Nacional Financiera, S. N. C.
Institución de Banca de Desarrollo
and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditors´ Report Thereon)

(Translation from Spanish Language Original)

INDEPENDENT AUDITOR'S REPORT

The Board of Directors:

Nacional Financiera, S. N. C.

Institución de Banca de Desarrollo

(Millions of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Nacional Financiera, S. N. C., Institución de Banca de Desarrollo and subsidiaries (the Institution), which comprise the consolidated balance sheets 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 Institution, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (The Banking Commission).

Basis for opinion

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

Key audit matters

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

(Continued)

Derivative financial instruments $7,990 liability, valuation adjustment from hedging on financial assets $5,870 and valuation adjustment from hedging on financial liabilities $884	
See notes 3(f) and 9 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The fair value determination, at the consolidated balance sheet date, of "over-the-counter" derivative financial instruments and hedging transactions is carried out through the use of valuation techniques that involve significant judgments by Management, mainly when the use of inputs obtained from different sources or data not observable in the market and complex valuation models is required. In addition, the requirements that must be met for the accounting of financial instruments classified as hedges, as well as for the documentation and monitoring to prove their effectiveness, involve a certain degree of specialization by Management.	As part of our audit procedures, we obtained evidence from the Institution, by its risk committee, of the valuation models used by Management for derivative financial instruments and hedging operations used by the Management. Likewise, through selective tests, we assessed the reasonableness of these models and the inputs used, with the participation of our specialists. In addition, through selective testing, we assessed the appropriateness of derivative products fair value determination for hedging operations, the proper compliance with the criteria and documentation to be considered as such, as well as their effectiveness.

Allowance for loan losses $7,079	
See notes 3(i) and 10(d) of the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The allowance for loan losses of commercial loans involves significant judgments for the evaluation of the borrowers' credit quality, considering the different factors established in the methodologies established by the Banking Commission for the credit portfolio rating process, as well as to evaluate the reliability of the documentation and updates to the information used as input in the determination of the allowance for loan losses for all loan portfolios.	The audit procedures applied to management's determination of allowance for loan losses and its effect on the year's net income included the evaluation, through selective tests of both the inputs used and the calculation method for the different loan portfolios based on the current methodologies established by the Banking Commission for each type of loan portfolio.

(Continued)

Calculation of employees' retirement and termination benefits $7	
See notes 3(s) and 20 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The Institution has established defined benefit plans for its employees. The determination of the liability related to such plans at the consolidated balance sheet date was made through complex actuarial calculations that require significant judgments in the selection of the assumptions used to determine the net projected liability of the employees' retirement and termination benefits.	We assessed with the participation of our actuaries the reasonableness of the assumptions used by the Institution's Management to determine the net projected liability of the employees' retirement and termination benefits, and the calculation method used. In addition, selective items were tested to corroborate the adequate incorporation of the personnel data that was included as a basis for the actuarial calculation. Likewise, we verified compliance with accounting records and disclosures in accordance with the provisions of the Banking Commission.

Current and deferred income tax (IT) $(546) and IT and employee statutory profit sharing (ESPS) deferred asset, net $1,660	
See notes 3(o) and 21 to the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in our audit**
The determination of current and deferred income taxes and ESPS is complex, mainly due to the interpretation of the legislation in force on the matter, and requires significant judgments mainly in the valuation of deferred income tax and deferred ESPS assets to evaluate factors relating to the current and future operations of the Institution to estimate the realization of these assets.	The audit procedures applied to the calculations determined by the Institution's Management for the recognition of current and deferred income taxes and ESPS included selective tests of both the inputs used and the nature of the items that were part of the calculations, considering the legislation in force on tax matters. With the participation of our specialists, we assessed the reasonableness of the significant tax assumptions, the reversal period of the temporary differences, as well as the reasonableness of the tax strategies proposed by the Institution's Management. Additionally, we evaluate the reasonableness of the tax profit projections determined by the Institution's management that support the probability of the realization of deferred income tax and deferred ESPS assets.

(Continued)

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

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

Those charged with governance are responsible for overseeing the Institution'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 Institution'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 Institution'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 Institution 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 Institution to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Institution audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Cárdenas Dosal S. C.

SIGNATURE

Aarón López Ramírez

Mexico City, March 6, 2019.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
and subsidiaries

Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020, Mexico City

Consolidated Balance Sheet

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

Assets		**2018**	**2017**
Cash and cash equivalents (note 6)	$	57,308	28,551
Margin accounts		16	35
Investment securities (note 7):			
Trading		215,033	194,472
Available-for-sale		15,836	15,087
Held-to-maturity		13,579	13,545
		244,448	223,104
Debtors on repurchase/resell agreements (note 8)		-	2,718
Derivatives (note 9):			
Trading purposes		-	1,885
Valuation adjustment from hedging of financial assets (note 9)		5,870	15,294
Current loan portfolio (note 10):			
Commercial loans:			
Business or commercial activity		61,672	51,733
Financial entities		180,032	158,600
Government entities		17,047	16,067
		258,751	226,400
Consumer loans		5	8
Residential mortgages loans		104	119
Loans granted as Federal Government Financial Agent		29	65
Total current loan portfolio		258,889	226,592
Past-due loan portfolio (note 10):			
Commercial loans:			
Business or commercial activity		509	575
Financial institutions		228	1,284
		737	1,859
Consumer loans		2	2
Residential mortgages loans		4	6
Total past-due loan portfolio		743	1,867
Loan portfolio (note 10)		259,632	228,459
Less:			
Allowance for loan losses (note 10)		(7,079)	(7,016)
Total loan portfolio, net		252,553	221,443
Other accounts receivable, net (nota 11)		15,456	16,561
Foreclosed assets, net (note 12)		3	4
Property, plant and equipment, net (note 13)		1,452	1,486
Permanent investments (note 14)		2,926	2,868
Deferred income taxes and employee statutory profit sharing, net (note 21)		1,660	1,338
Other assets:			
Deferred income charges, prepaid expenses and intangibles		1,225	943
Total assets	$	582,917	516,230

Liabilities and Stockholders' Equity		**2018**	**2017**
Deposit funding:			
Time deposits (note 15):			
Money market	$	143,812	134,296
Debt securities issued:			
In the country (notes 15 and 16):			
Stock certificates		60,439	57,595
Abroad (notes 15 and 17):			
Bank bonds		44,774	40,670
Stock notes		14,358	14,246
		263,383	246,807
Bank and other borrowings (note 18):			
Due on demand		10,328	8,006
Short-term		8,415	4,810
Long-term		12,392	12,585
		31,135	25,401
Creditors on repurchase/resell agreements (note 8)		218,623	188,768
Derivatives (note 9):			
Trading purposes		66	80
Hedging purposes		7,924	7,705
		7,990	7,785
Valuation adjustments from hedging financial liabilities (note 9)		884	11,203
Other accounts payable (notes 19, 20 and 25):			
Income tax payable		436	253
Employee statutory profit sharing payable		332	275
Creditors on settlement of transactions		20,358	-
Creditors on collateral received in cash		1,634	1,109
Sundry creditors and other accounts payable		940	1,669
		23,700	3,306
Deferred credits and prepayments		85	98
Total liabilities		545,800	483,368
Stockholders' equity (note 22):			
Paid-in capital:			
Capital stock		9,202	8,805
Contribution for future capital increases formalized by the Board of Directors		1,376	5,700
Paid stock premium		14,225	8,922
		24,803	23,427
Earned capital:			
Statutory reserves		1,730	1,730
Retained earnings		5,650	4,148
Result from valuation of available for sale securities, net		(202)	108
Remeasurements of defined employee benefits, net (note 20)		32	(213)
Effects of valuation in associate and affiliate companies		1,102	742
Net income		2,439	1,502
		10,751	8,017
Non-controlling interest		1,563	1,418
Total stockholders' equity		37,117	32,862
Total liabilities and stockholders' equity	$	582,917	516,230

(Continued)

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
and Subsidiaries

Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020, Mexico City

Consolidated Balance Sheet, continued

Years ended December 31, 2018 and 2017

(Millions of Mexican Pesos)

Memorandum accounts (note 23)

		2018	2017
Contingent assets and liabilities	$	70,789	62,510
Loan commitments		190,176	172,948
Assests placed in trust or mandate:			
Trusts		1,705,730	1,339,718
Mandates		13,912	14,133
		1,719,642	1,353,851
Federal Government Financial Agent		380,346	371,322
Assets in custody or administration		542,707	556,669
Collateral received by the entity		17,058	15,413
Collateral received and sold or pledged as a guarantee by the entity		17,055	12,694
Investment banking transactions on behalf of third parties, net		92,007	42,660
Interest earned but not collected arising from past-due loan portfolio		20	168
Other memorandum accounts		750,152	641,690

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

At December 31, 2018 and 2017, the historical capital stock, in accordance with the Regulation of the Organic Law of Naciona Financiera, S. N. C., I. B. D amounts to $2,390 in both years.

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portalnf/content/nafin-en-cifras/informacion financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20 Desarrollo

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

SIGNATURE

Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer

SIGNATURE

Martha Patricia Jimenez Oropeza
Chief Executive Officer of Finance and Administration

SIGNATURE

Cesar Edmundo Bonada Meneses
Subdirector of Financial Information
Accounting and Fiscal
(In charge of the Office of the Accounting
and Budget Departament)

SIGNATURE

Manuel Anaya Vallejo
Audit Subdirector
(In charge of the Office of the
Internal Audit Department)

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
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Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020, Mexico City

Consolidated Statement of Income

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

		2018	2017
Interest income (note 24)	$	36,611	33,474
Interest expense (note 24)		(32,816)	(28,209)
Financial margin		3,795	5,265
Allowance for loan losses		(2,814)	(2,638)
Financial margin adjusted for the allowance for loan losses		981	2,627
Commission and fees income (note 24)		3,043	2,825
Commission and fees expense (note 24)		(198)	(231)
Financial intermediation income (note 24)		1,315	(1,208)
Other operating income (expenses), net		1,505	1,093
Administrative and promotion expenses		(3,580)	(3,261)
Operating income		3,066	1,845
Equity method in the net income of unconsolidated subsidiaries and afilliates		15	6
Income, before income taxes		3,081	1,851
Current income tax (note 21)		(946)	(777)
Deferred income tax, net (note 21)		400	433
Net income		2,535	1,507
Non-controlling interests		(96)	(5)
Net income on controlling interests	$	2,439	1,502

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 they reflect the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

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

SIGNATURE

Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer

SIGNATURE

Martha Patricia Jimenez Oropeza
Chief Executive Officer of Finance and Administration

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Cesar Edmundo Bonada Meneses
Subdirector of Financial Information Accounting and Fiscal
(In charge of the Office of the Accounting and Budget Departament)

SIGNATURE

Manuel Anaya Vallejo
Audit Subdirector
(In charge of the Office of the Internal Audit Department)

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
and Subsidiaries

Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020, Mexico City

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

	Paid in capital			Earned Capital							
	Capital stock	Contributions for future capital stock increases formalized by the Board of Directors	Paid Stock premium	Statutory reserves	Retained earnings	Result from valuations of available-for-for sale securities	Remeasurments of defined employee benefits	Effects of valuation in associate and affiliate companies	Net income	Non-controlling interest	Total Stocksholders' equity
Balances as of December 31, 2016	$ 8,805	2,750	8,922	1,730	2,795	(178)	(574)	640	1,353	1,399	27,642
Changes resulting from stockholders' resolutions											
Appropriation of prior year income	-	-	-	-	1,353	-	-	-	(1,353)	-	-
Contributions for future capital stock increases (note 22)	-	2,950	-	-	-	-	-	-	-	-	2,950
Total	-	2,950	-	-	1,353	-	-	-	(1,353)	-	2,950
Changes related to the recognition of comprehensive income											
Net income	-	-	-	-	-	-	-	-	1,507	-	1,507
Result from valuation in associated and affiliated companies (note 22)	-	-	-	-	-	-	-	102	-	-	102
Result from valuation of available-for-sale securities (note 22)	-	-	-	-	-	286	-	-	-	-	286
Remeasurements of defined employee benefits (note 22)	-	-	-	-	-	-	361	-	-	-	361
Non-controlling interest	-	-	-	-	-	-	-	-	(5)	19	14
Total comprehensive income	-	-	-	-	-	286	361	102	1,502	19	2,270
Balances as of December 31, 2017	8,805	5,700	8,922	1,730	4,148	108	(213)	742	1,502	1,418	32,862
Changes resulting from stockholders' resolutions											
Appropriation of prior year income	-	-	-	-	1,502	-	-	-	(1,502)	-	-
Contributions for future capital stock increases (note 22)	-	1,376	-	-	-	-	-	-	-	-	1,376
Capitalization of Contributions for future capital stock increases (note 22)	397	(5,700)	5,303	-	-	-	-	-	-	-	-
Total	397	(4,324)	5,303	-	1,502	-	-	-	(1,502)	-	1,376
Changes related to the recognition of comprehensive income											
Net income	-	-	-	-	-	-	-	-	2,535	-	2,535
Result from valuation in associated and affiliated companies (note 22)	-	-	-	-	-	-	-	360	-	-	360
Result from valuation of available-for-sale securities (note 22)	-	-	-	-	-	(310)	-	-	-	-	(310)
Remeasurements of defined employee benefits (note 22)	-	-	-	-	-	-	245	-	-	-	245
Non-controlling interest	-	-	-	-	-	-	-	-	(96)	145	49
Total comprehensive income	-	-	-	-	-	(310)	245	360	2,439	145	2,879
Balances as of December 31, 2018	$ 9,202	1,376	14,225	1,730	5,650	(202)	32	1,102	2,439	1,563	37,117

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 a general and mandatory nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution for the yearsnoted 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 could be searchable on the following webpage http://www.nafin.com/portalnf/content/nafin-en-cifras/informacion financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20 Desarrollo

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

SIGNATURE

Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer

SIGNATURE

Martha Patricia Jimenez Oropeza
Chief Executive Officer of Finance and Administration

SIGNATURE

Manuel Anaya Vallejo
Audit Subdirector
(In charge of the Office of the Internal Audit Department)

SIGNATURE

Cesar Edmundo Bonada Meneses
Subdirector of Financial Information Accounting and Fiscal
(In charge of the Office of the Accounting and Budget Departament)

See accompanying notes to consolidated financial statements.

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
and Subsidiaries

Av. Insurgentes Sur 1971, Col. Guadalupe Inn, C.P. 01020, Mexico City

Consolidated Statement of Cash Flows

Years ended December 31, 2018 and 2017

(Millions of Mexican pesos)

	2018	2017
Net Income	$ 2,439	1,502
Adjustments for items not requiring cash flow:		
Allowance for uncollectible or doubtful accounts	358	195
Depreciation of property, furniture and equipment	34	35
Provisions	(4,077)	(4,093)
Current and deferred income taxes	546	344
Equity method of unconsolidated subsidiaries and afilliates	(15)	(6)
Others, mainly valuation at fair value	148	(431)
	(3,006)	(3,956)
Operating activities:		
Change in margin accounts	19	(35)
Change in investment securities	(17,050)	28,021
Change in debtors on repurchase/ resell agreements	2,718	(2,698)
Change in derivatives (asset)	4,041	(10,909)
Change in loan portfolio (net)	(30,120)	(11,471)
Change in foreclosed assets	1	-
Change in other operating assests	543	9,318
Change in deposit funding	14,899	11,706
Change in bank and other borrowings	5,697	(4,974)
Change in creditors on repurchase/ resell agreements	29,838	(14,079)
Change in derivatives (liability)	(2,360)	8,103
Change in other operating liabilities	19,899	(367)
Payments of income taxes	(666)	(393)
Net cash flows from operating activities	27,459	12,222
Investing activities:		
Payments for acquisition of property, furniture and equipment	-	(19)
Proceeds from disposal of subsidiaries and associates	461	155
Payments for acquisition of subsidiaries and associates	-	(5)
Collections of cash dividends	28	4
Net cash from investing activities	489	135
Financing activities:		
Contributions for future capital stock increases	1,376	2,950
Net cash flow from financing activities	1,376	2,950
Net increase in cash and cash equivalents	28,757	12,853
Cash and cash equivalents at beginning of year	28,551	15,698
Cash and cash equivalents at end of year	$ 57,308	28,551

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

These consolidated balance sheets could be searchable on the following webpage http://www.nafin.com/portalnf/content/nafin-en-cifras/informacion financiera/estados_financieros_dictaminados.html and https://portafolioinfo.cnbv.gob.mx/Paginas/contenidos.aspx?ID=37&Titulo=Banca%20de%20 Desarrollo

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

SIGNATURE

Ing. Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer

SIGNATURE

Mtra. Martha Patricia Jimenez Oropeza
Deputy Chief Executive Officer of Finance and Administration

SIGNATURE

Cesar Edmundo Bonada Meneses
Subdirector of Financial Information Accounting and Fiscal
(In charge of the Office of the Accounting and Budget Departament)

SIGNATURE

Manuel Anaya Vallejo
Audit Subdirector
(In charge of the Office of the Internal Audit Department)

See accompanying notes to consolidated financial statements.

(1) Description of business-

Nacional Financiera, S. N. C. Institución de Banca de Desarrollo (the Institution), was incorporated on June 30, 1934, by Federal Government Decree as an instrument of significant social and economic transformations, with the purpose of promoting the securities market and foster the mobilization of the financial resources in Mexico.

The Institution operates as a development banking institution, in accordance with its internal organic law and regulations, the Credit Institutions Law and the General Provisions Applicable to Credit Institutions (the Provisions) issued by the National Banking and Securities Commission (the Banking Commission).

The Institution's purpose is to contribute to the development of companies, by providing access to financing products, training, technical assistance and information, in order to foster their competitiveness and the productive investment; promote the development of strategic and sustainable projects for the country, in an orderly and targeted manner, under schemes that allow correction of market failures in coordination with other development banks; promote the regional and sectoral development of the country, particularly in the states with less development, through a differentiated product offer and according to the productive vocations of each region: developing the financial markets and the venture capital industry in the country, to serve as sources of financing for entrepreneurs and small and medium enterprises; to be an Institution with an effective management, based on a consolidated structure of corporate governance, that ensures a continuous and transparent operation, as well as the preservation of its capital and to not represent a financial burden to the Federal Government.

In accordance with the provisions of article 2nd. of the Institution's internal regulation, the Institution has the goal of promoting savings and investment, as well as channeling financial and technical supports to industrial development and, in general, to the national and regional economic development of the country.

The Institution operates according to the applicable legal framework and sound banking practices and applications to achieve the general objectives outlined in the 4th article of the Credit Institutions Law, which establishes that the state shall exercise the rectory of the mexican banking system, thus the Institution basically directs its activities to support and promote the development of the country's productive system and the growth of the national economy, based on a sovereign economic policy, by promoting savings in all sectors and regions of Mexico and their appropriate channeling and extensive regional coverage to favour the decentralization of the mexican banking system, with adherence to sound practices and banking applications.

Development banking institutions are oriented to the productive activities determined by the Union Congress as a specialty of each one of these, in the respective internal regulations.

(Continued)

The Institution carries out its operations according to financing criteria for development banking, channeling its resources mainly through the first tier banking and non-banking financial intermediaries. The main funding sources for the Institution arise from loans from international development institutions such as the International Bank for Reconstruction and Development and the Inter-American Bank of development (IADB), lines of credit from foreign banks and placement of securities in the national and international financial markets.

At December 31, 2018 and 2017, the Institution and its consolidated subsidiaries are integrated as follows:

i. *Operadora de Fondos Nafinsa, S. A. de C. V.* - Which aims to contribute to the development of financial markets, promoting access to the securities market to small and medium investors.

ii. *Corporación Mexicana de Inversiones de Capital, S. A. de C. V.* - Incorporated on February 2, 2006, its main activity, being to buy, sell and invest in companies, institutions and private equity funds, as well as promote productive investment in Mexico in the medium and long term, promoting the institutionalization, development and competitiveness of the small and medium enterprises.

iii. *Fideicomiso 80595 programa de venta de títulos en directo al público* – Manages the trust funds and carries out the necessary actions to develop and implement the Program for the sale of securities directly to the public, in accordance with the operation rules, which, were appropiate, the Trust's Technical Committee authorizes.

iv. *Fideicomiso 11480 fondo para la participación de riesgos* - Its purpose is having entities which allow to fulfill compliance with the institutional objectives related to the access of micro, small and medium-sized companies in the country to formal finance. The Institution implemented the guarantee program, in order to share with the financial banking and non-banking institutions (intermediaries) determined by the Trust's Technical Committee, the credit risk of the financing that these grant to national companies and individuals.

v. *Fideicomiso 11490 fondo para la participación de riesgos en fianzas* – Its purpose is sharing with the country's bonding institutions, established in accordance with the Federal law for bonding institutions determined by the Trust'sTechnical Committee, the risk of default on administrative bonds and/or procurement concerning section III, article 5 of the law of bonds, granted to micro, small and medium-sized enterprises, as well as to individuals with entrepreneurial activity, which have signed a contract to supply goods, services and public works to the Federal public administration.

vi. *Plaza Insurgentes Sur, S. A. de C. V.*- Its purpose is to provide the Institution with integral real estate services through the leasing of space and furniture, as well as adaptation of offices with preventive and corrective maintenance programs to real estate infrastructure.

vii. *Pissa Servicios Corporativos, S. A. de C. V. (in liquidation)*- Provides complementary or auxiliary services in the administration or in the realization of the corporate purpose of any national credit entity that is or becomes its shareholder, as well as auxiliary companies and trusts thereof.

(Continued)

At December 31, 2018 and 2017, the operations structure of the Institution abroad, includes two branches located in London, England and another in the Grand Cayman Islands.

(2) Financial statement authorization and presentation -

Authorization

On March 6, 2019, Eugenio Francisco Domingo Najera Solorzano (Chief Executive Officer), Martha Patricia Jimenez Oropeza (CEO of Finance and Administration), Cesar Edmundo Bonada Meneses (Subdirector of Financial Information Accounting and Fiscal (In charge of the Office of the Accountin and Budget Departament) and Manuel Anaya Vallejo (Audit Subdirector, In charge of the Office of the Internal Audit department) authorized the issuance of the consolidated financial statements and related notes.

The Institution's Board of Directors and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The 2018 consolidated financial statements will be approved at the next meeting of the Board of Directors.

Basis of presentation

a) Statement of compliance

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

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

(Continued)

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Judgments

The information about judgments made in the application of accounting policies that have the most significant effect on amounts reported in the consolidated financial statements are described in the following notes:

— Note 3 (m) Permanent Investments: Whether the institution has significant influence.

Assumptions and uncertainties in the estimates

The information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the following year it is included in the following notes:

— Note 3 (s) – Measurement of defined benefit obligations: key actuarial assumptions;
— Note 3 (o)– Recognition of deferred tax assets;
— Note 9 – Derivative financial instruments;
— Note 10 (d)– Allowance for loan losses.

c) Functional and reporting currency

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

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

d) Recognition of assets and liabilities from financial instruments

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

(Continued)

(Millions Mexican of pesos)

(3) Summary of significant accounting policies

The accounting policies shown in this note have been applied consistently in the preparation of the consolidated financial statements.

a) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

The years ended December 31, 2018 and 2017 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Institution's financial information are not recognized. Should the environment become inflationary again, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the last three years is shown as follows:

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

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as 24, 48 and 72 hours foreign currency purchase and sale transactions. It also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money"), and deposits in Banco de México (Central Bank) which include the monetary regulation deposits that the Institution is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits have no term and bear interests at the average banking funding rate, recognized in the consolidated income statement as they accrue.

(Continued)

The cash and cash equivalents are recognized at nominal value. For dollar currencies, the exchange rate used for the translation is the one published by the Central Bank. The translation effect is recognized in consolidated income statement, as interest income or interest expense, accordingly.

Notes receivable will be recorded as other cash equivalent according to what is mentioned as follows:

— Transactions with Mexican entities: two business days after the transaction took place.

— Transactions with foreign entities: five business days after the transaction took place.

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

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

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

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption "Sundry creditors and other accounts payable".

Likewise, the balance of receivable currencies offset against deliverable currencies, in case this offset results negative.

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

(Continued)

(c) Margin accounts-

The margin accounts granted in cash required from the Institution to operate derivatives in recognized markets are recorded at their normal value and presented in the caption "Margin accounts". The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and by additional contributions or withdrawals made by the Institution.

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in the result of operations for the year as accrued under "Interest income" and "Commission and fees expense", respectively. The partial or total settlement amounts deposited or withdrawn by the clearinghouse owing to derivatives price fluctuations are recognized in "Margin accounts".

(d) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and ability of Institution's Management on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling them to get short-term gains arising from differences in prices resulting from their trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in the income statement on the same date.

Subsequently, securities are valued at fair value provided by an independent price vendor; when the securities are sold, the gain (loss) on purchase/sell is determined by the difference between the purchase and sale prices; this shall cancel the gain (loss) on valuation that has been previously recognized in the income statement.

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

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

(Continued)

Valuation effects and purchase or sale gain (loss) are recognized in the year's income within the caption "Financial intermediation income".

