relevant persons. Any person in the UK who is not a relevant person should not act or rely on the Offering Memorandum (as defined below) or any of its contents.

**THE SENIOR NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR THE “**CNBV**”) AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE SENIOR NOTES MAY PRIVATELY BE OFFERED OR SOLD TO INVESTORS THAT QUALIFY AS INSTITUTIONAL OR QUALIFIED INVESTORS IN MEXICO SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. THE BANK (AS DEFINED BELOW) WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE SENIOR NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED FOR INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY, THE CNBV OF SUCH NOTICE IS NOT A REQUIREMENT FOR THE VALIDITY OF THE SENIOR NOTES, AND DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE SENIOR NOTES, THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PRICING SUPPLEMENT. THIS PRICING SUPPLEMENT IS SOLELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV, AND MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.**

**BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency**

**Issue of U.S.\$500,000,000 1.875% Senior Notes due 2025  
under the U.S.\$10,000,000,000**

**Medium-Term Notes Program**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the section entitled “Description of the Notes” in the offering memorandum dated April 23, 2020 (the “**Offering Memorandum**”). This document constitutes the Pricing Supplement of the Senior Notes described herein and must be read in conjunction with the Offering Memorandum. Full information on the Issuer and the offer of the Senior Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Memorandum. The Offering Memorandum has been published on the website of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”).

- |     |                                   |   |
|-----|-----------------------------------|---|
| 1.  | Issuer:                           | BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency |
| 2.  | (a) Title:                        | 1.875% Senior Notes due 2025  |
|     | (b) Series Number:                | 2   |
|     | (c) Tranche Number:               | 1   |
| 3.  | Specified Currency or Currencies: | U.S. dollars (U.S.\$)   |
| 4.  | Aggregate Nominal Amount:         | U.S.\$500,000,000   |
| 5.  | Issue Price:                      | 99.092% of the Aggregate Nominal Amount, plus accrued interest from the Issue Date                                  |
| 6.  | (a) Minimum Denominations:        | U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof   |
|     | (b) Calculation Amount:           | U.S.\$1,000   |
| 7.  | (a) Issue Date:                   | September 18, 2020  |
|     | (b) Interest Commencement Date:   | Issue Date  |
| 8.  | Maturity Date:                    | September 18, 2025  |
| 9.  | Interest Basis:                   | 1.875% Fixed Rate   |
| 10. | Change of Interest Basis:         | N/A   |
| 11. | Investor Put/Issuer Call Option:  | Issuer Call Option<br>(see paragraphs 16 and 17 below)  |
| 12. | Status of the Notes:              | Senior  |
|     | (a) Status of Senior Notes:       | Senior  |



- |     |  |     |
|-----|--|-----|
| (b) | Status of Subordinated Notes:                          | N/A |
| (c) | Date of Board approval for issuance of Notes obtained: | N/A |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- |     |                                |  |
|-----|--------------------------------|--|
| 13. | Fixed Rate Note Provisions:    | Applicable for the period to (but excluding) the Maturity Date               |
| (a) | Rate(s) of Interest:           | 1.875% per annum payable in arrears on each Interest Payment Date            |
| (b) | Interest Payment Date(s):      | March 18 and September 18 of each year up to and including the Maturity Date |
| (c) | Regular Record Date(s):        | March 3 and September 3  |
| (d) | Fixed Day Count Fraction:      | 30/360   |
| 14. | Fixed Reset Note Provisions:   | N/A  |
| 15. | Floating Rate Note Provisions: | N/A  |

**PROVISIONS RELATING TO REDEMPTION**

- |      |                                |  |
|------|--------------------------------|--|
| 16.  | Tax Redemption:                | Applicable (in whole, but not in part)   |
| 17.  | Make-Whole Redemption:         | Applicable   |
| (a)  | Make-Whole Redemption Date(s): | At any time at the option of the Issuer  |
| (b)  | Make-Whole Redemption Price:   | As provided under “Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank’s Option; Repurchases at the Holder’s Option—Optional Redemption with a Make-Whole Premium” |
| (i)  | Benchmark Security(ies):       | As provided under “Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank’s Option; Repurchases at the Holder’s Option—Optional Redemption with a Make-Whole Premium” |
| (ii) | Reference Time:                | As provided under “Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank’s Option; Repurchases at  |