Available for sale securities-

Available-for-sale securities are those for which there is neither the intention to profit from differences in prices in the short term nor the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Result from valuation of available-for-sale securities", which is adjusted by the effect of deferred taxes, and then is cancelled by its recognition in the income statement at the time of the sale within the caption of "Financial intermediation income".

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

Dividends from equity instruments are recognized in the year's income statement when the right to receive payment arises, in the financial statements caption "Interest income".

Held to maturity securities-

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

Securities impairment-

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

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

(Continued)

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of same nature proprietary securities (government, bank, equity and other debt securities), this is reflected as a liability under the "Assigned securities pending settlement" caption.

Reclassification between categories-

The accounting criteria allow the reclassifications from held-to-maturity to available-for-sale securities, provided that there is no intention or capacity to hold them until maturity.

Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the held-to-maturity category, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission.

(e) Repurchase/resell agreements -

At the trade date of the repurchase/resell agreement transaction (repo), the Institution acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption "Interest income" or "Interest expense", as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements", respectively.

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

(Continued)

Should the Institution, acting as buyer sell or pledge the collateral, the proceeds from the transaction are recognized and an account payable is recorded for the obligation to return the collateral to the seller, which is valued, in the case of a sale at fair value, or if pledged in another sale and repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Institution acting as buyer becomes the seller and the debit or credit balance is presented in the consolidated financial statement caption "Debtors on repurchase/resell agreements" or in "Collaterals sold or pledged", as applicable.

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

(f) Derivatives-

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

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under "Derivatives", in the assets or liabilities, accordingly, and "Financial intermediation income", respectively.

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

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

(Continued)

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

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

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

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

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

(g) Offsetting clearing accounts-

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

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

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

(h) Loan portfolio-

Represents the balance of the total or partial dispositions of credit lines granted to the borrowers plus uncollected accrued interest, less the interest collected in advance. The allowance for credit risks is presented by deducting the balances from the credit portfolio.

(Continued)

Undrawn credit facilities are recorded in memorandum accounts, under "Loan commitments". The withdrawn amount is recorded into the loan portfolio according to the corresponding portfolio category.

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

Past-due loans and interest-

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

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

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

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

a) If the debt consists in loans with a single payment of principal and interest at maturity, and are 30 or more calendar days past-due;

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

c) If the debt consists of loans with principal and interest periodic partial payments, including mortgage loans, are 90 or more calendar days past-due;

d) If the debt consists of revolving loans, which are unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when they are 60 or more calendar days past-due; and

e) Overdrafts from checking accounts, and notes receivable, upon occurrence of such event.

(Continued)

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Also suspending the amortization of accrued financial income in the year's income statement.

Once collected, such interest is recognized directly in the consolidated income statement under "Interest income". Recognition in the consolidated income statement of interest income resumes when the portfolio ceases to be considered as past due.

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

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

Sustained payment-

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

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

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

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

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

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

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

Restructuring and renewals

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

Loans with single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed at any time will be considered as nonperforming loans as long as there is no evidence of sustained payment.

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

i) Paid the total accrued interest, and
ii) Paid the original principal loan amount which at the renewal or restructuring date should have been covered.

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

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

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

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

(Continued)

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

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

The loan portfolio restructurings or renewals are made in compliance with the General Provisions applicable to credit institutions and their viability is analyzed specifically.

The Institution periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan when the Institution has exhausted all legal instances to recover the loan. Any recovery derived from loans that were previously written-off is recognized in the year's income statement.

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

Costs and expenses related to loan origination

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

(i) Allowance for loan losses-

An allowance for loan losses is recorded, which, based on the Institution's management best estimate is sufficient to cover probable losses inherent to the loan portfolio as well as guarantees issued and irrevocable loan commitments

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

(Continued)

(Millions of Mexican pesos)

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

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

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

Grade of risk	Range of allowance percentage	
A1	0.000	0.90%
A2	0.901	1.5%
B1	1.501	2.0%
B2	2.001	2.50%
B3	2.501	5.0%
C1	5.001	10.0%
C2	10.001	15.5%
D	15.501	45.0%
E	Higher than	45.0%

Mortgage loans-

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

The risk grades and percentages of allowance for loan losses at December 31, 2018 and 2017, are as shown in next page.

(Millions of Mexican pesos)

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

Non revolving consumer loans portfolio-

The methodology followed to determine the provision for the non revolving consumer loans portfolio is described in articles 91 and 92 of the Provisions. The total allowance amount for each loan is the result of multiplying the probability of default by the loss severity and exposure to default.

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

Grade of risk	**Range of allowance percentage**	
A1	0.000	2.0%
A2	2.01	3.0%
B1	3.01	4.0%
B2	4.01	5.0%
B3	5.01	6.0%
C1	6.01	8.0%
C2	8.01	15.0%
D	15.01	35.0%
E	35.01	100.0%

Impaired loan portfolio – For consolidated financial statement disclosure purposes, the Institution considers as impaired loans, those commercial loans for which it determines that there is a considerable probability that they could not be recovered in full, without excluding improvements in risk levels resulting from the secured portion of the loan, or loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term.

(Continued)

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

(j) Other accounts receivable-

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

With regards to clearing accounts, in the case where the amount receivable is no settled within 90 calendar days from the record in clearing accounts, it is recorded as past due and an allowance for unrecoverability or doubtful account is recorded for the total amount.

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

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

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

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

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

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

(Continued)

(Millions of Mexican pesos)

Foreclosed assets are valued according to the type of assets they represent, recording said valuation (reductions in the value) in the consolidated income statement caption "Other operating income/loss" The Institution creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year's results of operations under "Other operating income/loss", which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as follows:

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

(l) Property, plant and equipment-

Property, plant and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted using factors based on the UDI value from the date of acquisition through that date, whith recognition of the effects of inflation on the financial information was suspended according to the MFRS.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Institution's management of the corresponding assets.

Depreciation amount of property, plant and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Institution periodically evaluates property, plant and equipment residual values to determine amounts to be depreciated.

The Institution evaluates periodically the net book values of property, plant and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(m) Permanent investments-

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

(n) Other assets-

This caption includes mainly prepaid expenses and commissions as well as guarantee deposits, which are recognized as an asset on the trade date considering economic future benefits for the Institution.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount, the asset value is written down and the impairment loss is recognized in the results of operations for the year.

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

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

Income taxes payable are presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT for operating loss carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

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

(Continued)

Current and deferred income taxes and ESPS are presented and classified in the results of the period, except those that originate from a transaction that is recognized in the OCI or directly in a caption of stockholders' equity.

Current and deferred ESPS is presented in the caption "Administrative and promotion expenses", in the consolidated statement of income.

(p) Deposit funding-

This caption comprises time deposits of the money market funding, the placement of debt certificates and bank bonds. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different from their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(q) Provisions-

Based on management's estimates, the Institution recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises because of past events.

(r) Bank and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, which are recorded based on the contractual value of the obligation. Interest is recognized on accruals basis under the caption "Interest expense".

(s) Employees' benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Institution has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Institution's net obligation in relation to direct long-term benefits (except for deferred ESPS - see note income taxes and employee statutory profit sharing), and which the Institution is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value.

(Continued)

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Institution has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

Defined benefit plans

In addition, the Institution has a defined benefit plan in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets.

The calculation of liabilities for defined benefit plans, held annually by actuaries using the projected unit credit method. When the calculation results in a possible asset to the Institution, recognized asset is limited to the present value of the economic benefits available in the form of future refunds from the plan or reductions in future contributions to it. To calculate the present value of the economic benefits, any minimum funding requirements should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Institution determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

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

Remeasurements generated as from January 1, 2016 (before actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder’s equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

According to the resolution published on December 31, 2015 by the Banking Commission, modifications to the plans and remeasurements accumulated until December 31, 2015, are gradually recognized from 2021 to the next four years, recognizing 20% from its initial application and 20% in each of the subsequent years.

(Continued)

(t) Revenue recognition-

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

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

The commissions from assets in custody or under management are recognized in income when the services rendered in "Commission and fees income".

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

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

Commissions from intermediation by the Institution between the lender and the borrower for the contracting of loans on the markets, are recorded in the consolidated statements of income as the service is provided under the caption "Commission and fees income".

(u) Foreign currency transactions-

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

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

(v) Memorandum accounts-

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

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

(Continued)

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

(w) Contingencies-

Significant liabilities or losses related to contingencies are recorded when it is probable that their effect will realize and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the consolidated financial statements.

Contingent revenues, earnings or assets are not recognized until their realization is assured.

(4) Accounting changes and reclassifications-

(a) Changes in the Commission’s Provisions-

On December 27, 2017, several amendments to the Accounting Criteria were published in the Official Gazette of the Federation. According to said publication, said modifications become effective on January 1, 2019, allowing its early application as of January 1, 2018, for the following criteria:

Accounting Criteria B-6, "Loan portfolio" and D-2 "Income statement".

The accounting criteria applicable to the credit institutions are adjusted so that they can cancel, in the period in which they occur, the excedent in the balance of the allowance for loan losses, as well as to recognize the recovery of credits previously written off against the caption "Allowance for loan losses" in the income statement.

Derived from the foregoing, and in compliance with the provisions of the aforementioned publication, the Institution will apply the criteria described above as of January 1, 2019.

The accounting changes recognized by the Institution in 2018 are shown as follows:

MFRS C-3 “Accounts receivable”- effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Some of the primary changes presented are the following:

- It provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.

(Continued)

- It provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.

- It provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.

- It requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

The adoption of this new MFRS did not generate important effects, since there are specific Criteria (B-6 "Loan portfolio" and A-2 "Application of particular rules") established by the Banking Commission

MFRS C-9 "Provisions, Contingencies and Commitments"- effective for years beginning on or after January 1, 2018. It supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this MFRS does not result in accounting changes in the financial statements. Some of the primary aspects covered by this MFRS include the following:

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

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

- The terminology used throughout the standard is updated to standardize the presentation with the rest of the MFRS.

2018 MFRS Improvements-

In December 2017, CINIF issued the document referred to as "2018 MFRS Improvements", which contains precise modifications to some current MFRS. MFRS Improvements mentioned below that entered into force for the years beginning after January 1, 2018 did not generate important effects in the Institution's consolidated financial statements or they do not apply because of the express provision of the Banking Commission.

- MFRS B-2 *"Statement of cash flow"*
- MFRS B-10 *"Effects of inflation"*
- MFRS C-6 *"Property, plant and equipment" and FRS C-8 "Intangible assets"*
- MFRS C-14 *"Transfer and recognition of financial assets"*

(Continued)

Reclassifications-

The statement of cash flows for the year ended December 31, 2017 includes certain presentation reclasificaions to conform it with the presentation used in 2018.

(5) Foreign currency position -

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

	Dollars			Equivalent in pesos	
	2018	**2017**		**2018**	**2017**
Assets	5,477	8,006	$	107,621	157,428
Liabilities	(5,476)	(8,144)		(107,599)	(160,146)
Long (short) position	**1**	**(138)**	**$**	**22**	**(2,718)**

At December 31, 2018 and 2017, the assets and liabilities in millions of foreign currency of domestic currency and valued balances are shown below:

Domestic currency:

	2018			2017		
	Assets	**Liabilities**	**Net position**	**Assets**	**Liabilities**	**Net position**
USD dollars	5,213	(5,216)	(3)	7,747	(7,895)	(148)
Japanese Yen	25,038	(25,038)	-	25,038	(25,036)	2
Euros	25	(21)	4	23	(22)	1
Sterling pounds	6	(6)	-	6	-	6
Special draft fees	-	-	-	1	-	1
			1			**(138)**

(Continued)

(Millions of Mexican pesos, except where stated different)

At December 31, 2018 and 2017, the assets and liabilities in foreign currencies translated to pesos are shown below:

	2018			2017		
	Assets	**Liabilities**	**Net position**	**Assets**	**Liabilities**	**Net position**
USD dollars	$ 102,437	(102,500)	(63)	152,326	(155,240)	(2,914)
Japanese Yen	4,483	(4,483)	-	4,372	(4,372)	-
Euros	560	(482)	78	548	(512)	36
Sterling pounds	141	(134)	7	168	(8)	160
Special draft fees	-	-	-	14	(14)	-
	$ 107,621	**(107,599)**	**22**	**152,428**	**(160,146)**	**(2,718)**

The exchange rate relative to the US dollar at December 31, 2018 and 2017, was $19.6512 pesos per dollar and $19.6629 pesos per dollar, respectively, and on the issuance date of the consolidated financial statements, it was $19.3708 pesos per dollar.

(6) Cash and cash equivalents-

At December 31, 2018 and 2017, the caption is integrated as follows:

		2018	2017
Domestic and foreign banks	$	15,192	14,573
Call money		8,722	3,020
24 and 48 hours foreign currency sales		(18,469)	(2,353)
Other cash and cash equivalents (notes receivable)		1	1
Restricted funds:			
Deposits with the central bank		13,087	13,082
24, 48 and 72 hours foreign currency purchase		38,775	228
	$	**57,308**	**28,551**

At December 31, 2018 and 2017, deposits at the Central Bank correspond to monetary regulation deposits of $13,087 and $13,082, respectively, which have no maturity. The interest generated by deposits in the Central Bank at December 31, 2018 and 2017, were $1,015 and $889, respectively. The Provisions in force issued by the Central Bank for monetary regulation deposits set that may be comprised of cash, securities, or both.

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At December 31, 2018 and 2017, the Institution had the following call money:

	2018			2017		
	Amount	**Annual rate**	**Term**	**Amount**	**Annual rate**	**Term**
Central Bank	$ 7,722	8.25%	2 days	2,770	7.25%	4 days
Credit Suisse	18	8.25%	2 days	-	-	-
Sociedad Hipotecaria Federal, S. N. C.	982	2.5%	2 and 5 days	250	1.42%	4 days
	$ 8,722			**3,020**		

At December 31, 2018 and 2017, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48 and 72 hours were negotiated in USD dollars.

At December 31, 2018 and 2017, cash and cash equivalent in foreign currency are as follows:

2018	**Millions of domestic currency**	**Exchange rate**	**Equivalent In pesos**
USD dollars	1,852	$ 19.65120	$ 36,393
Euros	1	22.46918	33
Sterling pounds	-	25,04742	7
			$ 36,433

2017	**Millions of domestic currency**	**Exchange rate**	**Equivalent In pesos**
USD dollars	640	$ 19.66290	$ 12,593
Euros	2	23.60629	57
Sterling pounds	1	26.60489	26
			$ **12,676**

At December 31, 2018 and 2017, the profit (loss) from currencies purchase/sell transactions amounted to $1,289 and $(2,914), respectively.

(Continued)

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(7) Investment securities-

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

Trading

		2018				2017			
		Acquisition cost	**Accrued interest**	**Valuation**	**Book value**	**Acquisition cost**	**Accrued interest**	**Valuation**	**Book value**
Shares of Fondo de desarrollo para el mercado de valores (FDMV)	$	159	-	15	174	287	-	(19)	268
Bonds		276	9	(13)	272	1,787	8	8	1,803
Certificates		1,594	7	(10)	1,591	4,784	17	5	4,806
CETES		286	4	-	290	79	1	-	80
Ipabonos		160	2	-	162	5,556	62	17	5,635
Bank promissory notes		-	-	-	-	632	-	-	632
Restricted securities :									
Bonds		98,095	-	85	98,180	71,413	44	193	71,650
Certificates		26,185	1	12	26,198	14,244	9	(11)	14,242
CETES		1,936	-	(2)	1,934	-	-	-	-
Ipabonos		85,463	15	78	85,556	92,217	97	86	92,400
Bank promissory notes		673	1	-	674	2,770	1	(21)	2,750
Ipabonos		2	-	-	2	3	-	-	3
Equity investments		-	-	-	-	203	-	-	203
	$	**214,829**	**39**	**165**	**215,033**	**193,975**	**239**	**258**	**194,472**

Available for sale

		2018				2017			
		Acquisition cost	**Accrued interest**	**Valuation**	**Book value**	**Acquisition cost**	**Accrued interest**	**Valuation**	**Book value**
Sovereign debt	$	2,565	37	(64)	2,538	2,249	29	68	2,346
Bonds issued by credit Institution		435	3	(21)	417	236	2	6	244
Debentures and other securities		4,096	71	(252)	3,915	4,181	72	53	4,306
Securities issued by foreign entities		-	-	-	-	194	1	-	195
Equity investments		7,268	-	1,698	8,966	6,932	-	1,064	7,996
	$	**14,364**	**111**	**1,361**	**15,836**	**13,792**	**104**	**1,191**	**15,087**

(Continued)

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Held-to-maturity:

			2018			2017	
		Acquisition cost	Accrued interest	Valuation	Book value	Acquisition cost	Accrued interest
Convertible prides bonds	$	5	-	5	5	-	5
Certificates		198	163	361	215	137	352
Segregable certificates		3,333	1,637	4,970	2,286	961	3,247
Sovereign debt		242	6	248	258	6	264
Debenture and other securities		881	13	894	1,192	15	1,207
Udibonos		51	23	74	51	20	71
Restricted securities:							
Segregable certificates		4,705	2,322	7,027	5,905	2,494	8,399
Total	**$**	**9,415**	**4,164**	**13,579**	**9,912**	**3,633**	**13,545**

An analysis by maturity term of the integration of securities for trading purposes, considering the acquisition cost and classification by category is shown below:

Trading

2018		**Less than a month**	**Between one and three months**	**More than three months**	**Without term**	**Total**
Shares of Fondo de *desarrollo para el mercado de valores* (FDMV)	$	-	-	-	159	159
Bonds		-	-	276	-	276
Certificates		-	-	1,594	-	1,594
CETES		78	133	75	-	286
Ipabonos		-	-	160	-	160
Restricted securities:						
Bonds		-	-	98,095	-	98,095
Certificates		-	2,516	23,669	-	26,185
CETES		-	-	1,936	-	1,936
Ipabonos		921	-	84,542	-	85,463
Bank promissory notes		673	-	-	-	673
Securities placed in guarantee:						
Ipabonos		-	-	2	-	2
	$	**1,672**	**2,649**	**210,349**	**159**	**214,829**

(Continued)

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2017		Less than a month	Between one and three months	More than three months	Without term	Total
Shares of Fondo de desarrollo para el Mercado de Valores (FDMV)	$	-	-	-	287	287
Bonds		-	3	1,784	-	1,787
Certificates		64	-	4,720	-	4,784
CETES		28	18	33	-	79
Ipabonos		40	-	5,516	-	5,556
Bank promissory notes		632	-	-	-	632
Restricted securities:						
Bonds		71,413	-	-	-	71,413
Certificates		2,654	55	11,535	-	14,244
Ipabonos		-	470	91,747	-	92,217
Bank promissory notes		105	1,171	1,494	-	2,770
Securities placed in guarantee:						
Ipabonos		-	-	3	-	3
Equity investments		203	-	-	-	203
	$	**75,139**	**1,717**	**116,832**	**287**	**193,975**

Available for sale

Securities		**More than a year**	
		2018	**2017**
Sovereign debt	$	2,565	2,249
Bonds issued by credit institutions		435	236
Debentures and other securities		4,096	4,181
Securities issued by foreign entities		-	194
Equity investments		7,268	6,932
	$	**14,364**	**13,792**

At December 31, 2018, the Instituion does not hold debentures and securities with less that one-year term. At December 31, 2017, the Institution holds debentures and securities that amounts to $406 with less than one-year term.

(Continued)

(Millions of Mexican pesos)

Held-to-maturity:

2018		**Less than one year**	**More than one year**	**Total**
Convertible Prides bonds	$	-	5	5
Certificates		-	198	198
Segregable certificates		-	3,333	3,333
Sovereign debt		-	242	242
Debentures and other securities		-	881	881
Udibonos		-	51	51
Restricted securities:				
Segregable securities		-	4,705	4,705
Total	**$**	**-**	**9,415**	**9,415**

2017				
Convertible Prides bonds	$	-	5	5
Certificates		17	198	215
Segregable certificates		-	2,286	2,286
Sovereign debt		-	258	258
Debentures and other securities		304	888	1,192
Udibonos		-	51	51
Restricted securities:				
Segregable securities		-	5,905	5,905
Total	**$**	**321**	**9,591**	**9,912**

The valuation result from available for sale securities as of December 31, 2018 and 2017 recognized in Other Comprehensive Income within stockholders' equity amounted to $(202) and $108, net of deferred income tax, respectively.

For the years ended December 31, 2018 and 2017, net gains from interest income, trading income and valuation gain (loss) from investments securities are as follows:

		2018	**2017**
Interest income	$	1,759	2,946
Valuation gain		311	167
Trading income		92	127

(Millions of Mexican pesos)

For the years ended December 31, 2018 and 2017, the Institution has not made reclassifications from held to maturity to available for sale, or from trading securities to available for sale.

Issuers over 5% of institution's net capital-

At December 31, 2018 and 2017, investments in non-governmental debt securities of the same issuer and exceeding 5% of the Institution's net capital are analyzed below:

<u>2018</u>

Issuer	Serie	Number Of securities	Annual Average rate	Average term	Amount
FEFA	Various	108,386,107	8.33%	2	$ 10,890

<u>2017</u>

Issuer	Series	Number of securities	Annual average rate	Average Term	Amount
FEFA	Various	165,520,000	7.45%	569	$ 15,689
SHF	14001	14,993,409	6.08%	781	1,473
PEMEX	Various	138,200	5.05%	1,795	2,948

(8) Repurchase/resell agreements -

At December 31, 2018 and 2017 the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Institution acts as buyer or as seller, are analyzed in the following page.

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		Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
		2018	**2017**	**2018**	**2017**
Government securities:					
Udibonos	$	-	-	-	(1,965)
Segregable certificates					
		540	-	(6,676)	(8,077)
Bonds		6,898	12,555	(98,095)	(64,536)
Fix rate bonds		1,650	2,001	-	(4,956)
Ipabonos		5,637	850	(85,478)	(92,315)
Cetes		2,341	-	(1,936)	-
Subtotal		17,066	15,406	(192,185)	(171,849)
Banking securities:					
Certificates		-	-	(1,495)	(15,747)
Bank promissory notes		-	-	(252)	(1,172)
Subtotal		-	-	(1,747)	(16,919)
Other debt securities					
Certificates		-	-	(24,691)	-
Collateral sold or pledged as a guarantee (creditors):					
Segregables certificates					
		(540)	-	-	-
Bonds		(6,898)	(9,837)	-	-
Fix rate bonds		(1,650)	(2,001)	-	-
Bpag28		(950)	-	-	-
Bpag91		(3,000)	-	-	-
Cetes		(2,341)	-	-	-
Ipabonos		(1,687)	(850)	-	-
		(17,066)	(12,688)	-	-
Debtors (creditors) on repurchase/resell agreements	**$**	**-**	**2,718**	**(218,623)**	**(188,768)**

At December 31, 2018 the terms of resell/repurchase agreements, vary between 1 and 57 days (1 and 84 days at December 31, 2017) with annual weighted rates of 8.25% acting as repurchase and 8.28% acting as repuchaser in 2017.

During the years ended December 31, 2018 and 2017, interest income amounted to $21,796 and $15,286, respectively; interest expense amounted to $17,104 and $14,781, respectively, and are included in the consolidated income statement under the caption of "Interest income" and "Interest expense", respectively.

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(9) Derivatives-

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

2018	**Assets**	**Liabilities**	**Balance Debit**	**Balance (Credit)**
Trading purposes:				
Swaps	$ 55,632	(55,698)	-	(66)
Hedging purposes				
Swaps	$ 38,885	(46,809)	-	(7,924)
2017				
Trading purposes:				
Forward contracts	$ 84,078	(82,667)	1,411	-
Swaps	(316)	790	474	-
	83,762	(81,877)	1,885	-
Swaps	55,854	(55,934)	-	(80)
Total	**139,616**	**(137,811)**	**1,885**	**(80)**
Hedging purposes:				
Swaps	$ 38,870	(46,575)	-	(7,705)

The Institution participates in the Mexican Derivatives Market (MEXDER), through trading shares, CPI, interest rates and currency futures, and interest rate and currency swaps in accordance with the authorization granted by the Central Bank.

In the case of over-the-counter dollar-peso forwards, the master agreement does not establish maintaining guarantees, instead it does apply penalties on the nonperforming counter party. The exchange and interest rates futures and forward contracts carried out by the Institution are oriented to obtain earnings for the Institution.

In the case of dollar-peso forward for trading purposes, the fair value represents the amount that two parties agree to exchange, based on sources of information that affect the prices of these operations.

The Institution through the Risk Management Committee performs various analyses on underlying markets for derivative instruments that are traded in order to identify and assess the inherent risks. Operations with futures and forward contracts, involve recovery risks. To reduce the risks in the operation of these instruments, the institution maintains matched positions.

(Continued)

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Futures and forward contracts:

Trading purposes (fair value):

		2017
Sales:		
Contract value	$	82,667
Receivable	$	81,877
Purchases:		
Contract value	$	84,078
Deliverable	$	83,762
Valuation	$	474

Swaps:

Trading purposes:

		Contract value	**Receivable**	**Deliverable**	**Net position**
2018					
Interest rate	$	152,952	55,632	55,698	(66)
2017					
Interest rate	$	172,462	55,854	55,934	(80)

Hedging purposes:

2018	$	101,368	38,885	46,809	(7,924)
2017	$	84,844	38,870	46,575	(7,705)

(Continued)

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At December 31, 2018 and 2017, hedge effectiveness/ineffectiveness derived from the application of the B-5 criterion "Derivatives and hedging transactions" of the Banking Commission, is detailed below:

The net effect of the valuation of the hedged position and the fair value hedge Swaps (with impact in profit and loss):

		2018	2017
Ineffectiveness for:			
Deposit funding hedging	$	(42)	(18)
Investments hedging		25	9
Total	**$**	**(17)**	**(9)**

At December 31, 2018 and 2017, the Institution has only contracted fair value hedge swaps.

Trading Swaps (with impact in income statement):

		2018	2017
Interest rate	$	(66)	(80)

The adjustments to the book value arising from interest rate hedges derivative transactions on financial assets and liabilities, due to the application of the criterion B-5 "Derivatives and hedging transactions" of the Banking Commission, at December 31 2018 and 2017, are detailed below:

		2018		2017	
		Asset	Liability	Asset	Liability
Deposit funding hedging	$	6,803	(1,035)	16,082	(11,226)
Investments hedging		(1)	-	-	-
Loan portfolio hedging		(933)	151	(788)	23
Total	**$**	**5,869**	**(884)**	**15,294**	**(11,203)**

The net gain (loss), for the years ended December 31, 2018 and 2017, recognized in the consolidated income statement derived from the valuation of instruments used for fair value hedging purposes, amounted to $(883) and $(277), respectively. The effect of the gain related to the valuation of the effective hedge portion for the year ended December 31, 2018 and 2017 amounted to $876 and $311, respectively.

(Continued)

Use of derivative financial instruments policy management (unaudited)-

The Institution's policies allow the use of derivative instruments for hedging and trading purposes. The main objectives of the operation of these instruments is risk hedging and the generation of revenues that support the Institution's profitability. The establishment of objectives and policies related to the operation of these instruments are included in the Risk Management regulatory and operational manuals.

Derivative financial instruments used by the Institution are interest rate and currency swaps, CPI and interest rate futures, as well as exchange rate forwards, which, according to the portfolio, can support hedging and trading strategies.

Derivative financial instruments are traded in over-the-counter markets and recognized stock markets. Eligible counterparties for the OTC derivatives are mainly domestic and foreign banks, whereas for derivatives traded in stock markets, the counterparty is the clearing house.

Processes and levels of authorization-

Control processes, policies and levels of authorization for transactions with derivatives are set forth in the Integral Risk Management Committee (IRMC), whose duties include approval of:

- The specific limits for discretionary risks, when it has been empowered by the Board of Directors therefor, as well as the levels of tolerance in the case of non-discretionary risks.

- The methodology and procedures for identifying, measuring, overseeing, limiting, controlling, reporting and disclosing the different types of risk that the Institution is exposed to, as well as their eventual modifications.

- The models, parameters and scenarios that must be used to value, measure, and control the risks proposed by the Risk Management area, must concur with the Institution's technology.

- The methodologies for identifying, valuing, measuring and controlling the risks of the new operations, products, and services that the Institution plans to offer to the market.

- The corrective actions proposed by the Integral Risk Management area.

- The assessment of aspects of Integral Risk Management referred to in Article 77 of the Provisions for its presentation to the Board of Directors and the Banking Commission.

- The Integral Risk Management manuals, in accordance with the objectives, guidelines, and policies established by the Board of Directors, referred to in the last paragraph of Article 78 of the Provisions.

All the new products or services traded in relation with any line of business are approved by the Committee, in accordance with the powers granted by the Board of Directors.

(Continued)

Independent reviews-

The Institution is under the supervision and monitoring of the Banking Commission and the Central Bank, which is performed through processes of monitoring, inspection visits, requirements of information and documentation, and delivery of reports. There are also periodic reviews by the internal and external auditors.

Generic description of valuation techniques-

Derivative financial instruments are valued in accordance with the criterion B-5 "Derivatives and hedging transactions" issued by the Banking Commission.

Valuation methodology-

1. For derivatives with trading and hedging purposes - there is a structure of operating and regulatory manuals that set forth the valuation methodologies used.

2. The reference inputs used in the valuation process are used by convention in the market practices (rates, exchange rates, prices, volatilities, etc.).

3. The frequency of valuation of derivative financial instruments for trading purposes is daily.

The internal and external sources of liquidity used to meet requirements related to derivative financial instruments are national and international treasury (London Branch).

Changes in identified risk exposure, contingencies and known or expected events in derivative financial instruments-

Stress tests and backtesting are performed on a regular basis to estimate the impact on derivatives instruments positions and to validate statistically that the market risk measurement models provide results consistent with the exposure to the market variability, which must be maintained within the parameters approved by the IRMC.

The methodology currently used for preparing stress measurement report, consists of calculating the current portfolio value, having ability to apply changes in risk factors occurring in:

- Tequila Effect (1994)
- Russian Crisis (1998)
- Twin Towers (2001)
- Mexican Stock Exchange Effect (2002)
- Effect on Real Interest Rate (2004)
- Mortgage Crisis Effect (2008)
- USA Elections effect (2016).

(Continued)

Backtesting tests are based on the daily generation of the following information:

- Valuation of the investment portfolio at day t.
- The VaR of the investment portfolio with a time horizon of 1 day and with a level of confidence of 97.5% (VaR).
- The portfolio valuation with the new risk factors at day t+1.

During 2018, the number of derivative financial instruments traded was the following:

		Number of transactions		Notional	
Instrument		**Trading**	**Hedging**	**Trading**	**Hedging**
Futures	(1)	47	-	60,815	-
Forwards (Arbitrations)	(2)	741	-	36,105	-
Swaps	(3)	31	96	14,130	29,522

(1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 30,384 of purchase and 30,431 sales.
(2) Purchasing transactions. Notional in millions of US dollars.
(3) Notional amount traded during the year.

During 2017, the number of derivative financial instruments traded was the following:

		Number of transactions		Notional	
Instrument		**Trading**	**Hedging**	**Trading**	**Hedging**
Futures	(1)	350	-	60,284	-
Forwards (Arbitrations)	(2)	216	-	23,828	-
Swaps	(3)	83	109	67,930	26,797

(1) The number of transactions is equal to purchase transactions minus sales. Notional refers to number of contracts: 30,317 of purchase and 29,967 sales.
(2) Purchasing transactions. Notional in millions of US dollars.
(3) Notional amount traded during the year.

Formal documentation of hedges-

In order to comply with the applicable regulations with respect to derivatives and hedging transactions (Criterion B-5 issued by the Banking Commission), the Institution has a hedge file that includes the information shown in the next page.

(Continued)

I. File cover letter.
II. Authorization of the hedge.
III. Diagram of the strategy.
IV. Evidence of prospective tests of hedge effectiveness.
V. Evidence of execution of the derivative.
VI. Details of the primary position being hedged.
VII. Derivative confirmation.

Sensitivity analysis-

A sensitivity analysis is performed through different measures every day, such as:

1. Duration.- There are primarily two types of duration with different meanings:

a) Macaulay Duration: It is the weighted average maturity of the current cash flow values where weighting ratios are the time in years up to the payment of the corresponding flow.

b) Modified Duration: It is the percentage variation experienced by the price of a bond in light of small variations in the market interest rate.

2. Convexity.- It is the variation experienced by the slope of a curve with respect to a dependent variable, i.e., it measures the variation experienced, by the duration when rates change.

3. Greeks- Sensitivity measurements for options, except for interest rate options:

a) Delta: Price Sensitivity for options at the price of the underlying of the option.

b) Theta: Price Sensitivity of options to the time variable.

c) Gamma: Third degree price sensitivity of the option to the underlying of the option.

d) Vega: Price Sensitivity of the option in response to volatility used for its valuation.

e) Rho: Price Sensitivity of the option in response to changes in interest rate.

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4. Beta- It is the measurement of the systematic risk of a share.

This analysis is reported to the instances that define the operating strategy of derivatives on financial markets and operators therein, in order for them to set their criterion in risk taking with these instruments.

(10) Loan portfolio-

(a) Classification of loan portfolio by currency

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

	2018 Local currency	2018 Foreign currency	2018 Total	2017 Local currency	2017 Foreign currency	2017 Total
Current portfolio:						
Business or comercial activity loans	21,374	40,298	61,672	16,368	35,365	51,733
Financial institutions loans	165,859	14,173	180,032	149,820	8,780	158,600
Government entities loans	17,035	12	17,047	16,045	22	16,067
Consumer loans	5	-	5	8	-	8
Mortgage loans	104	-	104	119	-	119
Loans granted as agent of the Federal Government	-	29	29	-	65	65
Subtotal	**204,377**	**54,512**	**258,889**	**182,360**	**44,232**	**226,592**
Past due portfolio:						
Business or comercial activity loans	-	509	509	-	575	575
Financial institutions loans	228	-	228	1,284	-	1,284
Consumer loans	2	-	2	2	-	2
Mortgage loans	4	-	4	6	-	6
Subtotal	**234**	**509**	**743**	**1,292**	**575**	**1,867**
Total loan portfolio	**204,611**	**55,021**	**259,632**	**183,652**	**44,807**	**228,459**

Loans granted by the Institution acting as a financial agent, correspond to financing granted to Federal Government entities with resources obtained from international organizations for this particular purpose, which are presented in the loan portfolio.

Loans to financial institutions are granted to banking and non-banking entities through the discount of documents from individuals and entities engaged in business activities.

At December 31 2018 and 2017, the Institution has no loan portfolio subject to support program promoted by the Federal Government.

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(b) Classification of loan portfolio by economic sector-

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

		2018		2017	
		Amount	**%**	**Amount**	**%**
Federal Government	$	41	0.02	88	0.03
Decentralized agencies and state-owned enterprises		12,530	4.83	11,540	5.05
State productive enterprises		4,505	1.74	4,504	1.97
Comercial banks		66,050	25.44	53,890	23.59
Other public financial brokers		1,055	0.41	1,224	0.54
Other private financial brokers		113,155	43.58	104,770	45.86
Domestic companies		62,181	23.94	52,308	22.9
Private parties		115	0.04	135	0.06
	$	**259,632**	**100**	**228,459**	**100**

(c) Additional loan portfolio information-

Annual weighted lending rates (unaudited):

During 2018 and 2017, annual weighted rates not audited, were as follows:

	2018	**2017**
Commercial loans*	9.62%	8.27%
Consumer	4.81%	4.36%
Mortgages	4.96%	3.25%
Excluded	2.70%	2.54%

* Includes commercial, financial and government entities loans.

Restructured loans:

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

2018		**Current portfolio**	**Past due portfolio**	**Total**
Commercial loans	$	4,962	507	5,469
Financial entities		92	-	92
Mortgage		1	-	1
	$	**5,055**	**507**	**5,562**

(Continued)

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2017		**Current portfolio**	**Past due portfolio**	**Total**
Commercial loans	$	46	-	46
Financial entities		191	-	191
	$	**237**	**-**	**237**

For the years ended December 31, 2018 and 2017, interests arising from restructured loans amounted to $159 and $21, respectively.

At December 31, 2018, no renewed loans were recorded.

Risk Concentration (unaudited):

At December 31, 2018, the Institution has thirty-one economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $186,862, and represent 6.64 times the amount of basic capital as of December 2018. At December 31, 2017, the Institution had twenty-three group debtor that exceeded such limit totaling $143,130 and represented 6.42 times the amount of the basic capital as of September, 2017. The balance of the loans granted to the three largest borrowers as of December 31, 2018 and 2017, amounts to $41,162 and $55,752, respectively.

Past-due portfolio:

An analysis of past-due loans at December 31, 2018 and 2017, from the date the loans were considered past due are summarized in the next page.

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		1 to 180 days	181 to 365 days	Over 2 years	Total
2018					
Commercial*	$	737	-	-	737
Consumer		1	-	1	2
Mortgage		2	-	2	4
	$	**740**	**-**	**3**	**743**
2017					
Commercial*	$	-	-	1,859	1,859
Consumer		1	-	1	2
Mortgage		4	1	1	6
	$	**5**	**1**	**1,861**	**1,867**

* Includes commercial, financial and government entities loans.

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

		2018	2017
Balance at beginning of year	$	1,867	2,178
Settlements		(349)	(8)
Write-offs		(1,284)	(275)
Transfer from performing to nonperforming portfolio		443	-
Foreign exchange fluctuation		66	(28)
	$	**743**	**1,867**

At December 31, 2018 and 2017 the past-due loan portfolio is comprised of 37 and 38 former employees respectively and 2 companies, in both years, which are in a judicial or extra-judicial process.

The interests on the past due loan portfolio not recognized in net income amounted to $20 for the year ended December 31, 2018 ($168 in 2017), these are recorded in memorandum accounts.

For the years ended December 31, 2018 and 2017, the Institution recorded write-offs from those past due loans that had been fully reserved, for a total of $1,284 and $275, respectively.

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The effect derived from the suspension of the accrual of interest on the nonperforming loans, represented a decrease that amounts to $148 compared to 2017; this is due to adjustments to balances recognized due to borrowers that went into commercial bankruptcy.

For the years ended December 31, 2018 and 2017, the Institution had no recoveries from written off loans.

Impaired loan portfolio:

In accordance with criterion B-6, "Loan portfolio", of the Provisions, commercial loans, are deemed impaired loan when it is determined that, based on current facts and information, as well as the review process of such loans, there is a significant likelihood of them not being entirely recovered (whether their principal component or interest) in accordance with the terms and conditions originally agreed. Both the current and non-performing portfolio may be identified as an impaired portfolio.

At December 31, 2018 and 2017, the impaired portfolio is summarized below:

	Risk grade			
2018	**D**	**E**	**Total**	**Allowance recorded**
Current	$ 180	-	180	81
Past-due	-	737	737	616
Total	**$ 180**	**737**	**917**	**697**
2017				
Current	$ 235	-	235	106
Past-due	-	1,859	1,859	1,521
Total	**$ 235**	**1,859**	**2,094**	**1,627**

Interest and commissions from the loans portfolio at December 31, 2018 and 2017, are integrated as shown in the next page.

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2018		**Interest**	**Commissions from loans granted**	**Total**
Business or commercial activity loans	$	3,782	77	3,859
Financial institutions loans		12,749	55	12,804
Government entities loans		1,330	-	1,330
Mortgage loans		4	-	4
Loans granted as Federal Government Financial agent		1	-	1
	$	**17,866**	**132**	**17,998**
2017				
Business or commercial activity loans	$	2,577	37	2,614
Financial institutions loans		10,189	42	10,231
Government entities loans		1,085	-	1,085
Mortgage loans		4	-	4
Consumer loans		1	-	1
Loans granted as Federal Government Financial agent		2	-	2
	$	**13,858**	**79**	**13,937**

The average weighted term for the amortization of commissions collected on the granting of loans is one month.

Adjustment from valuation of financial asset hedging:

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

At December 31, 2018 and 2017, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for $5,870 and $15,294, respectively.

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(d) Allowance for loan losses-

At December 31, 2018 and 2017, as a result of the application of the rating methodology, the probability of default and loss given default by type of loan portfolio, obtained as weighted average (unaudited) of the exposure to default, are as follows:

Portfolio type	Probability of default	Loss given default		Exposure to default
2018				
Commercial	2.18%	44.89%	$	340,859
Mortgage	7.86%	20.76%		108
Consumer	37.85%	83.91%		7
Exempt	-	-	$	29
2017				
Commercial	2.42%	45.02%	$	302,205
Mortgage	7.99%	17.62%		125
Consumer	27.30%	83.28%		10
Exempt	-	-	$	65

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

In accordance with the provisions for the loan portfolio rating, for development banking institutions, the loan portfolio under the responsibility of the Federal Government and the discounting of development banking entities, is not subject to the creation of allowance for loan losses, since these entities assume the credit risk. The balances of the loan portfolio and contingent operations subject to rating are controlled in memorandum accounts and are rated based on the methodologies established by the Banking Commission.

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

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Credit rated portfolio

Grade of risk		Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$	132,302	70,297	17,047	1	72	219,719
A-2		6,135	39,277	-	1	10	45,423
B-1		1,429	44,045	-	1	3	45,478
B-2		1,826	4,290	-	-	7	6,123
B3		1,062	22,075	-	1	5	23,143
C-1		43	44	-	-	4	91
C-2		19	5	-	-	3	27
D		223	-	-	1	3	227
E		513	227	-	2	1	743
Total		143,552	180,260	17,047	7	108	340,974
Exempted portfolio:							
Federal Government							29
Total portfolio						**$**	**341,003**

Allowance for loan losses

Grade of risk		Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$	654	479	85	-	-	1,218
A-2		65	514	-	-	-	579
B-1		25	745	-	-	-	770
B-2		45	101	-	-	-	146
B3		32	606	-	-	-	638
C-1		3	2	-	-	-	5
C-2		2	1	-	-	-	3
D		95	-	-	-	-	95
E		509	107	-	2	2	620
Total		**1,430**	**2,555**	**85**	**2**	**2**	**4,074**
Exempted portfolio:							
Aditional reserves recognized by the Banking Comission							332
Allowance for assignment of lines of guarantees							2,673
Total						**$**	**7,079**

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

Credit rated portfolio

Grade of risk		Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$	105,762	63,939	16,067	1	95	185,864
A-2		9,882	66,137	-	2	10	76,031
B-1		2,414	6,878	-	1	3	9,296
B-2		1,542	23,218	-	1	-	24,761
B3		1,042	2,841	-	1	5	3,889
C-1		27	300	-	1	4	332
C-2		13	22	-	-	4	39
D		231	27	-	1	2	261
E		579	1,284	-	2	2	1,867
Total		**121,492**	**164,646**	**16,067**	**10**	**125**	**302,340**
Exempted portfolio:							
Federal Government							65
Total portfolio						**$**	**302,405**

Allowance for loan losses

Grade of risk	Business or commercial	Financial institutions	Government entities	Consumer	Mortgage	Total
A-1	$ 515	363	80	-	-	958
A-2	109	807	-	-	-	916
B-1	39	114	-	-	-	153
B-2	38	499	-	-	-	537
B3	30	103	-	-	-	133
C-1	2	21	-	-	-	23
C-2	2	2	-	-	1	5
D	100	12	-	-	-	112
E	577	946	-	2	1	1,526
Total	**1,412**	**2,867**	**80**	**2**	**2**	**4,363**
Exempted portfolio:						
Aditional reserves recognized by the Banking Comission						536
Allowance for assignment of lines of guarantees						2,117
Total						**7,016**

(Continued)

(Millions of Mexican pesos)

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

		2018	2017
Balance at beginning of year	$	7,016	5,639
Provision charged to results of year		2,814	2,638
Provisions, write-offs and others		(1,289)	(287)
Allowance cancellation		(1,469)	(930)
Exchange rate fluctuations		7	(44)
Balance at end of year	**$**	**7,079**	**7,016**

(11) Other accounts receivable, net-

At December 31, 2018 and 2017, other accounts receivable, are shown below:

		2018	2017
Loans to Institution's personnel	$	2,912	2,659
Clearing accounts		-	2,272
Other receivables		1,045	800
Receivables for fees on current trading activities		96	93
Payments receivable on swap trades		12,360	11,402
		16,413	17,226
Allowance for write-offs of other receivables		(957)	(665)
Total	**$**	**15,456**	**16,561**

(12) Foreclosed assets-

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

		2018	2017
Property	$	30	30
Furniture, securities and foreclosed rights		20	30
		50	60
Allowances for impairment		(47)	(56)
Balance at end of year	**$**	**3**	**4**

(Millions of Mexican pesos)

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

		2018	2017
Balance at beginning of year	$	(56)	(54)
Additional provisions due to aging recorded in profit and loss of the year		-	(2)
Provisions on sale of foreclosed assets and write-offs		9	-
Balance at end of year	**$**	**(47)**	**(56)**

In conformity with the Provisions, additional reserves have been recorded for foreclosed assets in judicial or extra-judicial process or received in lieu of payment.

(13) Property, plant and equipment -

Property, plant and equipment at December 31, 2018 and 2017 are analyzed as follows:

		2018			2017		
			Investment			Investment	
Concept		**Cost**	**Restated**	**Total**	**Cost**	**Restated**	**Total**
Property	$	339	1,892	2,231	310	1,941	2,251
Furniture and equipment		143	97	240	143	97	240
Computer equipment		32	4	36	24	4	28
Land		8	-	8	9	-	9
Subtotal		522	1,993	2,515	486	2,042	2,528
Accumulated depreciation		(244)	(819)	(1,063)	(241)	(801)	(1,042)
Total	**$**	**278**	**1,174**	**1,452**	**245**	**1,241**	**1,486**

The useful lives during which the main assets are depreciated are shown below:

	Useful life
Property	53 to 70 years
Furniture and equipment	10 years
Computer equipment	3 to 4 years

(Millions of Mexican pesos)

Depreciation charged to results of operations for the years ended December 31, 2018 and 2017 amounted to $34 and $35, respectively.

For the years ended December 31, 2018 and 2017, there was no effect from impairment of property, leasehold improvements and adaptations.

According to the assessment carried out by the Institution's management, the residual value (except land) at December 31, 2018 and 2017 is remote.

(14) Permanent investments-

At December 31, 2018 and 2017, the shares in permanent investments, are integrated as follows:

		2018	2017
Corporación Andina de Fomento	$	2,576	2,578
Shares of other entities		295	229
		2,871	2,807
Investment of subsidiary companies:		29	29
Total	**$**	**2,900**	**2,836**

At December 31, 2018 and 2017, the other permanent investments are integrated as follows:

		2018	2017
Fideicomiso Asistencia Técnica en Programas de Financiamiento PYME	$	10	14
Fideicomiso Patronato del Centro de Diseño de México		12	14
Fideicomiso Capital Emprendedor		4	4
Total	**$**	**26**	**32**

(Continued)

(Millions of Mexican pesos)

The movement in the permanent investments and other permanent investments at December 31, 2018 is summarized as follows:

		2018	2017
Balance at beginning of year	$	2,868	2,890
Equity method in the results of unconsolidated subsidiaries and affiliates		15	6
Exchange translation		-	(111)
Investments acquisition		43	123
Investments disposals		-	(40)
Balance at end of year	**$**	**2,926**	**2,868**

(15) Deposit funding-

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

		2018			2017		
		Currency				Currency	
		Domestic	Foreign	Total	Domestic	Foreign	Total
Time deposits:							
Money market	$	140,093	3,719	143,812	72,147	62,149	134,296
Debt securities issued:							
Certificates		60,439	-	60,439	57,595	-	57,595
Bank bonds		-	44,774	44,774	-	40,670	40,670
Securities notes		-	14,358	14,358	-	14,246	14,246
		60,439	59,132	119,571	57,595	54,916	112,511
Total deposit funding	**$**	**200,532**	**62,851**	**263,383**	**129,742**	**117,065**	**246,807**

At December 31, 2018 and 2017, time deposits from the money market according to their maturity are integrated as follows:

		2018	2017
Less than one year	$	137,992	128,756
Between one and five years		5,153	5,153
		143,145	133,909
Accrued unpaid interest		667	387
	$	**143,812**	**134,296**

(Continued)

(Millions of Mexican pesos)

At December 31, 2018 and 2017, the unaudited average weighted interest rates and average terms in days on time deposits from money market are as follows:

(a) Time deposits from money market -

	2018		
Instrument	**Annual average rate**	**Average term in days**	**Amount**
Stock certificates	7.99	2,780	$ 5,153
Bank promissory notes	8.27	57	134,275
Deposit certificates in foreign currency (valued)	1.62	9	3,717
			143,145
Accrued interest			667
			$ 143,812

	2017		
Instrument	**Annual average rate**	**Average term in days**	**Amount**
Stock certificates	7.99	2,780	$ 5,153
Bank promissory notes	7.11	7	66,618
Deposit certificates in foreign currency (valued)	0.24	15	62,138
			133,909
Accrued interest			387
			$ 134,296

(16) Debt securities issued in the country-

December 31, 2018 and 2017, the Institution has issued stock certificates with par value of one hundred pesos each, under the Institution's financial program authorized by the Ministry of finance, as shown in the next page.