		the Holder's Option—Optional Redemption with a Make-Whole Premium"
	(iii) Make Whole Margin:	30 basis points
	(iv) Par Redemption Date:	N/A
	(v) Linear Interpolations:	As provided under "Description of the Notes—Other Terms and Conditions Applicable to the Senior and Subordinated Notes—Redemption; Repurchases at the Bank's Option; Repurchases at the Holder's Option—Optional Redemption with a Make-Whole Premium"
	(vi) Calculation Agent (if other than the Bank):	N/A
19.	Special Event Redemption:	N/A
20.	Subordinated Notes Optional Redemption:	N/A
21.	Early Redemption Amount payable on redemption for taxation reasons:	100% of the Aggregate Nominal Amount  (For the avoidance of doubt, such amount shall include accrued and unpaid interest due on, or with respect to, the Senior Notes, plus additional amounts, if any, up to (but excluding) the date of redemption)
22.	Final Redemption Amount:	100% of the Aggregate Nominal Amount  (For the avoidance of doubt, such amount shall include accrued and unpaid interest due on, or with respect to, the Senior Notes, plus additional amounts, if any, up to (but excluding) the date of redemption)
23.	Investor Put:	N/A

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24.	Form of Notes:	Registered Notes:  Regulation S Global Note registered in the name of a nominee for DTC  Rule 144A Global Note registered in the name of a nominee for DTC
25.	Additional Notes:	Applicable
26.	Additional Events of Default:	N/A

27. Other Terms:

N/A

#### **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the pricing supplement required for issue and admission to trading on Euronext Dublin (the “**Global Exchange Market**”) and for listing on the Official List of Euronext Dublin of the Senior Notes described herein pursuant to the listing of the U.S.\$10,000,000,000 Medium-Term Note Program of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer.

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## **PART B – OTHER INFORMATION**

### **1. LISTING AND ADMISSION TO TRADING**

- |       |   |   |
|-------|---|---|
| (i)   | Listing:  | Application has been made for the Senior Notes to be admitted to the Official List of Euronext Dublin.  |
| (ii)  | Admission to trading:                                       | Application has been made for the Senior Notes to be admitted to trading on the Global Exchange Market. |
| (iii) | Estimate of net proceeds (gross proceeds less commissions): | U.S.\$494,210,000.00  |
| (iv)  | Estimate of total expenses related to admission to trading: | €1,000  |

### **2. RATINGS**

- |          |   |
|----------|---|
| Ratings: | The Senior Notes to be issued are expected to be rated:<br><br>BBB by Fitch Ratings Inc. and Baa1 by Moody's Investor's Service, Inc. |
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### **3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the offer of the Senior Notes has an interest material to the offer. The Dealers and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

### **4. USE OF PROCEEDS**

The net proceeds from the issue of the Senior Notes will be used for general corporate purposes of the Bank and its subsidiaries.

### **5. YIELD (*Fixed Rate Notes Only*)**

- |                      |        |
|----------------------|--------|
| Indication of yield: | 2.067% |
|----------------------|--------|

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### **6. OPERATIONAL INFORMATION**

- |      |            |  |
|------|------------|--|
| (i)  | ISIN Code: | 144A Note: US05533UAH14<br>Reg. S Note: USP16259AJ55 |
| (ii) | CUSIP:     | 144A Note: 05533U AH1<br>Reg. S Note: P16259 AJ5     |

- (iii) Common Code: 144A Note: 223743978  
Reg. S Note: 223744141
- (iv) Issuer Legal Entity Identifier Code: 549300WIWQK5Q9MCUN92
- (v) Clearing System(s): DTC
- (vi) Names and addresses of additional Agent(s) (if any):  
The Bank of New York Mellon will act as trustee, registrar, transfer agent and paying agent  
  
The Bank of New York Mellon  
240 Greenwich Street, Floor 7 East  
New York, New York 10286  
United States of America
- (vii) Delivery: Delivery free of payment

## 7. DISTRIBUTION

- (i) If syndicated, names and addresses of Dealers:  
BBVA Securities Inc.  
1345 Avenue of the Americas, 44<sup>th</sup> Floor  
New York, New York 10105  
United States of America  
  
BNP Paribas Securities Corp.  
787 Seventh Avenue  
New York, New York 10019  
United States of America  
  
BofA Securities, Inc.  
One Bryant Park, 9<sup>th</sup> Floor  
New York, New York 10036  
United States of America  
  
Morgan Stanley & Co. LLC  
1585 Broadway  
New York, New York 10036  
United States of America
- (ii) Arranger(s): N/A
- (iii) Stabilizing Manager(s) (if any): N/A
- (iv) If non-syndicated, name and address of Dealer(s): N/A
- (v) Total commissions and concessions: 0.25% of the Aggregate Nominal Amount

- (vi) U.S. Selling Restrictions: Reg. S Compliance Category 2; Rule 144A
- (vii) Prohibition of Sales to EEA and UK Retail Investors: Applicable

**BBVA**