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(Millions of Mexican pesos)

Issuance date	Maturity	Securities (millions)	Par value (pesos)	Interest rate	2018	2017
CEBURES settled in INDEVAL:						
03/08/2012	22/07/2022	20	100	5.69	$ 2,000	2,000
10/12/2012	22/07/2022	20	100	5.69	2,000	2,000
22/11/2013	08/03/2024	30	100	6.55	3,000	3,000
14/03/2014	08/03/2024	47.5	100	6.55	4,750	4,750
06/06/2014	08/03/2024	40	100	6.55	4,000	4,000
26/09/2014	08/03/2024	32.5	100	6.55	3,250	3,250
17/04/2015	07/03/2025	60	100	6.15	6,000	6,000
17/04/2015	13/04/2018	10	100	3.23	-	1,000
24/08/2015	13/04/2018	30	100	3.48	-	3,000
24/08/2015	07/03/2025	40	100	6.15	4,000	4,000
10/04/2017	03/04/2020	47.5	100	8.35	4,750	4,750
12/04/2017	25/09/2026	12.5	100	6.20	1,250	1,250
27/04/2018	23/04/2021	45	100	8.26	4,500	-
02/05/2018	25/09/2026	25	100	6.20	2,500	-
Premium or discount on placement					(361)	(127)
Accrued interest payable					678	615
					42,317	**39,488**
CEBURES settled in Euroclear and Clearstream						
25/04/2016	17/04/2019	10	100	8.53	1,000	1,000
27/04/2016	25/09/2026	50	100	6.20	5,000	5,000
21/10/2016	17/04/2019	18	100	8.53	1,800	1,800
25/10/2016	25/09/2026	42	100	6.20	4,200	4,200
Premium or discount on placement					(79)	(88)
Accrued interest payable					140	138
					12,061	12,050
Subtotal carried forward to the next page					$ 54,378	51,538

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Issuance date	Maturity	Securities (millions)	Par value (pesos)	Interest rate	2018	2017
Subtotal brought forward from previous page					$ 54,378	51,538
Green bond denominated in domestic currency						
02/09/2016	01/09/2023	20	100	6.05	2,000	2,000
Accrued interest payable					39	38
					2,039	2,038
Social bond						
21/07/2017	15/07/2022	40	100	8.32	4,000	4,000
Accrued interest payable					22	19
					4,022	4,019
Total					**$ 60,439**	**$ 57,595**

In April 2016, were issued two stock certificates (fixed-rate and reviewable rate) under the communicative units format and under the program of syndicated auctions that the Institution has been carrying out since the end of 2013. However, there was a new feature for the fixed-rate tranche, since the necessary formalities were carried out for that instrument to be settled through Euroclear or Clearstream, allowing the participation of foreign investors and seeks to increase the investors base.

Additionally, in September 2016, the Institution issued its second green bond, through a transaction in the local market, denominated in pesos and with a seven years term. The placement had diversification of investors, which positioned the Institution again as a leading in this type of initiatives to promote the transition toward a competitive, sustainable economy and low carbon emissions. The demand was close to $6,000 (2.92. times) and the final placement amounted to $2,000 which was initially used to finance three projects, two mini-hydroelectric plants and an eolian park located in Nayarit and Puebla, respectively. The issuance was also highlighted by the support of the second opinion from Sustainalytic. This marks the beginning of Green bonds in Mexico since it is the first issue in pesos of this type.

In July 2017, the Institution placed the first social bond listed in the Mexican Stock Exchange. The demand of this transaction amounted to $13,373 (3.34 times) and the final placement amounted to $4,000 and 6.68 times the target amount that was $2,000. The placement rate had a difference compared with TIIE rate of 28 days less 2 points basis with a term of 5 years. The rating for this placement was AAA (or its equivalent) at local level by 5 rating agencies S & P, Moody's, Fitch, DBRS and HR.

(Continued)

The Institution's social bond is aligned with the social bonds principles 2017 of the International Capital Market Association ("ICMA"), due to the nature of the eligibility criteria for the programs and populations target. Additionally, contributes to the objectives of development sustainable (ODS) of the United Nations, in order to reduce the poverty, inclusive education, gender equality, worthy employment and sustainable and inclusive economic growth. The social bond had a second opinion from Sustainalytics B.V., firm provider of research and analysis of environmental and social governance which assessed the instrument to ensure that it is aligned with social bonds principles.

Valuation adjustments from financial liabilities hedging

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

At December 31, 2018 and 2017, the loss (gain) recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $884 and $11,203, respectively.

(17) Credit securities issued abroad-

Bank bonds:

At December 31, 2018 and 2017, the bank bonds balance amounts to $44,774 and $40,670, respectively. The current balances of securities placed by the Institution abroad, as shown below:

2018

Currency	Securities	Balance in foreign currency in millions	Interest	% Average rate	Balance in local currency	Term
US dollars	73	2,145	141	2.2630	$ 42,312	Less than one year
	5	125	7	2.9445	2,462	Over one year
					$ 44,774	

2017

Currency	Securities	Balance in foreign currency in millions	Interest	% Average rate	Balance in local currency	Term
US dollars	120	1,889	4	1.37323	$ 37,222	Less than one year
	6	174	1	1.58250	3,448	Over one year
					$ 40,670	

Stock notes:

At December 31, 2018 and 2017, the current balance of this caption for $14,358, and $14,246, respectively, is integrated as follows:

2018

Currency	**Balance in foreign currency (millions)**	**% Average Rate**	**Balance in local currency**	**Term**
2018				
US dollars	500	3.375	$ 9,826	5 years
Japanese yen	10,000	0.78	1,791	5 years
Japanese yen	15,000	0.66	2,686	5 years
Premium or discount on placement			(6)	
Accrued interest			61	
			$ 14,358	
2017				
US dollars	500	3.375	$ 9,831	5 years
Japanese yen	10,000	0.78	1,746	5 years
Japanese yen	15,000	0.66	2,620	5 years
Premium or discount on placement			(8)	
Accrued interest			57	
			$ 14,246	

(18) Bank and other borrowings -

At December 31, 2018 and 2017, bank and other borrowings are comprised as shown in the next page.

		2018	**2017**
Multinational and governmental agencies:			
World Bank	$	983	983
Inter-American Development Bank		6,907	7,080
Others		5,954	4,025
		13,844	12,088
Banking institutions		6,927	5,285
Other borrowings		10,328	8,003
Accrued interest		36	25
	$	**31,135**	**25,401**

(Continued)

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At December 31, 2018 and 2017, maturity term less than one year amount to $18,743 and $12,816, respectively.

At December 31, 2018, bank and other borrowings based on their maturity dates are integrated as follows:

Financial Agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Due on demand				
Local currency	8.15	2 days	10,328	$ 10,328
Short term				
Us dollars:				
Commercial banking	2.3970	327 days	111	2,178
NF BID Cclip 2226 oc Me desarrollo	3.4200	365 days	5	98
NF BID Cclip 2843/ oc Me prog linea Cred Condicional	3.4200	365 days	5	98
Instituto de Crédito Oficial	1.5000	365 days	1	20
Corporación Andina de Fomento	2.7455	39 days	300	5,896
Euros:				
Commercial banking	1.2433	365 days	3	70
Financial agent				
Euros:				
Inter-American Development Bank Washington D.C.	3.0000	365 days	-	19
Interest			1	36
Total				**$ 8,415**

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Financial Agency	Average rate	Average term to maturity (residual)	Millions in Foreign currency	Local currency
Long term				
Us dollars:				
Commercial banking	2.4296	7 years/ 10 months	225	$ 4,417
Instituto Comercial de Crédito	1.3333	2 years/ 3 months	2	38
NF BID Cclip oc Me Desarrollo	3.4200	15 years/ 5 months	78	1,523
NF ctf BIRF 98062 Programa de Sustitución de Electrodomésticos	0.7500	10 years/ 8 months	50	983
2631 tc Me Programa de Financiamiento de Energías Renovables	0.7500	12 years/ 6 months	70	1,376
NF BID Cclip/oc-Me Programa Línea de Créditos	3.4200	18 years/ 4 months	93	1,818
NF BID 3237/oc-Me Programa Financiamiento Impulso Cogeneración	3.4200	20 years/ 5 months	100	1,965
Euros:				
Commercial banking	1.3190	3 years/ 10 months	12	262
Financial agent				
Euros:				
Inter-American Development Bank Washington D.C.	3.0000	1 year/ 3 months	-	10
Total				**$ 12,392**

(Continued)

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At December 31, 2017 bank and other borrowings maturity dates are integrated as follows:

Financial Agency	**Average rate**	**Average term to maturity (residual)**	**Millions in Foreign currency**	**Local currency**
Due on demand				
Local currency	7.15	2 days	8,003	$ 8,003
Interest			3	3
Total				**$ 8,006**
Short term				
Us dollars:	1.7633	122 days	29	$ 576
Commercial banking	2.3300	166 days	5	98
NF BID Cclip 2226 oc Me desarrollo	2.3300	135 days	2	49
Instituto de Crédito Oficial	1.3333	120 days	1	20
Corporación Andina de Fomento	1.5681	19 days	200	3,933
Euros:				
Commercial banking	1.4588	341 days	3	78
				4,754
Financial agent				
Euros:				
Inter-American Development Bank	3.0000	102 days	1	20
Special draft fees:				
International Agricultural Development Fund	2.0800	213 days	-	14
Interest				22
Total				**$ 4,810**

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(Millions of pesos, except where stated different)

Financial agency	**Average rate**	**Average term to maturity (residual)**	**Millions in Foreign currency**	**Local currency**
Long term				
US dollars:				
Commercial banking	2.1671	9 years/10 months	218	$ 4,285
Instituto Comercial de Crédito	1.3333	3 years/3 months	3	59
NF BID Cclip oc Me Desarrollo Pymes Pemex	2.3300	17 years/5 months	83	1,622
NF ctf BIRF 98062 Programa de Sustitución de electrodomésticos	0.7500	12 years/8 months	50	983
2631 tc Me Programa de Financiamiento de Energías Renovables	0.7500	14 years/6 months	70	1,376
NF BID Cclip/oc-Me Programa Línea de Créditos Condicional Me-x1010	2.3300	20 years/4 months	98	1,917
NF BID 3237/oc-Me Programa Financiamiento Impulso Cogeneración	2.3300	22 years/5 months	100	1,966
Euros:				
Commercial banking	1.4220	4 years/9 months	15	346
Financial agent				
Euro:				
Inter-American Development Bank Washington DC	3.0000	2 years/3 months	1	31
Total				**$ 12,585**

The accounts of credits obtained not drawn down (note 23e) represents the lines of credit granted to the Institution not exercised at year-end, and is analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

		2018	2017
Central Bank	$	209	210
Kreditanstal Fur Wideraufbau Frankfurt		724	760
Banco Interamericano de Desarrollo		1,686	1,687
Total	**$**	**2,619**	**2,657**

(19) Other accounts payable-

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

		2018	2017
Payables for cash collateral received	$	1,634	1,109
Sundry creditors		775	1,235
Employee benefits payable		7	306
Income taxes payable		436	253
Employee statutory profit sharing payable		332	275
Clearing accounts		20,358	-
Other accounts payable		155	125
Deposits in guarantees		3	3
Total	**$**	**23,700**	**3,306**

(20) Employees' benefits -

a) Defined contribution retirement plan

Beginning in 2006, the Institution amended the General Labour Conditions (GLC) based on trends and best practices in the management and operation of retirement and pension schemes, to incorporate new employees, as well as those who decided to migrate from defined benefits to defined contribution scheme. This scheme allows for having a greater control over costs and liabilities of the plan, maintain an adequate cost-benefit ratio for the Institution and for employees and establishes clear rules of contribution or retirement.

This plan consists of the contributions carried out by the Institution to open individual accounts for each employee, which are divided in two sub accounts, denominated "A" and "B", respectively. It further consists of contributions carried out by the employee to the sub-account "B" and the returns generated by both subaccounts, which are jointly identified as the employee's individual account.

The amount of the contributions for the year ended December 31, 2018, amounted to $41. During the year 2017, the Institution did not make contributions.

At December 31, 2018 and 2017, the defined contribution plan assets amounts to $298 and $281, respectively, and are invested in an irrevocable trust incorporated in the Institution.

b) Defined benefits retirement plan

Moreover, GLCs set forth that employees who reach 65 years of age and complete 30 years of service will be entitled to a retirement annuity. Moreover, upon reaching 65 years of age with 5 years of seniority, employees will be entitled to receive a monthly annuity, whose amount will be equal to the result of multiplying the average of the net monthly salary accrued by the employee during the last year of service by the number of years of service rendered by the 0.0385 factor. The Institution reserves the right to pay a pension for retirement to the employee who has reached 60 years of age or completed 26 years of service.

On the other hand, the articles of the GLC dated August 12, 1994 set forth that employee who joined the Institution prior to the above mentioned date and reach 55 years of age and have completed 30 years of service, 60 years of age and have completed 26 years of service or 60 years of age and completed 5 years of seniority will be entitled for a pension in the terms of the GEC referred to above.

In the event of an unjustified dismissal or termination of the employment relationship, the employee may choose to receive the compensation upon termination or a retirement annuity calculated based on the main characteristics of the retirement plan if the employee is 50 years old and has 16 or more years of seniority.

Article 5 paragraph a) of the GEC, reviewed in 2006, establishes that individuals who have obtained pension for disablement, disability or retirement prior to this GEC review and those employees who joined the Institution prior to such date and to whom the defined retirement benefit plan applies, will continue to enjoy the right to receive from the Institution at the time when they retire the following additional benefits:

- Short-term loans, medium-term loans and special loan for savings, which will be paid with a charge to caption "Administrative and promotional expenses", with an 18% net guaranteed return of the maximum capacity to invest that will be calculated on 41.66% of the net monthly pension multiplied by 72 months, as well as the available capacity that will be over 50% of the net pension, less monthly deductions from the short and medium-term loans with principal and interest multiplied by 72 months, with a 41.66% cap of monthly net pension. The special loan for Savings will bear 1% annual interest on the principal, which will be withheld by the Institution.

The net periodic cost for the years ended December 31, 2018 and 2017, amounts to $989 and $960, respectively, including the effect of other post-retirement benefits. The estimated net periodic cost for the year 2018 amounts to $814.

At December 31, 2018 and 2017, the plan assets of the fund for labor obligations amounted to $6,773 and $6,790 respectively, and is invested in an irrevocable trust incorporated in the Institution. The net periodic cost recognized in the unconsolidated statement of income of the Institution amounted to $144 and $331, respectively.

(Continued)

(Millions of Mexican pesos)

At December 31, 2018 and 2017 plan assets related to "other post-retirement benefits" amounts to $11,327 and $10,589 respectively. The net periodic cost recognized in the Institution's consolidated statement of income amounted to $845 and $629, respectively.

At December 31, 2018 and 2017, the assets of the plan of the Fund for labor obligations, is invested in the following securities:

Classification of securities in the Fund and its concentration.

		2018	**2017**
Government securities	$	39.82%	29.85%
Banking securities		2.02%	11.14%
Other debt securities		58.16%	59.01%
Total	**$**	**100.00%**	**100.00%**

At December 31, 2018, from the total assets of the plan 2.11% are invested in Certificates of the Treasury of the Federation; 27.12% in Federal Government Development Bonds (23.44% in December 2017); 10.59% in Bonds of the Institute for the Protection of Bank Savings (6.41% in December 2017); 2.02% in term investments with performance payable at maturity and investment companies of securities issued by credit institutions (11.14% in December 2017); 58.16% in Certificates and investment companies, securities issued by credit institutions and private sector companies with high credit rating (59.01% in December 2017).

The summary of the actuarial calculations at December 31 2018, is as follows:

Concept	**Pension**	**Seniority premium**	**Other retirement benefits**	**Special loan for savings (SLS) and financial credit cost**
Accounting policy for the recognition of losses and gains			Deferred amortization	
General benefits description			According to general employment conditions	
Obligation for acquired benefits	**$ 6,899**	**7**	**7,932**	**3,244**
Reconciliation between the value of the Defined Benefits Obligation (DBO) and the fair value of plan assets (PA) with the net liability for defined benefits or net asset for defined benefits				
Defined benefits obligations	$ (7,262)	(27)	(9,608)	(3,672)
Plan assets at fair value	6,628	28	7,917	3,257
Financial situation of the obligation	(634)	1	(1,691)	(415)
Remeasurements pending of recognition	744	3	1,529	516
Net (liability) asset for defined benefits	**$ 110**	**4**	**(162)**	**101**

(Continued)

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2018 **Concept**	**Pension**	**Seniority premium**	**Other retirement benefits**	**Special loan for savings (SLS) and financial credit cost**
Net (liability) assets for defined benefits at the beginning of year	$ (360)	(2)	604	64
Net periodic cost	142	2	662	183
Contributions	(142)	(2)	(662)	(183)
Remeasurements of liabilities or (assets) recognized in OCI	250	(2)	(442)	(165)
Net (liability)/ asset for defined benefits	$ (110)	(4)	162	(101)
Net periodic cost				
Labor cost	$ 26	2	150	34
Financial cost	492	2	674	262
Return on assets	(460)	(2)	(529)	(221)
Recycling of remeasurements	84	-	367	108
Net period cost	$ 142	2	662	183
Net liability (asset) reameasurements for defined benefits				
Defined benefits obligations	$ 7,262	27	9,608	3,672
Estimated defined benefits obligation	7,286	29	9,786	3,928
Actuarial (gains) / losses on obligations	$ (24)	(2)	(178)	(256)
Fair value of the plan assets	$ 6,628	29	7,917	3,257
Estimated value of plan assets	6,845	29	7,745	3,359
(Gains) / losses on return on plan assets	217	-	295	102
Remeasurements generated in the year to recognize in OCI	$ 193	(2)	(350)	(154)
Average remaining working life	6.29	7.29	6.37	6.29

(Continued)

(Millions of Mexican pesos)

The summary of the actuarial calculations at December 31, 2017, is as follows:

2017 **Concept**	**Pension**	**Seniority premium**	**Other retirement benefits**	**Special loan for savings (SLS) and financial credit cost**
Accounting policy for the recognition of losses and gains			Deferred amortization	
General benefits description			According to general employment conditions	
Obligation for acquired benefits	$ 6,826	7	7,987	3,300

Reconciliation between the value of the Defined Benefits Obligation (DBO) and the fair value of plan assets (PA) with the net liability for defined benefits or net asset for defined benefits

Concept	Pension	Seniority premium	Other retirement benefits	Special loan for savings (SLS) and financial credit cost
Defined benefits obligations	$ (7,299)	(28)	(9,839)	(3,857)
Plan assets at fair value	6,774	27	7,431	3,180
Financial situation of the obligation	(525)	(1)	(2,408)	(677)
Remeasurements pending of recognition	885	3	1,804	613
Net (liability) asset for defined benefits	$ 360	2	(604)	(64)
Net (liability) assets for defined benefits at the beginning of year	$ 296	(4)	640	(179)
Net periodic cost	329	2	470	159
Contributions	(329)	(2)	(470)	(159)
Adjustment for recognition of differences in the reserve	56	1	(12)	22
Remeasurements of liabilities or (assets) recognized in OCI	(712)	1	(24)	221
Net (liability)/ asset for defined benefits	$ (360)	(2)	604	64

(Continued)

(Millions of Mexican pesos)

2017 **Concept**	**Pension**	**Seniority premium**	**Other retirement benefits**	**Special loan for savings (SLS) and financial credit cost**
Net periodic cost				
Labor cost	$ 29	2	152	37
Financial cost	497	2	609	231
Return on assets	(420)	(2)	(457)	(200)
Recycling of remeasurements	223	-	166	91
Net period cost	$ 329	2	470	159
Net liability (asset) reameasurements for defined benefits				
Defined benefits obligations	$ 7,299	28	9,839	3,857
Estimated defined benefits obligation	7,954	26	9,928	3,698
Actuarial (gains) / losses on obligations	$ (655)	2	(89)	159
Fair value of the plan assets	$ 6,774	27	7,431	3,180
Estimated value of plan assets	6,828	27	7,525	3,239
(Gains) / losses on return on plan assets	54	-	94	59
Remeasurements generated in the year to recognize in OCI	$ (601)	2	5	218
Average remaining working life	6.26	11.20	15.50	6.26

Main hypothesis used:

	2018	**2017**
Discount rate	8.48%	7.00%
Increase in wage rate	4.15%	4.00%
Increase of minimum wage rate	4.15%	4.00%
Medical inflation rate	10.50%	9.50%
Long term inflation rate	3.65%	3.50%

(Continued)

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Financial Position

At December 31, 2018 and 2017, the financial position is as follows:

			Other retirement benefits	
2018	**Retirement pension**	**Seniority plan**	**Medical service, savings fund insurance, premium sport club**	**SLS and financial credit cost**
Defined benefits obligation	$ (7,262)	(27)	(9,608)	(3,672)
Fair value of the plan assets	6,628	28	7,917	3,257
Obligation's financial position	(634)	1	(1,691)	(415)
Remeasurements pending for recognition	744	3	1529	516
Net (liability) / asset for defined benefits	$ 110	4	(162)	101
2017				
Defined benefits obligation	$ (7,299)	(28)	(9,839)	(3,857)
Fair value of the plan assets	6,774	27	7,431	3,180
Obligation's financial position	(525)	(1)	(2,408)	(677)
Remeasurements pending for recognition	885	3	1,804	615
Net (liability) / asset for defined benefits	$ (360)	(2)	(604)	(64)

OCI Reserve reconciliation

At December 31, 2018 and 2017, the reserve and OCI reconciliation are as follows:

2018	**Retirement pension**	**Seniority plan**	**Medical service, savings fund insurance, premium sport club**	**SLS and financial credit cost**
Reserve balance at beginning of year	$ (360)	(2)	604	64
Net periodic cost	142	2	662	183
Contributions	(142)	(2)	(662)	(183)
Remeasurements liabilities or (assets) recognized in OCI	250	(2)	(442)	(165)
Balance at end of year	**(110)**	**(4)**	**162**	**(101)**

(Continued)

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2018	**Retirement pension**	**Seniority plan**	**Medical service, savings fund insurance, premium sport club**	**SLS and financial credit cost**
Accumulated OCI statement				
Balance at beginning of year pending of recognition in OCI	$ 885	3	1,804	614
Recycling of remeasurements	(141)	-	(275)	(98)
Balance at end of year pending of recognition in OCI	$ 744	3	1,529	516
Beginning balance recognized in OCI	(360)	(2)	604	64
Recycling of remeasurements	57	-	(92)	(10)
Actuarial (gain) / losses in obligations	(24)	(2)	(178)	(256)
(Gains) / losses in return on plan assets	217	-	(172)	101
Balance at end of year recorded in OCI	$ (110)	(4)	162	(101)
Net liabilities (assets) due to defined benefits at end of year	$ (110)	(4)	162	(101)

2017	**Retirement pension**	**Seniority plan**	**Medical service, savings fund insurance, premium sport club**	**SLS and financial credit cost**
Reserve balance at beginning of year	$ 296	(5)	640	(179)
Net periodic cost	329	2	470	159
Contributions	(329)	(2)	(470)	(159)
Adjustment for recognition of differences in the reserve	56	2	(11)	22
Remeasurements liabilities or (assets) recognized in OCI	(712)	1	(25)	221
Balance at end of year	$ (360)	(2)	604	64

(Continued)

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2017	**Retirement Pension**	**Seniority plan**	**Medical service, savings fund insurance, premium sport club**	**SLS and financial credit cost**
	Retirement	**Retirement and termination**	**Retirement**	**Retirement**
Accumulated OCI statement				
Balance at beginning of year pending of recognition in OCI	$ 1,052	3	1,930	730
Recycling of remeasurements	(167)	-	(126)	(116)
Balance at end of year pending of recognition in OCI	$ 885	3	1,804	614
Beginning balance recognized in OCI	$ 352	(4)	628	(157)
Recycling of remeasurements	(56)	-	(41)	25
Actuarial (gain) / losses in obligations	(654)	3	(89)	159
(Gains) / losses in return on plan assets	54	-	94	58
Adjustment remeasurements for recognition of differences in the reserve	(56)	(1)	12	(22)
Balance at end of year recorded in OCI	$ (360)	(2)	604	64
Net liabilities (assets) due to defined benefits at end of year	$ (360)	(2)	604	64

In accordance with the amendments to the provisions published in the Official Federal Gazette on December 31, 2015, and with the effectiveness of the new MFRS D-3 issued by the CINIF, the Institution adopted the progressive application referred to in the third transitory article of the aforementioned Provisions.

Based on the aforementioned, the recognition of the balances indicated in subparagraphs a) and b) of the paragraph 81.2 of MFRS D-3, the balance of modifications to the plan not yet recognized and the unrecognized accumulated balance for gains or losses the plan, respectively, will be recognized in fiscal year 2021 at the latest, recognizing 20% from its initial application and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years. The decision of the Institution to adopt the progressive application of the recognition of these balances, was communicated to the Banking Commission in a timely manner.

The accumulated balance of Plan losses not recognized, amounts to $(2,791). The initial effects of the application of MFRS D-3 involve the recognition of 20% of the accumulated balance plan losses of $(558), amount which will be recognized, in the caption of "Remeasurements for employee's defined benefits" in earned capital. The remaining amount of $(2,233) will be applied in the subsequent years, within a maximum period of 5 years.

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

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

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

		2018		**2017**	
		IT	**ESPS**	**IT**	**ESPS**
Current IT:					
Institution	$	(319)	(332)	(106)	(274)
Consolidated trusts		(602)	-	(644)	-
Management funds		(2)	-	(8)	-
Plaza Insurgentes		(23)	-	(19)	-
Current IT and ESPS		(946)	(332)	(777)	(274)
Deferred		400	96	433	119
	$	**(546)**	**(236)**	**(344)**	**(155)**

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

The Institution has not recognized a deferred tax liability, on the undistributed profits of subsidiaries and associated companies; the Institution currently does not expect these undistributed profits to be reinvested and taxable in the near future.

Deferred IT and ESPS:

The analysis of the effective rate of the Institution without its subsidiaries at December 31 2018 and 2017, is analyzed in the next page.

(Continued)

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The following is an analysis of the effective tax rate of the Institution without subsidiaries for the fiscal year ended December 31, 2018:

		IT		
	Tax base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
December 31, 2018				
Income before taxes	$ 841	(252)	(30%)	(84)
Allocation to current tax:				
Adjustment for inflation effects	(297)	89	11%	30
Mark to market of investment securities	45	(14)	(2%)	(5)
Non-deductible expenses	478	(143)	(17%)	(46)
Allowance for loan losses	410	(123)	(15%)	(41)
Deferred ESPS	(96)	29	4%	10
Deduction of paid ESPS	(274)	82	10%	-
Others, net	(225)	67	8%	22
Current tax	882	(265)	(31%)	(114)
Tax effect of consolidated Trusts [1]		(54)		(218)
Income tax and ESPS in consolidated results		$ (319)		$ (332)

	IT			
	Tax base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
Allocation to deferred tax: (IT 30% and ESPS%):				
Mark to market of investment securities	$ (149)	45	5%	15
Provisions and others	(82)	25	3%	2
Allowance for loan losses to be deducted	(444)	133	16%	44
Interest on derivative financial instruments (swaps)	211	(63)	(7%)	(21)
Others	342	(103)	(12%)	(34)
Deferred tax	(122)	37	5%	6
Deferred tax effect of Consolidated Trusts		268		90
Current tax		$ 305		$ 96

[1] See note in the next page

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The following is an analysis of the effective tax rate of the Institution without subsidiaries for the fiscal year ended December 31, 2017:

		IT		
	Tax base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
December 31, 2017				
Income before taxes	$ 861	(258)	(30%)	(86)
Allocation to current tax:				
Adjustment for inflation effects	(531)	159	19%	53
Mark to market of investment securities	(484)	145	17%	48
Non-deductible expenses	378	(113)	(13%)	(37)
Allowance for loan losses	377	(113)	(13%)	(38)
Deferred ESPS	(119)	36	4%	12
Deduction of paid ESPS	(269)	81	9%	-
Others, net	546	(165)	(19%)	(54)
Current tax	759	(228)	(26%)	(102)
Tax effect of consolidated Trusts (1)		(122)		(172)
Income tax and ESPS in consolidated results		$ (106)		$ (274)

	IT			
	Tax base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
Allocation to deferred tax: (IT 30% and ESPS%):				
Mark to market of investment securities	$ 497	(149)	(17%)	(50)
Provisions and others	8	(2)		(1)
Allowance for loan losses to be deducted	(870)	261	30%	87
Interest on derivative financial instruments (swaps)	737	(221)	(26%)	(74)
Others	(237)	71	8%	24
Deferred tax	135	(40)	5%	(14)
Deferred tax effect of Consolidated Trusts		397		133
Current tax		$ 357		$ 119

(1) In accordance with article 13 of the tax law, when business activities are carried out through a trust, the Institution actings as trustee will determine under the terms of title II of tax law, the result or the fiscal loss for such activities in each fiscal year and fulfill the obligations, including the obligation to make fiscal payments on behalf of trustees.

(Continued)

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The effects on temporary differences of deferred assets at december 31, 2018, are integrated as follows:

	2018		2017	
	IT	**ESPS**	**IT**	**ESPS**
Deferred asset (liability):				
Mark to market of investment securities	$ (364)	(121)	(558)	(186)
Provisions and others	118	6	93	4
Allowance for loan losses to be deducted	2,276	759	1,875	625
Interest on derivative financial instruments (swaps)	(294)	(98)	(231)	(77)
Others	2	1	260	56
Deferred tax	1,738	547	1,439	422

Other considerations:

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

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(22) Stockholders' equity -

(a) At December 31, 2018, the Institution's capital stock is comprised as follows:

	Series "A"					
	Capital contribution certificates		Nominal value pesos	Amount		Total
	Series "A"	Series "B"		Series "A"	Series "B"	
Subscribed capital	31,548,000	16,252,000	$ 50	$ 1,577	813	$ 2,390
Unissued Capital	(2,625,815)	(1,352,691)	50	(131)	(68)	(199)
Subscribed and paid in capital	28,922,185	14,899,309	$ 50	$ 1,446	745	2,191
		Increase from restatement				7,011
		Total stockholder´s equity				$ 9,202

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At December 31, 2017, the Institution's capital stock is comprised as follows:

	Series "A" Capital contribution certificates Series "A"	Capital contribution certificates Series "B"	Nominal value pesos	Amount Series "A"	Amount Series "B"	Total
Subscribed capital	31,548,000	16,252,000	$ 50	$ 1,577	813	$ 2,390
Unissued Capital	(7,868,728)	(4,053,586)	50	(393)	(203)	(596)
Subscribed and paid in capital	23,679,272	12,198,414	$ 50	$ 1,184	610	1,794
		Increase from restatement				7,011
		Total stockholder´s equity				$ 8,805

The Institution's capital stock will be represented in 66% by "A" series and 34% by "B"series. The "A" series may only be subscribed by the Federal Government and "B" series by Mexican individuals or companies. At December 31, 2018 and 2017, the Federal Government owns 66% of the "A" series in both years, and 33.94% and 33.9% of "B" series, respectively.

(b) Contributions for future capital stock increases-

At December 31, 2018 and 2017, they amount to $1,376 and $5,700, respectively.

During its ordinary meeting held on October 30, 2018, the Board of Directors authorized the Management of the Institution, to carry out the necessary arrangements to request to the Federal Executive, through the Ministry of Finance and Public Credit (SHCP for its acronym in spanish), an increase of capital stock amounting to $1,376, required to be able to support the volume of operations and investment banking, which includes the investments of venture capital, as well as maintain a level of prudential capitalization for the year ended 2018, such increase was received in the month of December 2018.

During its extraordinary meeting held on February 27, 2018, the Board of Directors authorized the Management of the Institution, to formalize within the capital stock, the amount of the contributions for future capital increases made by the Federal Government for $ 5,700; derived from the previous point, the capital stock increased by $ 397, through the subscription and payment of equity contribution certificates (ECCs) for 7,943,808 with a nominal value of fifty pesos and increase in the paid stock premium at $ 5,303.

During its extraordinary meeting held on December 13, 2017, the Board of Directors authorized the Management of the Institution, to carry out the necessary arrangements to request to the Federal Executive, through the Ministry of Finance and Public Credit (SHCP for its acronym in spanish), an increase of capital stock amounting to $2,950, required to be able to support the volume of operations and investment banking, which includes the investments of venture capital, as well as maintain a level of prudential capitalization for the year ended 2017, such increase was received in the month of December 2017.

(Continued)

(c) Paid stock premium-

This premium applies to payments made by holders of series "B" certificates. The balance of the premiums paid at December 31, 2018 and 2017 amounts to $14,255 and $8,992, respectively.

(d) Statutory reserves-

The nominal value of these reserves at December 31, 2018 and 2017, amounts to $314 in both years and its restated value amounts to $1,730 in both years.

(e) Dividends declared -

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

For the years ended December 31, 2018 and 2017 there were no dividends declared.

(f) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity, represents the result of total activity during the year and includes the net income, the effect of the valuation of investments securities available for sale for $(202) and $108 at December 31, 2018 and 2017, respectively, as well as the effect on valuation in associated and affiliated companies and the remeasurements of defined employees' benefits for $1,102 and $32 at December 31, 2018, respectively, $742 and $(213) at December 31, 2017, respectively.

(g) Restrictions on stockholders' equity-

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

In case of contributions or retained earnings distributions to stockholders, income tax is due on the portion of the contributions or distributions exceeding the taxable basis. At December 31, 2018, the Capital contribution account of the Institution (Cuenta de Capital de Aportación or CUCA, unaudited) and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN, unaudited), amounted to $54,324 and $15,439, respectively.

The retained earnings of subsidiaries may not be distributed to the Institution's stockholders until dividends are collected.

(h) Capitalization (unaudited)-

At December 31, 2018 and 2017, the Institution maintained a capitalization ratio in excess of 10.5% (14.52% and 14.46%, at December 31, 2018 and 2017, respectively), it is classified as category I in both years in accordance with article 220 of the Provisions, the capitalization index is calculated by applying certain percentages in accordance with the risk assigned pursuant to the rules established by the Central Bank. The next sheet presents the Institution's capitalization information (capitalization index reported to the Central Bank and subject to its approval).

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(i) Basic and complementary capital-

The Institution's net capital consists of $29,478 of basic capital and risk adjusted assets of $203,022. Pursuant to the application of the portfolio rating methodology, complementary capital is zero, which implies that net capital is equal to the basic capital, which in turn equals the fundamental capital.

(j) Assets adjusted for market risks-

Assets adjusted for market risks amount to $55,557 and are equivalent to a capital requirement of $4,445, which are integrated as follows:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in Mexican pesos at nominal rates	$	12,144	972
Transactions with debt securities in pesos with premium and adjustable rates		7,295	548
Transactions in Mexican pesos at real rates or denominated in UDI's		13,276	1,062
Positions in UDI's or with returns indexed to the NCIP		93	7
Foreign currency transactions at nominal rates		8,356	669
Foreign currency positions or with exchange rate indexed returns		177	14
Equity positions or with returns indexed to the price of a single share or group of shares		14,219	1,137
Total market risk	**$**	**55,557**	**4,445**

(Continued)

(Millions of Mexican pesos)

(k) Assets adjusted for credit risks-

Assets adjusted for credit risk amount to $137,019 and are equivalent to a capital requirement of $10,962. Assets adjusted for risk related to borrowers and deposits amount to $100,202, which are equivalent to a capital requirement of $8,016, and are comprised as follows:

		Risk weighted assets	Capital requirement
Weighted assets subject to credit risk by risk group:			
Group III (weighted at 20%)	$	17,350	1,388
Group III (weighted at 50%)		4,726	378
Group III (weighted at 100%)		887	71
Group IV (weighted at 20%)		3,690	295
Group VI (weighted at 100%)		774	62
Group VII (weighted at 20%)		8,850	708
Group VII (weighted at 50%)		3,876	310
Group VII (weighted at 100%)		19,094	1,528
Group VII-B (weighted at 50%)		768	61
Group VII-B (weighted at 100%)		39,627	3,170
Group VIII (weighted at Group VI%)		3	-
Group IX (weighted at 100%)		557	45
Total credit risk	**$**	**100,202**	**8,016**

l) Assets adjusted for operational risks

Assets adjusted for operational risks amounted to $10,445 and are equivalent to a capital requirement of $836.

		Weighted assets subject to operational risk	
Used method		**Assets weigthted by risk**	**Capital requirements**
Basic benchmark	$	10,445	836

(Continued)

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	Average market and credit risk requirement of the last 36 months	Annual average of positive net income for the past 36 months
	$ 13,342	5,571

The annex 1-O of the Provisions establishes the requirements for the disclosure of information relating to capitalization, which shall contain, in addition to those listed in the preceding subparagraphs, the following sections:

1. Net capital is presented in accordance with the international format of revelation contained in the document "Format of capital integration without considering transitory application of regulatory adjustments".

Ref.	Tier 1 Common Stock (CET 1): Instruments and reserves	Amount
1	Common shares that qualify for Tier 1 common stock plus its applicable premium	$ 24,803
2	Prior year income	5,650
3	Other elements of comprehensive income (and other reserves)	4,000
6	Tier 1 common stock before regulatory adjustments	$ 34,453
	Tier 1 common stock: regulatory adjustments	
15	Defined benefits pension plan	$ 14,798
21	Deferred income taxes in favor from temporary differences (amount that exceeds the 10% threshold, net of taxes deferred charges)	546
26	Domestic regulatory adjustments	4,428
A	Other elements of comprehensive income (and other reserves)	-
D	Investments in multi-lateral agencies	644
F	Investments in capital risk	3,587
G	Investments in mutual funds	197
28	**Total regulatory adjustments to tier 1 common stock**	$ 4,974

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Ref.	Tier 1 Common Stock (CET 1): Instruments and reserves	Amount
29	**Tier 1 Common Stock (CET 1)**	$ 29,478
	Additional tier 1 capital: regulatory adjustments	
44	Additional tier 1 capital (AT1)	-
45	Tier 1 Stock (T1 = CET1 + AT1)	29,478
	Tier 2 capital: instruments and reserves	-
51	**Tier 2 capital before regulatory adjustments**	-
	Tier 2 Capital: regulatory adjustments	-
59	**Total Capital (TC = T1 + T2)**	29,478
60	**Assets weighted by total risk**	$ 203,022
61	Common tier 1 capital (as a percentage of the weighted assets by total risk)	14.52%
62	Tier 1 capital (as a percentage of the weighted assets by total risk)	14.52%
63	Total capital (as a percentage of the weighted assets by total risk)	14.52%
64	Institutional specific supplement (it should at least consist of the common tier 1 capital requirement, plus the capital conservation buffer, plus the countercyclical buffer, plus the G-SIB buffer stated as a percentage of the total weighted risk assets)	7.00%
65	of which: Conservation capital supplement	2.50%
68	Tier 1 common capital available to cover supplements (as a percentage of the total weighted risks assets)	7.52%

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2. Ratio of net capital with the balance sheet.

	Balance sheet amounts	
Balance sheet Items Reference	**Balance sheet Items (unconsolidated)**	**2018**
BS1	Cash and cash equivalents	57,265
BS2	Margin accounts	16
BS3	Investment securities	235,058
BS4	Debtors on repurchase/resell agreements	2,718
BS5	Securities lending	-
BS6	Derivatives	-
BS7	Valuation adjustment from hedging of financial assets	5,870
BS8	Total loan portfolio (net)	255,661
BS9	Receivable benefits on securities trading	-
BS10	Other receivables (net)	15,268
BS11	Foreclosed assets (net)	3
BS12	Property, plant and equipment (net)	7
BS13	Permanent investments **(a)**	24,984
BS14	Long-lived assets available for sale	-
BS15	Deferred income taxes and employee statutory profit sharing, net	2,284
BS16	Other assets	1,189
	Total assets	**$ 597,605**

(a) Includes other investments

(Continued)

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Balance sheet Items Reference	Balance sheet amounts Balance sheet Items unconsolidated		2018
	Liabilities:		
BS17	Deposit funding	$	278,271
BS18	Bank and other borrowings		31,135
BS19	Creditors on repurchase/resell agreement		218,623
BS20	Securities lending		-
BS21	Collateral sold or furnished as a guarantee		-
BS22	Derivatives		7,990
BS23	Valuation adjustments of hedging financial liabilities		884
BS24	Debentures in securities trading		-
BS25	Other accounts payable		25,063
BS26	Outstanding unsecured obligations		-
BS27	Deferred income taxes and employee statutory profit sharing, net (net)		-
BS28	Deferred credits and prepayments		85
	Total liabilities	**$**	**562,051**
	Stockholders' equity:		
BS29	Capital stock	$	24,803
BS30	Earned capital		10,751
	Total stockholders' equity		35,554
	Total liabilities and stockholders' equity	**$**	**597,605**

(Continued)

(Millions of Mexican pesos)

	Balance sheet amounts	
Balance sheet Items Reference	**Balance sheet Items unconsolidated**	**2018**
	Memorandum Accounts:	
BS31	Guarantees granted	-
BS32	Contingent assets and liabilities	83,635
BS33	Loan commitments	66,098
BS34	Assets placed in trust or mandate	1,719,642
BS35	Federal Government Financial Agent	380,346
BS36	Assets in custody or administration	527,308
BS37	Collateral received by the entity	17,058
BS38	Collateral received and sold or pledged as a guarantee by the entity	17,055
BS39	Investment banking transactions on behalf of third party	61,161
BS40	Interest earned but not collected arising from past due – loan portfolio	20
BS41	Other memorandum accounts	737,841

Regulatory items considered for the calculation of the net capital components.

Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts consider for the calculation of net capital from the aforementioned reference
Assets:				
5	Deferred income taxes (in favor) from losses and tax credits.	10	546	
15	Investments in multi-lateral agencies	26 – D	644	
17	Investment in risk capital	26 - F	3,587	
18	Investments in mutual funds	26 - G	197	
22	Investments of the defined benefits pension plan	26 - N	14,798	Informative uncomputed data
Stockholders' equity:				
34	Paid in capital in accordance with exhibit 1-Q	1	24,803	

(Continued)

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Identifier	Regulatory items considered for the calculation of net Capital	Reference to the disclosure form of the capital integration of section 1 to this exhibit	Amount of combination with notes to regulatory concepts considered for the calculation of net capital components	Reference(s) of the balance sheet item and the related amount to the regulatory concepts consider for the calculation of net capital from the aforementioned reference
35	Prior year income	2	5,650	
37	Other capital earned elements other than the foregoing	3	4,000	
41	Accumulated effect on translation	3,26 - A	N/A	
42	Net income from non-monetary assets holding	3, 26 - A	N/A	
	Regulatory concepts not considered in the balance sheet:			
45	Profit or increase in the value of the assets by acquisition of securitization positions (Originating Institutions)	26 - C	N/A	
46	Transactions that contravene the Provisions	26 – I	N/A	
47	Relevant related parties transactions	26 – M	N/A	
48	Adjustment for capital recognition	26 – O, 41, 56	N/A	

Main characteristics of securities composing stockholders´ equity (Series A)

Reference	Characteristic	Option
1	Issuer	**Nacional Financiera, Sociedad Nacional de Crédito**
2	Identifier ISIN, CUSIP o Bloomberg	
3	Legal framework	In conformity with Article 30 of Credit Institutions Law, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, is governed by its internal regulations, holders of Series "A", capital contribution certificates, if applicable will have the rights set forth in article 35 of the Credit Institutions Law and article 12 of internal regulations of Nacional Financiera.

(Continued)

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Regulatory treatment:

Reference	Characteristic	Option
4	Capital level with transitory status	
5	Capital level without transitory status	Basic 1
6	Level of instrument	Lending institution without consolidating subsidiaries
7	Type of instrument	"A" Series certificates of capital contribution
8	Recognized amount in regulatory capital	66% in accordance with (3)
9	Nominal value of the instrument	50.00
9A	Instrument currency	Mexican pesos
10	Accounting classification	Capital
11	Issuance date	
12	Instrument term	Perpetuity
13	Maturity date	Without maturity
14	Prepaid expense clause	No
15	First prepaid expense date	
15A	Regulatory or tax events	
15B	Liquidation prices of prepaid expense clause	
16	Subsequent prepaid expense dates	
17	Type of yield / dividend	Variable
18	Interest rate / dividend	Variable
19	Dividend Cancellation clause	No
20	Discretionary nature in the payment	Completely discretionary
21	Interest increase clause	No
22	Yield / dividend	Noncumulative
23	Instrument convertibility	Nonconvertible
24	Convertibility conditions	
25	Degree of convertibility	
26	Conversion rate	
27	Type of instrument convertibility	
28	Type of financial instrument of convertibility	
29	Issuer of instrument	
30	Write - down clause	
31	Write - down conditions	
32	Degree of write - down	
33	Temporary status of write – down	
34	Temporary value write - down mechanism	
35	Subordinated position in case of liquidation	
36	Nonperformance characteristics	
37	Description of nonperformance characteristics	

(Continued)

4. Capital management.

The framework for risk management must facilitate and support the measurement and monitoring of quantifiable risks, ensuring solid risk measurements to establish the Institution's risk appetite and generate value.

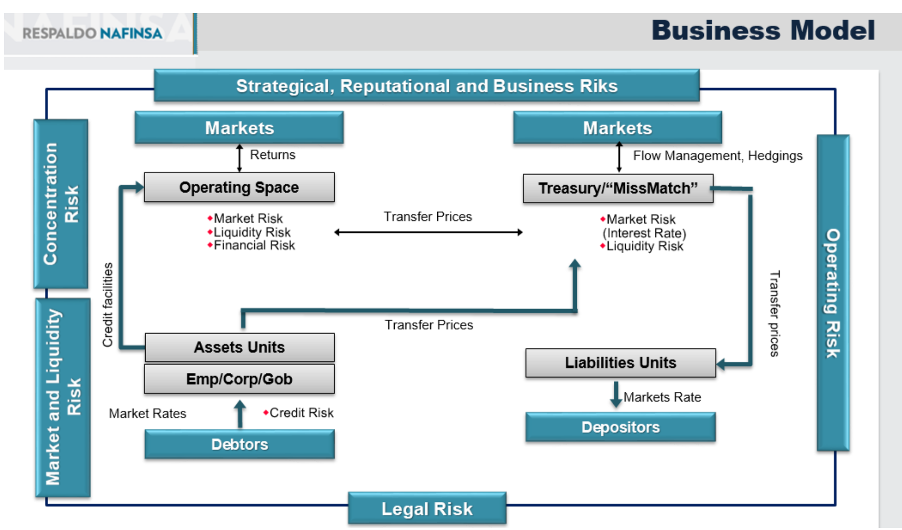
To ensure that risk management is a decision-making support tool, models and methodologies are established, that allow for measuring, monitoring and controlling the different types of risk to which the Institution is exposed. These risk measures should also contribute to the definition of business strategies and support decision-making of operation.

A fundamental point of departure for establishing limits is the definition of a business model that describes the exposure to different types of risk that generate the different operating units in the Institution.

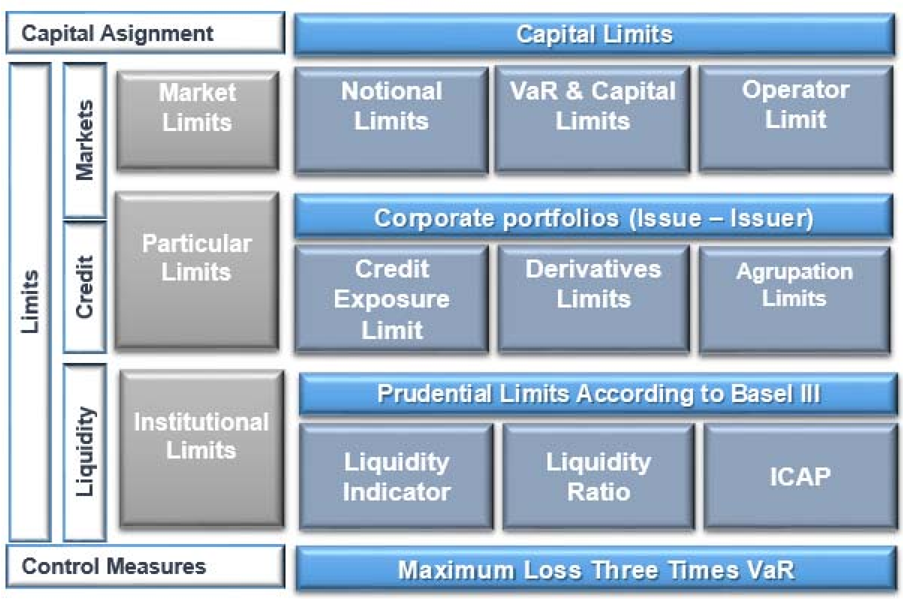
- Treasury: it operates as the central unit that manages the resources of the Institution. It is responsible for establishing transfer prices, controlling liquidity levels and control the risks of balance sheet. This unit incurs market, credit and liquidity risks, and in the case of the Institution is also responsible for the deposit-funding unit.

- Operation desks: their main function is to generate revenues through the operation in different financial markets, (money, foreign exchange, capital and foreign currency bonds).

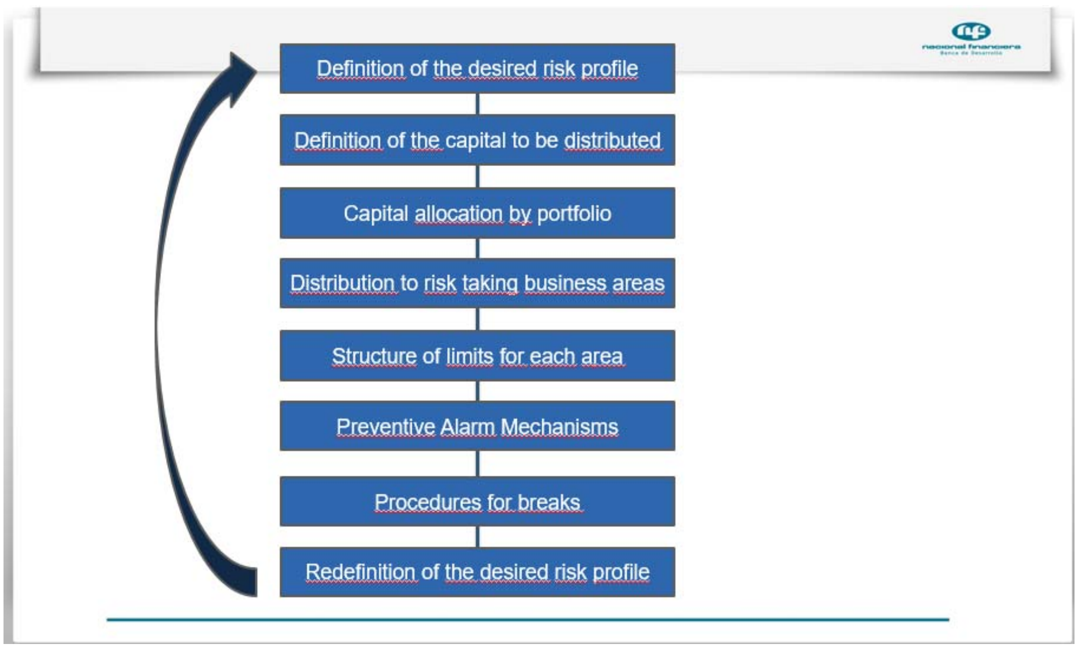
- Asset units: are those that encompass the promotion activities of the Institution and are derived from credit activities. These activities are the main generators of credit risk.



Based on the aforementioned, the Institution has a solid structure of global and specific limits for exposure to different types of risk considering the consolidated risk, breaking down by unit of business, factor risk and cause, as presented in the following diagram:



The diagram presented in the prior page, has a strong relevance to the capital limits, for which the following process is followed to determine limits:



The capital allocation process is derived from the regulatory capital, which is regulated based on capitalization rules described in annex 9 called ICAP process forms, included in the risk manual. Based on these concepts, the capital distributable is determined, which is the capital that the Institution has to deal with the risks that its operations consume.

Basilea III establishes that the Institution has three indicators of solvency, where ICAP is the most restrictive, given the fact the requirement changed from 8.0% to 10.5%. It is precisely this restriction that establishes the appetite for risk through the limits of capital, in order to ensure if, 100% of the limits are consumed, and in stress situations, the level of capitalization is in no case less than 10.5%.

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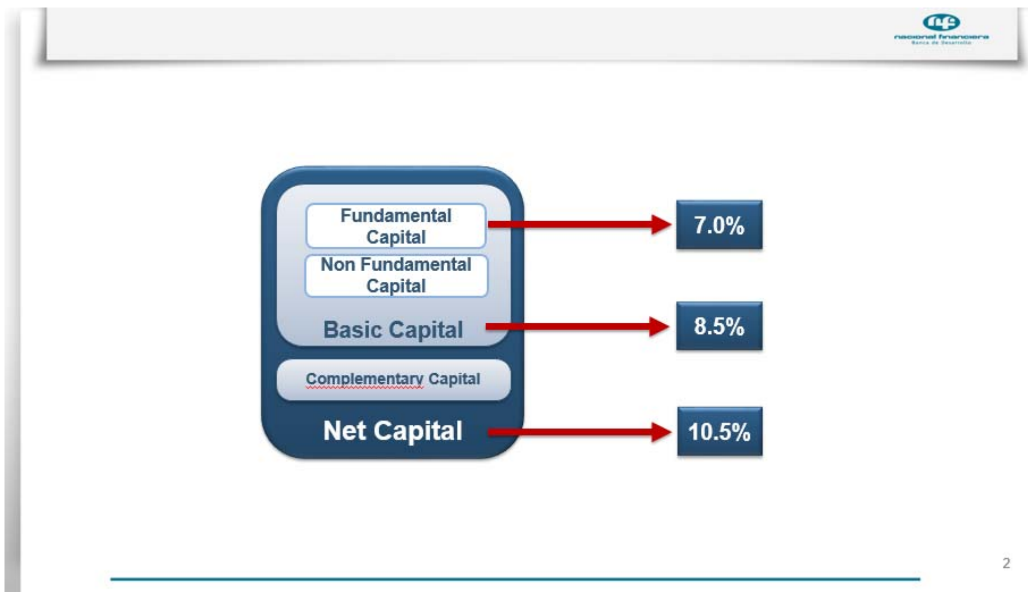

This increase of 250 basis point in the ICAP is a strong regulator that will replace the capital volatility for risk profile and operational risk previously held.

Capital limits structure

The Institution's capital management considers a limits structure with two levels of allocation:

a) A strategic level, authorized by the Board of Directors

b) A tactical level that is regulated by the IRMC, through reallocations or excess of limits, as well as the business areas management. Additionally, Deputy General Managers involved in the business areas can also propose reallocations of the limits, with the approval of the Risk Director, who subsequently informs the CAIR.

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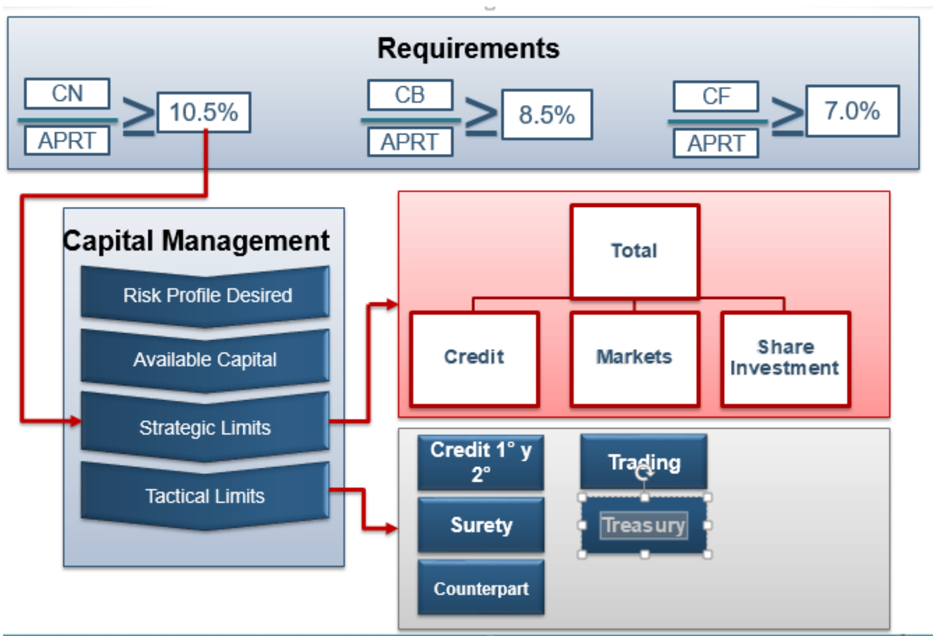
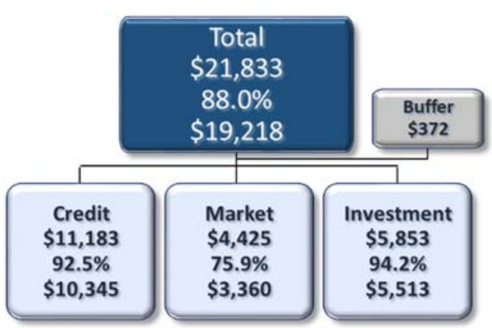
In summary the Institution has:



It is important to mention that, within the strategic structure of these limits, operational risk is not included, since this does not originate from the discretionary risk taking, i.e., that it is implicit in the operation of the Institution itself. Due to the above, there is a regulator for operational risk that does not compute for the capital limits, but that is considered in the computation of the capitalization level. Nonetheless, in terms of operational risk, the identification, measurement, monitoring, control and mitigation of the risks to which the Institution is exposed are performed.

Considering the above, at the end of December 2018, the capitalization ratio was 14.52% and the capital limit recorded a global consumption of 88%.



(Continued)

There are three basic scenarios:

1. If capital limits are utilized at 100%, the level of funding would remain above the 10.5% required.

2. If, under the current structure, there is an adverse event of default or volatility in the markets affecting capital, there is sufficient capacity to maintain the ICAP above 10.5%

3. The combination of the above events, i.e., capital limits utilized at 100% and an adverse event with an impact on capital, would also allow the ICAP to be maintained above the minimum level required.

Finally, in order to have the capacity to obtain resources and continue operating under a stress scenario, in which the Institution's capital suficiency is compromised without default of the minimums established by the authorities, the Treasury Department will obtain in the markets, the necessary resources in the best terms of cost and term, based on the guidelines established by the Institution's Management.

In order to manage liquidity risks, the treasury will regulate the operational execution in accordance with strategies that will be aligned with the Institution's Management objectives and will be responsible for detonating the contingent procedures for the management of liquidity, and in some cases, the procedures established in the "Business Continuity Plan" will apply.

The treasury department will inform the Risk Management Officer of any liquidity contingency situation.

(23) Memorandum accounts -

(a) Contingent asset and liabilities

As of December 31, 2018 and 2017, this caption amounts to $70,798 and $62,510, respectively, integrated as show in the next page.

(Continued)

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			2018	2017
Contingent liabilities:				
Guarantees granted	**(1)**	$	79,916	72,558
Unreimbursed guarantees paid covered by counter guarantee	**(2)**		13,885	12,696
Receivables on claims			133	132
Acquired commitments			1,883	1,888
			95,817	87,274
Contingent assets:				
Counterguarantee received from the counterguarantee trust for enterprise financing	**(3)**		10,154	11,340
Recoverable guarantees paid covered by counterguarantors	**(4)**		13,885	12,696
Guarantees paid pending of recovery without counterguarantee	**(5)**		980	728
			25,019	24,764
Total		**$**	**70,798**	**62,510**

(1) In this caption, the Institution has mainly guarantees granted through *Fondo para la Participación de Riesgos* and *Fondo para la Participación de Riesgos en Fianzas*, which at December 31, 2018 and 2017, both present an amount of guarantees granted for $75,875 and $67,798, respectively. The spread at December 31, 2018 and 2017, for $4,041 and $4,760, respectively, correspond to selective guarantees granted directly by the Institution. These guarantees represent the amount of the responsibilities assumed by the Institution to guarantee financial intermediaries the recovery of their loan portfolio.

(2) The Institution's contingent obligation to reimburse, mainly to the counter-guarantee Trust for Corporate Financing, the amount of the guarantees paid, has been recorded in this caption which counted with the counter-guarantee and which are in the process of recovery by bank and non-bank financial intermediaries.

(3) *Fondo para la Participación de Riesgos* reduces the Institution´s contingency through the counter-guarantee received from *Fideicomiso de Contragarantía para el Financiamiento Empresarial*, the promoter of granting of credits for specific purposes, which has assigned resources for these purposes for $10,154 and $11,340, at December 31, 2018 and 2017 respectively. These funds ensure, the recovery up to these amounts of the guarantees exercised by the financial intermediaries, who assume the commitment of negotiating the recovery of the credits of their final borrowers judicially and out-of-court.

(Continued)

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In addition to this counter-guarantee, the Fund has created a preventive allowance for credit risks, for $3,108 and $2,505, as of December 31, 2018 and 2017 respectively, in accordance with the Provisions of the Banking Commission.

With the counter-guarantee received, as well as with the level of preventive allowance created, the Institution considers that the exposure is covered, based on the experience observed in the guarantee program.

(4) The contingent right of the Institution to recover the amount of the guarantees paid that had a counter-guarantee and were covered by the Fideicomiso de Contragarantía para el Financiamiento Empresarial, and which are in the process of recovery by bank and non-bank financial intermediaries.

(5) In the caption of paid guarantees pending recovery without counterguarantee, is recognized the amount of guarantees honored by the Institution that are in the process of recovery by financial intermediaries and that did not have the coverage of Fideicomiso de Contragarantía para el Financiamiento Empresarial.

(b) Credit commitments

At December 31, 2018 and 2017, the balance of authorized credit facilities and lines of guarantees granted to financial intermediaries that have not been withdraw amounted $190,176 and $172,948, respectively. At December 31, 2018, $124,078 correspond to credit and $ 66,098 to lines of guarantee granted, respectively, where as at December 31, 2017, $58,606 correspond to lines of credit and $114,342 to lines of guarantees granted, respectively.

(c) Assets placed in trust or mandates

The Institution's trust activity recorded in memorandum accounts as of December 31, 2018 and 2017, as well as operations as financial agent for the federal Government, are integrated as shown below:

		2018	2017
Investments trusts	$	15,169	14,619
Administrative trusts		1,675,280	1,311,276
Guarantee trusts		15,281	1,311,276
		1,705,730	1,399,718
Mandates		13,912	14,133
		1,719,642	1,353,851
Financial Agent of the Federal Government		380,346	371,322
Total	**$**	**2,099,988**	**1,725,173**

(Continued)

(Millions of Mexican pesos)

Investment and administrative trusts refer to entities with their own legal incorporation, independent from the Institution. These balances represent the valuation of Trust Assets which, overall, represent assets valued with distinct accounting practices, and which essentially represent neither rights of the entity, nor the contingency to which the Institution is subject in the event of nonperformance in its role as trustee.

Guarantee trusts correspond to entities that maintain loans, securities, real estate, etc., as part of its trust assets, which serve as collateral for the settlement of financing received from other credit institutions by the trustees of the same. The Institution only performs the fiduciary function in such entities.

The Institution's revenue from its trustee activities at December 31, 2018 and 2017, amounted to $528 and $330, respectively.

As of December 31, 2018 and 2017, the trust accounts include a balance of $398 in both years, which corresponds to the assets of *Fideicomiso de Recuperación de Cartera (FIDERCA)*, which manages doubtful accounts that were originally of the Institution and that in the year of 1996 were transferred to the Federal Government. The Institution currently holds the respective trustee rights.

The Institution incorporated the trust for the strengthening of its capital in compliance with the provisions of article 55 Bis of Credit Institution Law and in accordance with the general rules for Domestic Lending Institutions and Development Banking Institutions published on October 24, 2002 in the Official Federal Gazette.

(e) Assets in custody or administration-

As of December 31, 2018 and 2017, this caption includes, trading securities and credit operations, as well as the securities issued by the Institution and managed on behalf of clients, as shown below:

		2018	**2017**
Custody	$	10,579	15,676
Pledge securities		260,293	245,636
Securities in administration		256,436	281,704
Subsidiaries		15,399	13,653
	$	**542,707**	**556,669**

Fees collected by the Institution for this type of activities for the years ended December 31, 2018 and 2017, amounted to $5 and $8, respectively.

(Continued)

(Millions of Mexican pesos)

(f) Other memorandum accounts -

As of December 31, 2018 and 2017, the balances of other memorandum accounts are comprised as follows:

			2018	2017
Guarantees paid reported by brokers as uncollectible without a counterguaranty	**(a)**	$	12,312	170
Classification by degree of risk of the credit portfolio			341,003	302,405
Loans obtained pending for disbursements (note18)			2,619	2,657
Other memorandum accounts	**(b)**		394,218	336,458
Total		**$**	**750,152**	**641,690**

(a) Correspond to the amounts of unrecovered guarantees on which the collection procedures have been exhausted by the intermediaries and which did not have a counterguarantee.

(b) Other memorandum accounts are included for control of renewed and restructured loans, uncollectible credits, uncollectible loans applied against the provision, mortgage-backed loans, certificates and coupons to be incinerated, VAT recorded by states, portfolio recovery, issue of provisional certificates, foreclosed assets written-off preventively, control of amounts contracted in repurchase/resell agreements and derivative instruments, commitments, allowance for loan losses from financial brokers and various unspecified items.

(24) Additional information on operations and segments-

(a) Segment information (unaudited) -

The factors used to identify the business segments considered the nature of the activities carried out; the existence of specific administrators for those activities, the generation of revenues and expenses thereof as well as the monitoring regularly performed on the results generated that are presented regularly to the Board of Directors of the Institution.

The market and treasury segment includes investments carried out in the money, capital, exchange and treasury markets.

The loan portfolio placed directly with the public and private sector, is considered for the first tier credit segment while the loan portfolio channeled through banking and non-banking financial intermediaries is considered for the second tier credit segment.

Guarantees granted to banks and non-bank financial intermediaries are included in the credit guarantees segment. The balances of this segment are presented in memorandum accounts and as of December 31, 2018 and 2017, amount to $79,915 and $66,147, respectively.

(Continued)

(Millions of Mexican pesos)

The balances of the Financial Agent segment correspond to activities carried out by mandate of the Federal Government, to manage on its behalf, resources obtained from international financial organizations, and as of December 31, 2018 and 2017, amounted to $380,375 and $371,387, respectively, of which $380,346 and $371,322, respectively, are recorded in memorandum accounts.

The trustee segment includes administrative services for proprietary an external trusts, which amount to $1,705,730 and $1,339,718, respectively as of December 31, 2018 and 2017.

Investment banking and balances of Subsidiaries are included in the "other areas segment". Commissions for structuring of credits, stock market guarantees, as well as the participation in venture capital for public and private companies are included in investment banking.

As of December 31, 2018 and 2017, the assets, liabilities and net income of the main operations by business segments of the Institution are presented below:

2018	**Assets**		**Liabilities & Equity**		**Net income**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Markets and treasury	$ 307,642	52.8	307,642	52.8	1,169	47.9
First tier credit	73,566	12.6	73,566	12.6	1,011	41.5
Second tier credit	186,037	31.9	186,037	31.9	771	31.6
Loan guarantees	-	-	-	-	1,444	59.2
Financial agent	29	-		-	32	1.3
Trustee	-	-	-	-	(66)	(2.7)
Other areas	15,643	2.7	15,643	2.7	495	20.3
Retirement benefit and expense	-	-	-	-	(2,417)	(99.1)
Total	**$ 582,917**	**100**	**582,917**	**100**	**2,439**	**100**

2017	**Assets**		**Liabilities & Equity**		**Net income**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Markets and treasury	$ 271,584	52.6	271,584	52.6	1,269	84.5
First tier credit	63,004	12.2	63,004	12.2	630	41.9
Second tier credit	165,390	32.0	165,390	32.0	395	26.3
Loan guarantees	-	-	-	-	564	37.5
Financial agent	65	-	65	-	80	5.4
Trustee	-	-	-	-	(27)	(1.8)
Other areas	16,187	3.2	16,187	3.2	111	7.3
Retirement benefit and expense	-	-	-	-	(1,520)	(101.1)
Total	**$ 516,230**	**100**	**516,230**	**100**	**1,502**	**100**

(Continued)

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

2018		**Markets and Treasury**	**First Tier credit**	**Second Tier credit**	**Loan Guarantees**	**Financial agent**	**Trustee**	**(a) Other areas**	**Retirement Benefit And expense**	**Total**
Income:										
Financial income net	**$ (a)**	1,787	1,219	2,389	3,093	207	198	682	-	9,575
Expenses:										
Operating expense		(417)	(125)	(646)	(403)	(155)	(230)	(126)	-	(2,102)
Operating income		1,370	1,094	1,743	2,690	52	(32)	556	-	7,473
Allowance for loan losses and write-offs		(4)	75	(820)	(1,009)	(2)	(3)	(2)	-	(1,765)
Retiree expense		-	-	-	-	-	-	-	(1,041)	(1,041)
Other expenses and taxes	**(b)**	(197)	(158)	(152)	(237)	(18)	(31)	(59)	(1,376)	(2,228)
Net income	**$**	**1,169**	**1,011**	**771**	**1,444**	**32**	**(66)**	**495**	**(2,417)**	**2,439**
2017										
Income:										
Financial income net	**$ (a)**	1,851	873	1,416	2,632	225	192	266	-	7,455
Expenses:										
Operating expense		(361)	(77)	(656)	(340)	(130)	(201)	(149)	-	(1,914)
Operating income		1,490	796	760	2,292	95	(9)	117	-	5,541
Allowance for loan losses and write-offs		(4)	(58)	(301)	(1,603)	(2)	(3)	(1)	-	(1,972)
Retiree expense		-	-	-	-	-	-	-	(970)	(970)
Other expenses and taxes	**(c)**	(217)	(108)	(64)	(125)	(13)	(15)	(5)	(550)	(1,097)
Net income	**$**	**1,269**	**630**	**395**	**564**	**80**	**(27)**	**111**	**(1,520)**	**1,502**

(a) Includes the following areas: investment banking, subsidiaries and other income (expenses) net.

(Continued)

(b) Includes $852 of current and deferred taxes and ESPS.

(c) Includes $547 of current and deferred taxes and ESPS.

During 2018, accumulated earnings for the markets and treasury segment amounted to $1,787, comprised of $1,844 generated by the operation of the different markets and treasury, as well as the winning effect of $ 58 coming from the portfolio at maturity and the decrease of $ 115 corresponding to market commissions, which was 3.5% lower than the one obtained in 2017.

As of December 31, 2018, the net income for the First tier credit amounted to $1,219, comprised of $553 of financial margin; other net income by $566 associated with structuring commissions.

The accumulated financial income for the year ended December 31, 2018 for the Second tier credit amounted to $2,389, of which $1,978 correspond to financial margin and $411 to commissions and other net income associated with the credit operation which highlights the extraordinary net recoveries derived from the collection rights to the accredited Homex for $ 320. The amount of net financial income in 2018 was 68.7% higher than 2017, due to the increase of 32 basis points in the weighted margin of the loan portfolio which contrasts with the 11 base points reduction observed in the previous year. Also, the average balance of the portfolio increased by 11.7%, going from $ 138,514 to $ 154,745.

At December 31, 2018, the credit guarantees segment presents net financial income of $3,093, including $1,928 of fees charged for the guarantees granted, as well as $1,165 of interest on investments and net recoveries.

The net financial income of the credit guarantees segment increased by 17.5% from 2017 to 2018, mainly due to the growth in the balance of proprietary guarantees granted during the last twelve months, increasing from $72,558 to $ 79,915.

As of December 31, 2018, the net financial income of the Financial Agent segment amounted to $207, which represents a decrease of $ 17 with respect to the commissions obtained in the same period of last year that is partially explained by adjustments in the balances of the managed businesses as well as by the reduction of the commission factor of 0.25% on unpaid balances during the term of the original execution of the project and 0.01% from the following year and until its expiration.

During 2018, in the Trustee segment, net financial income was collected for $198, 3.2% higher than obtained in the prior year, as a result of the update of the services received based on inflation.

(b) Financial margin

For the years ended December 31, 2018 and 2017, the financial margin in the consolidated statement of income is comprised as shown in the next page.

(Continued)

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Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

			2018	
		Total	**Local Currency**	**Foreign Currency**
Interest income:				
Interests of performing and nonperforming loan portfolio:				
Commercial loans	$	3,782	1,787	1,995
Mortgage loans		4	4	-
Loans to government entities		1,330	1,330	-
Credits granted as agent of The Federal Government		1	-	1
Loans to financial entities		12,749	12,378	371
		17,866	15,499	2,367
Interests and returns earned on investments in securities:				
Trading securities		486	486	-
Securities available for sale		301	-	301
Securities held to maturity		972	927	45
		1,759	1,413	346
Interests and returns earned on repurchase / resell agreements:		21,796	21,796	-
Cash and cash equivalents interest:				
Banks		269	-	269
Restricted cash and cash equivalents		1,237	1,187	50
		1,506	1,187	319
Subtotal carried forward to the next page	$	42,927	39,895	3,032

(Continued)

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			2018	
		Total	**Local Currency**	**Foreign Currency**
Subtotal brought forward from the previous page	$	42,927	39,895	3,032
Commissions from credit operations: (return adjustment)				
Commercial loans		131	131	-
Interest and returns from margin accounts		3	3	-
Gain (loss) from hedging transactions		(6,494)	(5,750)	(744)
Premium on debt placement		13	13	-
Equity dividends		28	28	-
Gain from valuation		3	3	-
		(6,316)	(5,572)	(744)
Total interest income	**$**	**36,611**	**34,323**	**2,288**
Interest expenses:				
Interest from time deposits		11,339	10,405	934
Interest on securities issued		5,441	4,043	1,398
Interest paid on interbank loans and other agencies		818	448	370
Interests and returns paid on repurchase / resell agreements		17,104	17,104	-
Expenses from hedge trading		(6,609)	(5,631)	(978)
Discounts for debt issued		60	60	-
Issuance expenses due to debt placement		23	8	15
Loss from valuation		4,640	-	4,640
Total interest expenses		**32,816**	**26,437**	**6,379**
Financial margin	**$**	**$ 3,795**	**7,886**	**(4,091)**

(Continued)

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(Millions of Mexican pesos)

		2017		
		Total	**Local Currency**	**Foreign Currency**
Interest income:				
Interests of performing loan portfolio:				
Commercial loans	$	2,577	1,038	1,539
Mortgage loans		4	4	-
Consumer loans		1	1	-
Loans to government entities		1,085	1,085	-
Credits granted as agent of The Federal Government		2	-	2
Loans to financial entities		10,189	9,913	276
		13,858	12,041	1,817
Interests and returns earned on investments in securities:				
Trading securities		1,481	1,481	-
Securities available for sale		297	-	297
Securities held to maturity		1,168	1,124	44
		2,946	2,605	341
Interests and returns earned on repurchase / resell agreements:		15,286	15,286	-
Cash and cash equivalents interest:				
Banks		214	-	214
Restricted cash and cash equivalents		1,031	979	52
		1,245	979	266
Subtotal carried forward to the next page	$	33,335	30,911	2,424

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(Millions of Mexican pesos)

		2017		
		Total	**Local Currency**	**Foreign Currency**
Subtotal brought forward from the previous page	$	33,335	30,911	2,424
Commissions from credit operations:				
Commercial loans		79	79	-
Interest and returns from margin accounts		6	6	-
Gain (loss) from hedging transactions		(7)	134	(141)
Premium on debt placement		12	12	-
Equity dividends		49	49	-
		139	280	(141)
Total interest income		33,474	31,191	2,283
Interest expenses:				
Interest from time deposits		8,136	7,738	398
Interest on securities issued		4,435	3,590	845
Interest paid on interbank loans and other agencies		491	246	245
Interests and returns paid on repurchase / resell agreements		14,781	14,781	-
Expenses from hedge trading		(701)	(3,413)	2,712
Discounts for debt issued		34	34	-
Issuance expenses due to debt placement		18	7	11
Loss from valuation		1,015	-	1,015
Total interest expenses		28,209	22,983	5,226
Financial margin	**$**	**5,265**	**8,208**	**(2,943)**

(Continued)

Nacional Financiera, S. N. C.,
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(c) Commission and fee income -

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

2018		**Total**	**Local Currency**	**Foreign Currency**
Commissions and fees earned:				
Credit operations	$	404	404	-
Assets in custody or administration		8	8	-
Trustee activities		528	528	-
Others		2,103	2,015	88
	$	3,043	2,955	88
Commissions and fees paid:				
Loans received	$	10	-	10
Debt placement		1	-	1
Others (services)		187	184	3
	$	198	184	14
2017				
Commissions and fees earned:				
Guarantees	$	1,848	1,848	-
Credit operations		347	347	-
Guarantees granted		1	1	-
Assets in custody or administration		8	8	-
Trustee activities		330	330	-
Others		291	209	82
	$	2,825	2,743	82
Commissions and fees paid:				
Loans received		11	-	11
Debt placement		3	2	1
Distribution		1076	107	-
Others (services)		110	106	4
	$	231	215	16

(Continued)

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(d) Financial intermediation income-

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

2018		**Total**	**Local Currency**	**Foreign Currency**
Financial intermediation income				
Gain (loss) from valuation at fair value and decrease from securities valued at cost:				
Trading securities	$	311	311	-
Derivative financial instruments for trading purposes		(468)	6	(474)
Derivative financial instruments for hedging purposes		(7)	298	(305)
		(164)	615	(779)
Gain (loss) from securities purchase/sale and derivative financial instruments:				
Trading securities		(46)	(46)	-
Securities available for sale		138	244	(106)
Derivate financial instruments for trading purposes		98	98	-
Result from currency trading		1,289	-	1,289
Financial intermediation income	$	1,315	911	404

(Continued)

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2017		**Total**	**Local Currency**	**Foreign Currency**
Financial intermediation income				
Gain (loss) from valuation at fair value and decrease from securities valued at cost:				
Trading securities	$	167	167	-
Derivative financial instruments for trading purposes		206	(40)	246
Derivative financial instruments for hedging purposes		34	(36)	70
Collaterals sold		(1)	(1)	-
		406	90	316
Gain (loss) from securities purchase/sale and derivative financial instruments:				
Trading securities		146	146	-
Securities available for sale		(19)	-	(19)
Derivate financial instruments for trading purposes		1,173	1,319	(19)
		1,300	1,319	(19)
Result from currency trading		(2,914)	-	(2,617)
Financial intermediation income	**$**	**(1,208)**	**1,409**	**(2,617)**

(Continued)

(Millions of Mexican pesos)

(e) Other operating income (expenses)-

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

2018		**Total**	**Local Currency**	**Foreign Currency**
Other operating income (expenses):				
Loan portfolio recoveries	$	361	361	-
Cancelation of excedent of allowance for loan losses		1,469	1,165	304
Other recoveries		75	75	-
Estimation due to irrecoverability or difficult collection		(357)	(357)	-
Income from sale of property, plant and equipment		18	18	-
Others foreclosed		(7)	(7)	-
Income from sale of foreclosed assets		8	8	-
Income from loans to employees		44	44	-
Other items of operating income (expenses)	**(a)**	(161)	(161)	-
Lease income		55	55	-
	$	1,505	1,201	304

(a) On November 15, 2018, the Institution paid $1,376, in accordance with the official letter number 368-067/2018 dated November 13, 2018, issued by the Ministry of Finance and Public Credit, whereby the Federal Government instructs the Institution to pay based on the legal nature of use for furnishing sovereign guarantee of the Federal Government.

(Millions of Mexican pesos)

2017		**Total**	**Local Currency**	**Foreign Currency**
Other operating income (expenses):				
Reversal of excesses from allowance for loan losses		930	776	155
Other recoveries		46	46	-
Estimation due to irrecoverability or difficult collection		(190)	(190)	-
Allowance for irrecoverability foreclosed assets		(5)	(5)	-
Other losses		(16)	(16)	-
Income from sale of foreclosed assets		2	2	-
Income from loans to employees		41	41	-
Other items of operating income (expenses)	**(a)**	228	226	1
Lease income		57	57	-
	$	**1,093**	**937**	**158**

(a) On December 13, 2017, the Institution paid $550, in accordance with the official letter number 102-B-057 dated December 11, 2017, issued by the Ministry of Finance and Public Credit, whereby the Federal Government instructs the Institution to pay based on the legal nature of use for furnishing sovereign guarantee of the Federal Government.

(f) Financial ratios (unaudited) -

The main quarterly financial ratios of the Institution, as of and for the years ended December 31, 2018 and 2017 are presented on the next page.

(Continued)

(Millions of Mexican pesos)

	2018			
	1st Q	2nd Q	3rd Q	4th Q
Delinquency index	0.84%	0.80%	0.35%	0.29%
Coverage of past due loan portfolio index.	398.12%	412.85%	807.34%	952.91%
Operating efficiency (administrative and promotional expenses / average total assets)	0.67%	0.62%	0.64%	0.73%
ROE (annualized net income for the quarter/ average stockholder's equity)	9.61%	5.57%	11.76%	1.56%
ROA (annualized net income for the quarter / average total assets)	0.62%	0.35%	0.75%	0.10%
Net capital/ Assets subject to credit risk	22.97%	21.87%	24.18%	21.51%
Net capital/ Assets subject to credit, market and operational risk.	14.18%	14.58%	15.41%	14.52%
Liquidity (liquid assets / liquid liabilities)	3,889.98 %	1,210.03%	1,024.63%	371.17%
Financial margin after allowance for loan losses/ average earning assets	0.05%	0.71%	(0.88%)	0.86%
2017				
Delinquency index	1.06%	0.92%	0.88%	0.82%
Coverage of past due loan portfolio index.	273.82%	319.81%	333.85%	375.81%
Operating efficiency (administrative and promotional expenses / average total assets)	0.72%	0.68%	0.68%	0.59%
ROE (annualized net income for the quarter/ average stockholder's equity)	1.64%	3.73%	5.65%	4.57%
ROA (annualized net income for the quarter / average total assets)	0.10%	0.24%	0.33%	0.29%
Net capital/ Assets subject to credit risk	21.74%	22.08%	21.11%	21.78%
Net capital/ Assets subject to credit, market and operational risk.	13.32%	13.84%	13.41%	14.46%
Liquidity (liquid assets / liquid liabilities)	497.83%	853.86%	4,459.17%	406.49%
Financial margin after allowance for loan losses/ average earning assets	0.67%	0.62%	0.34%	0.61%

(Continued)

(25) Commitments and contingencies-

(a) Leases-

Leases provide periodic rental adjustments expense, based on changes in various economic factors. The total rental expense for office property, software and others for the years ended December 31, 2018 and 2017, amounted to $70 and $73, respectively.

(b) Claims and trials -

In the normal course of operations, the Institution is involved in some claims and trial, which are not expected to have a material adverse effect on the financial situation and results of its operations. In such cases that represent a probable loss or make a cash outflow, the Institution has made neccessary provisions.

(c) Labor liabilities-

There is a contingent liability derived from employee's benefits, which is mentioned in note 3s.

(26) Risk management (unaudited information)-

The national and international regulations on risk management have seen an unprecedented evolution in recent years, incorporating a preventive approach in the financial processes carried out by credit institutions, as well as the obligation to issue internal guidelines to establish controls in order to foresee any economic loss due to the materialization of risks, whether discretionary, non-discretionary or even non-quantifiable.

The Institution, to keep up with the implementation of the requirements from the various provisions of prudential nature in matters of risk management, credit and internal control, applicable to credit institutions, as well as what is indicated by regulatory bodies in Mexico for the prevention of money laundering, has tried to implement international standards from a systematic and integral perspective within its controls and processes.

Discretionary quantifiable risks

Market risk-

The Institution uses the VaR methodology to calculate the market risk of its trading and available for sale portfolios. In general, the methodology that is being applied is the historical simulation. The following general principles, stand out:

- The confidence interval that is being applied in the VaR calculation is 97.5% (considering the extreme left of the profit and loss distribution).

- The base time horizon considered is 1 day.

(Millions of Mexican pesos)

In the generation of scenarios, a year of historical information is considered in the risk factors and the risk factors related to domestic and foreign interest rates, spreads, exchange rates, indices and share prices are considered. In addition to the VaR information, sensitivity measures are calculated and stress tests are carried out ("stress-test").

As of July 2005, backtesting tests are carried out on a monthly basis to statistically validate that the market risk measurement model provides reliable results within the parameters chosen by the Institution. As of December 31, 2018 and 2017, the limits to which they are monitored on a daily basis are:

I. Value at risk: based on the capital allocated to market risks.

II. Regulatory capital: based on the rules for the capitalization requirements of the Commercial Banks National Credit entities and Development Banking Institutions.

III. Notionals: referring to the maximum nominal values that can be held in position.

IV. Maximum loss measure: a limit of maximum losses is established in the face of unfavorable market trends.

The amount of the average VaR for the year 2018 is $ 63.26, which represents 0.21% of the net capital at the end of December 2018.

Markets
Amount VaR $63.264 MDP

Trading	Treasury
VaR $33.260 MDP	VaR $30.004 MDP

Management of assets and liabilities-

The management of assets and liabilities refers to the management of risks that affect the Institution's balance sheet. It includes the management techniques and tools necessary to identify, measure, monitor, control and manage the financial risks (liquidity and interest rates) to which the balance sheet is exposed, and also aims to maximize its adjusted performance due to market risks and, consequently, optimize the use of the Institution's capital.

Liquidity risk-

The liquidity risk that affects a banking institution is classified broadly into three categories:

I. Market liquidity risk: is the possibility of economic loss due to the difficulty of alienating or cover assets without a significant reduction in its price. This kind of risk as a result of drastic interest rate movements, is incurred when large positions are taken in any instruments or when investments are made in markets or instruments for which there is not a wide supply and demand in the market.

II. Funding liquidity risk: represents the difficulty of an institution to obtain the necessary results and settle its liabilities, through the revenue, from its assets or through the acquisition of new liabilities. This kind of crisis is usually caused by a sudden and drastic deterioration in the quality of assets that originates an extremely difficulty to turn them into liquid resources.

III. Liquidity risk by mismatch in cash flows: the inability to meet the present and future needs of cash flows affecting daily operations or financial conditions of the institution, as well as the potential loss from the change in the structure of the balance sheet of the institution because of the time difference between assets and liabilities.

The institution, in compliance with the provisions of comprehensive risk management, developed a contingency financing Plan and stress liquidity scenarios, laying down various measures to monitor, quantify and follow up with the risks listed above, as well as a plan of action at the institutional level, in case of possible liquidity problems.

Maturity profile in local currency-

Active and passive operations in national currency increased 7.3% during the year 2018 compared to the previous year, standing at the end of December at $ 507,336. Based on regulatory criteria, the maturity gap considers both balance sheet items and memorandum accounts, that is, repo and derivatives. It should be noted that the national currency to be delivered for the sale of dollar forwards has been reclassified as a liability, as the valuation of cross-currency swaps has been reclassified to assets.

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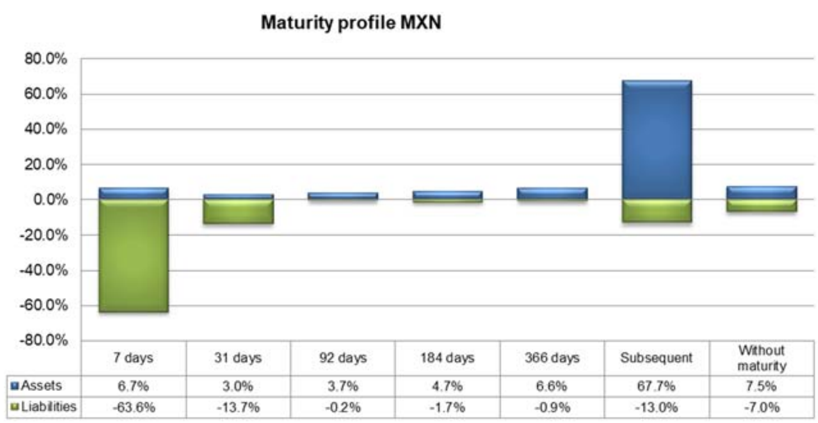
		2018			2017		
Maturity ranges		**Assets**	**Liabilities**	**Gap**	**Assets**	**Liabilities**	**Gap**
Up to 7 days	$	34,008	322,841	(288,833)	40,189	287,435	(247,246)
Up to 31 days		15,351	69,313	(53,962)	10,885	33,711	(22,826)
Up to 92 days		18,907	1,010	17,897	23,208	50,775	(27,567)
Up to 184 days		23,794	8,489	15,305	23,377	6,272	17,105
Up to 366 days		33,567	4,375	29,192	37,241	985	36,256
Subsequent		343,613	65,753	277,860	313,454	62,171	251,283
With no defined maturity		38,096	35,555	2,541	24,449	31,454	(7,005)
Total	**$**	**507,336**	**507,336**	**-**	**472,803**	**472,803**	**-**

The gap of negative liquidity on the horizon of a month amounts to $342,795, which is $(72,723) more than the level recorded in 2017 which amounted to $270,072.



Maturity profile in foreign currency

Active and passive operations in foreign currency as of December 31, 2018 increased by 34.9% during the year, in relation to the year 2017, resulting from a greater amount in assets and liabilities of less than three months. Based on regulatory criteria, the maturity gap considers both balance sheet items and memorandum accounts, that is, repurchase agreements and derivatives.

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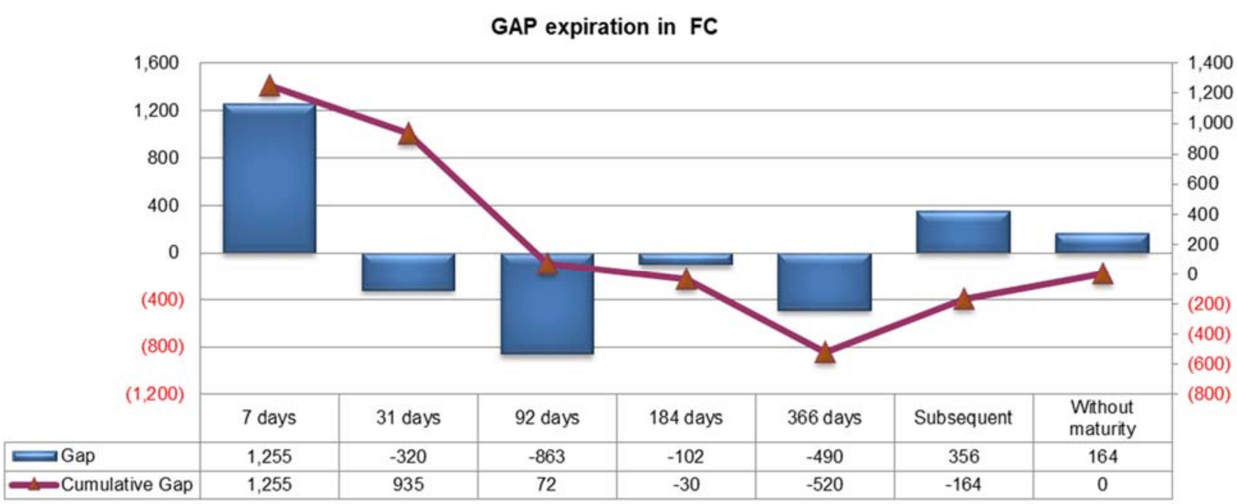
		2018			2017		
Maturity ranges		**Assets**	**Liabilities**	**Gap**	**Assets**	**Liabilities**	**Gap**
Up to 7 days	$	1,456	201	1,255	853	3.414	(2,561)
Up to 31 days		382	702	(320)	1,772	913	859
Up to 92 days		369	1,232	(863)	2,855	653	2,202
Up to 184 days		30	132	(102)	316	226	90
Up to 366 days		36	526	(490)	54	312	(258)
Subsequent		2,786	2,430	356	2,010	2,508	(498)
With no defined maturity		164	-	164	166	-	166
Total	**$**	**5,223**	**5,223**	**-**	**8,026**	**8,026**	**-**

In accordance with the contractual maturity of assets and liabilities in foreign currency and based on figures of the balance sheet at the end of December 2018, it can be seen that there was a $1,255 million dollar liquidity in the first 7 days of January of 2019.



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(Millions of Mexican pesos)

Estimate of gain or loss on advance sale.

To comply with the provisions of article 81 of the section I, subparagraph (b) of the Provisions, below, is the estimation of results from advance sales of assets under normal and extreme scenarios.

At the end of December 2018 and 2017, considering the scenarios of crisis in the portfolios of corporate trading and investment to maturity, if there was a similar situation to November 9, 2016, it would lead to a loss of $313.65, equivalent to 2.40% of the value of the position.

Portafolio MN	Position	Advance Sale	Crisis scenarios					
			25/08/1998	11/09/2001	19/09/2002	28/04/2004	16/10/2008	09/11/2016
Corporate trading	1,368.63	(0.07)	(0.30)	1.55	0.34	(0.07)	0.05	0.14
Investment to maturity	11,665.05	(144.02)	(127.62)	(2.87)	(25.94)	(139.57)	(144.02)	(313.79)

Considering the crisis scenarios on the portfolios available for sale and held to maturity of the London branch, if there was a situation similar to the 2016 crisis, this could result in a loss of $246.5 equivalent to 3.11% of the value of the position.

Portafoli o MN	Position	Advance Sale	Crisis scenarios					
			12/10/1998	12/09/2001	19/09/2002	10/05/2004	16/10/2008	09/11/2016
Available for sale	6,823.57	(265.92)	(265.92)	(305.46)	(123.60)	(100.85)	(82.63)	(223.68)
Held to maturity.	1,109.04	(29.27)	(29.27)	(30.12)	(11.74)	(9.98)	(5.24)	22.82

Credit risk-

Credit risk is defined as the possibility that a counterparty or accredited breach in time and form with their credit obligations, it also refers to the loss of value of investment determined by the change in the credit quality of some counterpart or borrowers, without default necessarily occurring.

Expected loss-

The expected loss of the loan portfolio is obtained using the portfolio rating methodology established in the Chapter V of the Provisions, regarding the rating of the loan portfolio. Considering this methodology, the following assumptions are also established:

- The portfolio of former employees is excluded, in order to directly measure the effect of the expected losses of the portfolio with risk from the private sector.
- The contingent portfolio of the credit to the Trust for the Participation to Risks is not considered since this trust is in charge of managing its credit risk.

(Continued)

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- Additional reserves are not included.
- The financial agent portfolio is not considered as it is a portfolio without risk
- The nonperforming portfolio is considered, since according to the portfolio qualification methodology based on expected loss, when an event of default occurs, it does not imply that the expected loss is reserved at 100%.

Under the aforementioned assumptions, at the end of December 2018, the total portfolio stood at $259,204, while the expected loss from the loan portfolio amounted to $3,205.3 equivalent to 1.24% of the rated portfolio and 1.23% of the total portfolio.

		Expected losses allowance		
Portfolio		**Portfolio balance**	**Expected loss**	**% Expected loss**
Exempt	$	115.0	-	-
Risk A		187,398.2	1,404.9	0.75%
Risk B		71,125.0	1,473.1	2.07%
Risk C		48.6	3.0	6.17%
Risk D		180.2	203.2	112.76%
Risk E		737.0	121.1	16.43%
Rated		259,489.0	3,205.3	1.24%
Total	**$**	**259,604.0**	**3,205.3**	**1.23%**

Unexpected loss

Unexpected loss represents the impact that the capital of the Institution could have derived from unusual losses in the loan portfolio, the level of coverage of this loss for the capital and reserves of an institution is an indicator of solvency adjusted for risk of the same.

Since December 2005, the Institution makes the estimation of the unexpected loss of the credit portfolio operations, using Monte Carlo simulation and analytical methodologies, as of that date the stability of these measures has been observed and its behavior in the face of various changes in the environment, to determine which of them should be used as a measure of the risk of the Institution's loan portfolio.

In November 2007, the IRMC concluded that, of the methodologies proposed for the estimation of the unexpected loss of the loan portfolio, the methodology with an economic approach is the one that best aligns with the basic method based on internal Basel II qualifications, according to:

- The similarity of concepts existing between the proposed economic methodology and the capital requirement for credit risk estimated from the Basel II basic approach. This approach allows institutions to estimate with internal methods the capital requirement necessary to support their risk.

(Continued)

- High levels of correlation and similarity in the average capital requirement observed during a year of internal implementation of the proposed credit portfolio unexpected loss methodologies.

In addition, it was considered that the unexpected loss of the loan portfolio should continue to be estimated monthly through the valuation and Monte Carlo methodologies in order to have information regarding future changes in the banking standard in which the portfolio market valuation is requested. These methodologies are applied in a horizon of one year and with a confidence level of 95%

At the end of December 2018, the estimate of unexpected loss under the economic approach amounts to $19,454 and the credit VaR amounts to $21,201 and represents 8.16% of the portfolio with risk.

Policies and procedures for granting, controlling and recovering loans

a) Loans, granted or guaranteed by the Institution, are aimed to finance projects for economic and financial viable companies.

b) The maximum funding limit is determined based on the needs of the investment project and the assessment of the company or project capacity of payment.

c) Loans grace periods and terms are established depending on the companies' capacity of payment.

d) Real guarantees are obtained, preferably mortgage securities in an appropiate and sufficient proportion, according to the loan characteristics and, where appropriate, in accordance with the financial broker that grants it.

e) Regarding loan guarantees granted by the Institution, these are complementary to those which have to offered by the borrowers and do not substitute those guarantees. Accordingly, brokers should negotiate with the borrowers the guarantees for the loan granted.

f) The borrower must have a proven integrity and creditworthiness.

g) Credit granting operations, either for Banking Financial Broker (BFB) and Non-Banking Financial Broker (NBFB), is carried out at the head office. The Institution carries out on monthly basis and quarterly basis a reconciliation of balances with the NBFB and BFB, respectively.

h) Portfolio turnover is carried out through the Institutional Portfolio Recovery and Administration System (SIRAC), managed by the Credit Administration Office.

(Continued)

i) No new credit operations are carried out with the creditor company, as long as there are past-due loans with that company.

j) Out-of-court collection procedures are realized in the portfolio with 30 to 90 days of default.

k) Once 90 days of default of a debt have elapsed, the loan balance is considered nonperforming and collection is made through legal means, either directly in the case of first tier loans or through financial brokers in the case of discounted loans.

The Institution's main policies and procedures for the evaluation and follow-up on loans risks in accordance with the type of operation are as follows:

Second Tier operations

a) Financial Brokers modality "A", defined as banks or factoring companies and leasing entities that are part of a financial group. These brokers, given the mechanism of payment, which is a charge to its account at the Central Bank, are considered at lower risk scale.

   A "Credit Risk Limit Assignment Methodology to Operate with Banks in Mexico" has been established for these brokers, which sets forth the maximum credit risk levels that it is willing to accept with each one of these brokers, in both credit and discount operation, as well as financial market operations. The established limits are followed up on every day, and the limits are updated every month. Considering their high creditworthiness, supervision of the broker is carried out by monitoring the broker through the evolution of its risk rating, and annual visits are realized.

b) Modality "B" Financial brokers applies to all the NBFB that do not form part of a financial group. They are considered as a regular source of credit risk. Consequently, specific rules and regulations have been established that these brokers must comply with to enter brokerage and trading with the Institution's resources.

   Supervision mechanisms have been established for these brokers, with follow up on their financial evolution on a monthly basis, as well as compliance with the regulations that have been imposed thereon. In addition, credits granted to brokers are rated according to the drawdowns, and biannual or annual supervision visits are realized based on their risk rating.

First Tier Operations

This operation is marginal for the Institution. A follow-up mechanism for credit risk is established based on the loan portfolio risk rating, in accordance with the established guidelines.

(Continued)

(Millions of Mexican pesos)

Guarantee program operations

A monthly follow-up has been established for the operations portfolio of the guarantee program, which includes the analysis of yields, analysis of the results of the follow-up on the processes agreed upon with banks at a sample level, and the analysis of the financial evolution of the deeds of trust established in the Institution. Banks that participate in this program independently submit the loans covered under the guarantee program, to their own credit risk follow-up policies and procedures, as well as the risk rating in accordance with the established guidelines.

Risk of counterparty and diversification-

In the Institution, an integral control of counterparty risk is exercised, applying the established credit exposure limits. These limits consider the operations throughout the entire balance sheet, that is, both the financial markets and the credit portfolio. The methodology used is consistent with the General Rules for the Diversification of Risks in the Realization of Active and Passive Operations Applicable to Credit Institutions. At the end of December 2018 and 2017, no economic group concentrates credit risk above the maximum financing limits.

As of December 31, 2018 and 2017, the number of financing exceeding 10% of the basic capital individually is shown below:

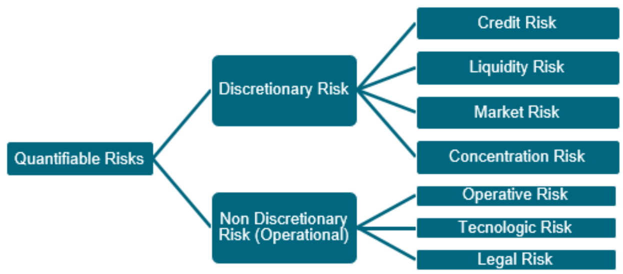
Number of financing	Total amount	Capital percentage
30	$ 237,542	875.2 %

As of December 31, 2018, the amount of financing that is held with the three largest debtors, or, where applicable, groups of people representing common risk, amounts to $ 13,407.

Operational risk and non-quantifiable

The risks to which a financial institution is exposed are classified into two broad categories; quantifiable and not quantifiable. The quantifiable and non-quantifiable risks, in turn, are divided as shown on the following page.

(Continued)



The non-discretionary risks, that is, the operational risk, are those resulting from the operation of the business, but they are not the result of taking a risk position. These risks are defined below.

- Operational Risk: potential losses derived from failures or deficiencies of internal controls, due to errors in the processing and storage of operations.

- Technological risk: potential losses derived from damages, interruption, alteration or failures derived from the use or dependence on hardware, software, systems, applications, networks and any other channel of information distribution in the provision of banking services with customers of the Institution that derive in errors in the processing and storage of operations or in the transmission of information.

- Legal Risk: potential losses derived from the applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the operations carried out by the institutions.

Non-quantifiable risks are unforeseen events to which a statistical base cannot be formed to measure potential losses, among which are the following:

- Strategic risk: potential losses by deficiencies in the decision-making process, in the implementation of procedures and actions to carry out the business model and strategies of the institution, as well as the lack of knowledge about the risks to which it is exposed by the development of its business activity and that affect expected results to achieve the objectives agreed upon by the institution in its strategic plan.

- Business risk: potential losses attributable to the inherent characteristics of the business and changes in the economic cycle or environment in which the institution operates.

(Continued)

- Reputation risk: potential losses in the development of the activity of the institution proceding from the impairment in perception that have the different parties concerned, both internal and external, on its solvency and viability.

The objective of managing operational risk and non-quantifiable risks is to formally establish the rules and policies necessary to systematically and efficiently carry out the identification, measurement, monitoring, limitation, control, information and disclosure of non-discretionary risks and non-quantifiable, which all areas of the Institution that are involved in activities that imply a non-discretionary or non-quantifiable risk must apply, as well as the purpose of ensuring the timely identification of the capital requirements and the resources derived from these risks.

The policies for the management of operational risk and non-quantifiable risks are the following:

- It is the responsibility of the Operational Risk Sub-Direction to define the procedures for the management of inherent and residual operational risks, economic loss events, tolerance levels, risk limits, amounts of probable potential losses derived from judicial resolutions or administrative unfavorable litigation in which the Institution is the plaintiff.

- None of the procedures defined for these risks may be modified or altered, only with the authorization of the Integral Risk Management Committee and annually by the Board of Directors.

- The necessary evidence will be available to manage non-discretionary and non-quantifiable risks.

- The tools that have been developed or acquired by the Institution will be used to manage operational risk and non-quantifiable risks.

The strategy for operational risk and non-quantifiable risks is to identify, manage, quantify (if applicable), document the way to mitigate them through controls and processes considering the institutional expertise of risks, which could impact or violate the solvency of the Institution above the minimum requirements and with this help in the fulfillment of the institutional goals and objectives. Also to disclose in a timely manner the information of these risks to the Governing Bodies for timely decision-making. Likewise, promote the culture of the administration of these types of risks in the Institution.

The process of operational risks is fundamental and is documented and certified according to the quality management system under the ISO 9001-2015 Standard that contributes to the achievement of the objective of managing the operational risk to which the Institution is exposed.

The structure of the staff that manages non-discretionary and non-quantifiable risks has three elements, counting the Deputy Director of Operational Risk.

In relation to the scope and nature of information systems and measurement of operational risks and their reports, the Institution uses the institutional system called Operational Risk Tool to which the information of the results obtained from operational risk monitoring is incorporated, and where everything related to internal reports and regulatory reports (classifications and quantification) is managed.

The reports related to the management of operational risk (including technological and legal) are made in the IRMC through the "Risk management and monitoring report" that has at least a quarterly periodicity.

Methodologies, limits and tolerance levels.

Method to determine the capital requirement for operational risk-

The institution uses the basic indicator method to calculate the capital requirement for their exposure to operational risk, following the methodology described in the provisions.

Non-discretionary risks:

Operational risk-

The methodology used for the management of operational risk (quantitative and qualitative analysis) is through an internal institutional model of operational risk, which is based on a scorecard that considers five risk factors. This methodology is applied to the results of the self-assessments of the processes that describe the Institution's task and allows the comparison of the processes analyzed with two indicators; nature and efficiency, which have defined tolerance levels by risk factor and by indicator.

In addition, the inherent and potential risks of each process are identified, classified and qualified based on the methodology defined by the Banking Commission and the result is sent in an annual report called "Estimation of operational risk levels". The methodology of the Banking Commission provides product catalogs, process, line of business, type of risk and a guide for the calculation of frequency and impact of the inherent risk (without applying controls).

Considering the results obtained, it has been defined that for the inherent inherent risks located in the quadrant nine red zone (high frequency and high impact), together with those responsible for the process to which it belongs, additional actions or controls for its administration will be defined.

The quantitative analysis is carried out through the events of loss due to operational risk aroused in the institution and whose information is provided by the owners of the processes involved. These events are classified according to the methodology defined by the Commission to carry out the regulatory reports "Events of loss due to operational risk" and "Update of loss events due to operational risk". The methodology of the Banking Commission provides the catalogs of the product, process, line of business and type of risk.
For the monitoring of loss events, an operational risk limit was defined considering the positive net income of three years, considering methodologies and comments from the Banking Commission.

Technological risk-

The technological risk methodology to identify, quantify and manage this risk is performed by IT and is based on five indicators which are network security, virus detection and blocking, availability of critical services and non-critical ones. As a control of risk monitoring, IRMC is informed at least quarterly.

(Continued)

Its monitoring is monthly and is carried out by comparing the levels obtained in each indicator that considers the events reported by the users areas against the tolerance levels agreed between the area of computer science and these areas. This risk information is captured by the IT area directly in the operational risk tool.

Legal risk-

There is an internal methodology for estimating the registry of potential losses in terms of legal risk, based on the expectations of specialists to obtain a favorable resolution, classifying them into five bands:

- Without sufficient evidence.
- High.
- Moderate.
- Considerable.
- Low.

The application of the methodology is carried out by the Litigation and Credit Legal Department, the staff identifies, quantifies and manages the legal risk. As a control of risk monitoring, IRMC is informed at least quarterly.

The results of the potential losses are grouped, analyzed and reported, with at least a quarterly periodicity to the IRMC, by type of suits, which are the following:

- Labour nature
- Contentious portfolio
- Trust
- Commercial
- Treasury and stock trading

Risks on the assets of the institution

They are those derived from casualties or unforeseen external events that cannot be associated with a probability of occurrence and for which the economic losses caused can be transferred to external entities that bear risks.

Type of risk	Definition	Example
Damage	Risk of loss due to catastrophic natural events that can interrupt the operation or affect assets of the institution.	Fire, earthquake, volcanic eruption, hurricane, among others.
External	Risk of loss caused by entities outside the institution.	Vandalism, seedlings, etc.

(Continued)

For this type of risk, monitoring is carried out considering the following criteria:

Inventory	Control Measures	Economic impact
Institution Assets	Institutional Program for Assets Insurance	Payment of premiums
Foreclosed Assets	Premium payments Institutional Program for Assurance Assets Deductibles in case of materialization.	Deductibles in case of materialization.

During the years 2018 and 2017, were covered, via policy, the damages that occur within the national territory and abroad of tangible and intangible assets (all kinds of software or packages of programs, licenses, permits, technology information and database) including in general material damages, civil liability, accidental breakage of glass including neon signs, theft and/or assault with violence or without violence, theft of money and securities, banking, electrical equipment, Electromechanical, electronic, electromagnetic and fixed and mobile telephony, boilers and equipment subject to pressure, breakage of machinery, equipment contractor, goods in transit (transport), works of art, and difficult or impossible to reposition objects, money and values, outfitting and safety equipment, personal accident, infidelity of employees and terrorism. A policy covering the vehicle fleet also exists.

Non-quantifiable risks

The implemented methodologies are in accordance with the Provisions. A brief description of these is provided as follows:

- Strategic risk. -The institution has a methodology based on defining, documenting, and following-up on the Institution's Management strategies, which, each year are defined and approved, as well as presented to the Board of director, at least on a quarterly basis, for the decision making and mitigation of detected risks.

- Business risk. - Four indicators that help to identify the possible materialization of the risks that could affect the Institution derived from movements in the financial environment and the economic cycle were defined as a methodology to manage this risk. These indicators are given monthly monitoring through risk reports.

- Reputation risk. - For the administration of this risk, a Communication Plan was defined applied and monitored by the Social Communication Management, said Plan considers the attention to the minimum requirements issued by the Banking Commission in the Provisions regarding the reputation risk. The Social Communication Management monitors the events that affect the negative perception that is held internally or externally of the Institution. As a control of this risk, the IRMC is informed at least quarterly.

(Continued)

(Millions of Mexican pesos)

Operational risk results:

Results of self-assessments-

The result of the most relevant processes of the Institution in terms of its nature at the end of December 2018, is as follows:

Process	Nature Indicator */	Tolerance Level
Prevention and identification of Operations with Resources of Illegal Origin - BDTT (Database)	138.56	Medium high risk
SPEI operation**	130.97	High risk
Cash flow management and control*	117.56	Medium high risk
Treasury management*	114.10	Medium high risk
Exchange Market *	113.67	Medium high risk
Money market*	110.70	Medium High risk
General cash Fund*	108.73	Medium high risk
Derivatives market *	107.57	Medium high risk
Selective Guarantees management*	105.50	Medium high risk
Securities loan*	99.30	Medium risk
Capital market*	97.02	Medium risk
Trust*	96.65	Medium risk
Credit control desk operation*	95.88	Medium risk
Provision of contentious legal services and banking formalization*	94.11	Medium risk
Custody and Administration of Securities and Cash *	92.97	Medium risk
Administration of Automatic Guarantees *	92.71	Medium risk
Permanent Portfolio in shares and trusts *	89.60	Medium risk
Save values and central file *	88.92	Medium risk

(Continued)

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Process	Nature Indicator */	Tolerance Level
Recovery of First Floor Portfolios, Emerging Programs and Exemployee *	85.68	Medium risk
Electronic Products management	84.55	Medium risk
Financial agent Back office	84.09	Medium high risk
Recovery of Second tier Portfolio *	83.02	Medium risk
Spending operation*	78.40	Medium risk
Rating of Portfolio, Reserves and Regulatory Reports *	62.78	Medium risk

The result obtained at the end of December 2018 of the most relevant processes that describe the Institution's work, in terms of efficiency, is shown below:

Name of process	Efficiency indicator */	Tolerance level
Exchange market*	72.15	Medium risk
Prevention and identification of Operations with Resources of Illegal Origin - BDTT (Database) *	62.80	Low risk
Spending operation *	57.39	Medium risk
Safe value and central file*	56.58	Low risk
Trust*	56.01	Low risk
Money market*	55.14	Low risk
Provision of contentious legal services and banking formalization *	54.60	Low risk
SPEI operation**	54.30	Low risk
Treasury management*	53.49	Low risk

(Continued)

(Millions of Mexican pesos)

Name of process	Efficiency indicator */	Tolerance level
Derivatives market*	52.35	Low risk
Selective Guarantees management*	52.34	Low risk
Automatic Guarantees management*	52.06	Medium risk
Capital market*	50.90	Low risk
Securities and cash custody and management *	50.52	Low risk
Electronic Products management *	50.11	Low risk
Recovery of Second tier Portfolio *	48.71	Low risk
Cash flow management and control*	48.65	Low risk
Credit Control Table Operation *	47.88	Low risk
Securities lending*	46.92	Low risk
General cash fund*	46.40	Low risk
Permanent Portfolio in shares and trusts *	46.08	Low risk

* / The higher score, the more critical in terms of efficiency of the process
* Assessed under the new methodology
** Does not belong to the Quality Management system but is considered critical

During 2018, no inherent potential operational risk was identified or recorded in the red zone, i.e. zone nine (high frequency and high impact), so the established risk limit was met.

(Continued)

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Results of the events of economic losses.

During the year 2018, forty-five loss events were accounted for due to operational risk with a likely impact of $7.24. The monthly average was four events with an amount of $0.60.

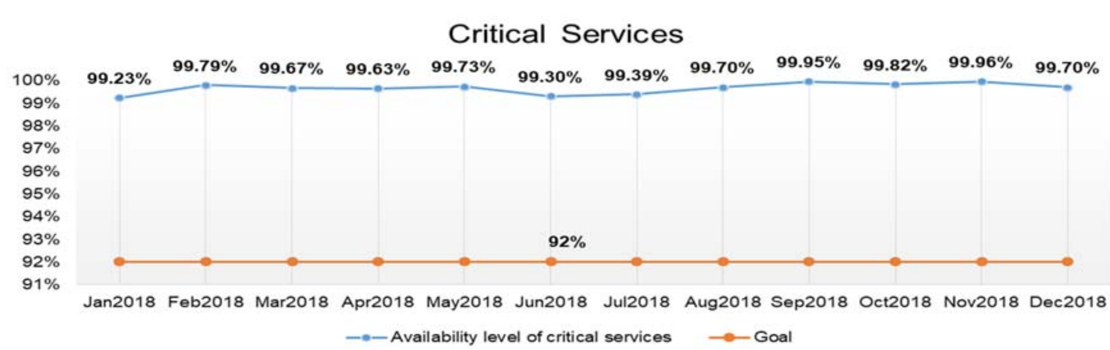
Quarter	Number of events	Likely economic impact	% of LEI (IEP) each month
January	3	0.00	0.00%
February	1	0.00	0.00%
March	5	0.00	0.04%
April	8	0.00	0.00%
May	2	0.00	0.00%
June	6	0.25	3.48%
July	5	0.05	0.69%
August	7	4.64	64.08%
September	2	0.00	0.00%
October	4	2.30	31.71%
November	-	0.00	0.00%
December	-	0.00	0.00%
Total	**43**	**7.24**	**100%**

The consumption of the limit of the events of economic loss at the end of each month of year 2018 was within the established parameters, with the exception of September, where it held an exposure of $4.64.

Result of technological risk indicators

During the twelve months of 2018, the indicator level of security to the network had zero intrusions, the indicator of recovery of critical services under disaster drills had 100% of behavior, likewise, the indicator of detection and blocking of virus to the network had zero impacts. The quarterly and monthly average of these three risk indicators were located in the defined goal.

The behavior of the indicator of availability of critical services in the twelve months of year 2018 is as follows:



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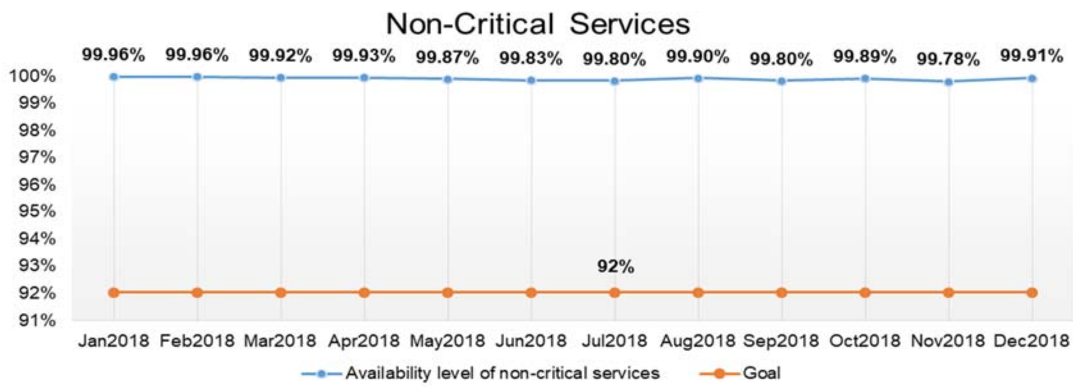
The behavior of the availability of non-critical services indicator in the twelve months of the year 2018, is as follows:



The five technological risk indicators were found within the goals established for the management of this risk.

During the year 2018, annual average and quarterly average behavior of the indicators; Availability of critical services and the availability of non-critical services were as follows:

T.R. indicator description	Jan2018	Feb2018	Mar2018	Apr2018	May2018	Jun2018	Jul2018	Aug2018	Sep2018	Oct2018	Nov2018	Dec2018	Prom Monthly 2018
Availability level of critical services	99.73%	99.64%	99.66%	99.44%	99.73%	99.30%	99.39%	99.70%	99.95%	99.82%	99.96%	99.70%	99.65%
Availability level of non-critical services	99.89%	99.89%	99.92%	99.91%	99.87%	99.83%	99.80%	99.90%	99.80%	99.89%	99.78%	99.91%	99.88%

The quarterly and annual average of the availability level of critical and non-critical services were within the established goals.

Result of the legal risk-

At the end of December 2018, the statement that keeps the record of potential losses in terms of legal risk is shown in the next page.

(Continued)

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Type of lawsuit	**Contingency**	**Provision**	**Provision/ Contingency**	**Income Loss**	**Income or loss Provision**
Total (1+2+3+4)	$ 133.37	50.46	37.84%	$ 12.20	24.18%
1) Labor nature	34.54	19.94	57.74%	11.37	57.02%
2) Litigation portfolio	12.51	11.24	89.84%	0.02	0.22%
3) Trusts	86.33	19.29	22.34%	0.81	4.19%
4) Treasury and securities trading	0.00	0.00	0.00%	0	0.00%

1. The contingency of the Labor Portfolio reports an amount of $ 34.54, which had an increase of 12.95% with respect to the closing of the previous quarter that is equivalent to an amount of $ 3.96. The provision reports an amount of $ 19.94, which had an increase of 39.18% with respect to the closing of the previous quarter, which is equivalent to an amount of $ 5.61. The movement in the Contingency and Provision is derived mainly from the update in the expectation of the demand and the amounts demanded according to the law. In the fourth quarter of 2018, the favorable termination to the interests of the Institution was obtained in three non-labor litigations and six indirect labor litigation, all of them of an undetermined amount, in which the Institution was acquitted of all the claimed benefits.

   Likewise, during the reporting period, a direct labor case concluded in which the Institution was acquitted of benefits equal to $1.67 and, on the other hand, concluded a direct labor trial in which the Institution was ordered to pay equivalent benefits of $1.15.

   The aforementioned resulted in the fact that, in the fiscal year 2018, 18 non-labor lawsuits filed against our Institution, 17 corresponding to non-quantifiable benefits and a trial in which benefits were claimed for $3.27 were finally concluded, obtaining favorable resolutions in 100% of them and absolving Nacional Financiera, S.N.C. of the totality of the claim, which resulted in the release of contingencies for $0.81.

   While, regarding the labor lawsuits filed against our Institution, during fiscal year 2018, 17 indirect labor lawsuits and 5 direct labor lawsuits were concluded, with favorable resolutions in all of them and absolving Nacional Financiera, S.N.C. of claimed benefits for $12.75; As regards resolutions against the Institution, these derived from 4 direct labor lawsuits with condemnatory awards of $5.13.

2. The contingency of Contentious Portfolio reports an amount of $12.51, which had an increase of 0.19%, which is equivalent to $0.02.

(Continued)

3. The contingency for Trusts reports an amount of $86.33, with an increase of 1.57% compared to the close of the previous quarter, which is equivalent to an amount of $1.33. The provision of Trusts recorded an increase compared to the previous quarter's closing of 1.19%, which is equivalent to an amount of $0.22. The movement in the Contingency was derived mainly from the volatility of the MXP / USD exchange rate.

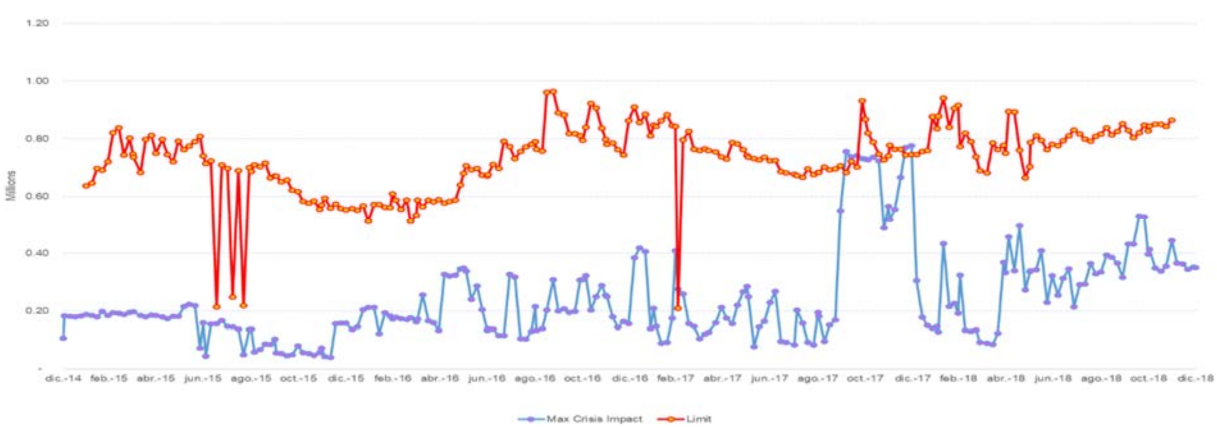
At the end of December 2018 there is a contingency of approximately $133.37, a provision that amounts to $50.46 and an effect on results of $12.20.

Non-quantifiable risks

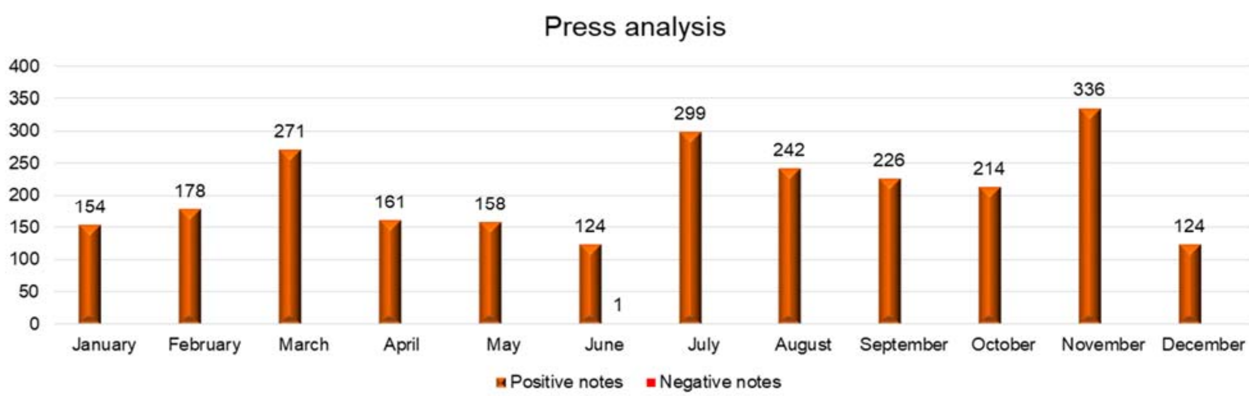
Results in the affectations to the patrimonial assets of the Institution: During the year 2018, five claims were reported that affected the patrimonial assets of the Institution in the branch related to electronic and diverse equipment, with an estimated amount of $ 28 thousand of Mexican pesos.

Strategic risk: During the year 2018, at least quarterly monitoring of the compliance behavior of senior management goals has been carried out to identify, in an expert manner, the main risks in order to mitigate them and make decisions that do not cause failure to comply with the Institution's goals.

Business risk: During the year 2018, the indicators defined by management for this risk were monitored, through market risk, reports, stressing that there are no variances out of the established limit.



Reputation risk: During the year 2018, the Social Communication Management met the minimum requirements in terms of reputation risk issued by the Banking Commission in the Provisions, additionally they monitored events that affect the negative perception that is held both internally and externally on a monthly basis, analyzing the positive and negative notes via printed, electronic communication channels, internet portals and state information.



Leverage ratio

The information related to leverage is disclosed with figures as of December 2018, in compliance with the Resolution that modifies the general provisions applicable to credit institutions, published by *Diario Oficial de la Federación* (Official Gazette) on June 22, 2016, article 2 Bis 120, articles 180, 181 and annex 1 - O Bis:

(Continued)

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TABLE I.1
STANDARDIZED DISCLOSURE FORMAT FOR THE LEVERAGE RATIO

REFERENCE	CATEGORY	AMOUNT
Exposures in the balance		
1	Items on the balance sheet (excluding derivative financial instruments and repurchase and securities lending operations -SFT by its acronym in English- but including the collateral received as guarantee and recorded in the balance sheet	574,669
2	(Amounts of assets deducted to determine the level 1 of Basel III capital)	-
3	**Exposures within the balance sheet (net) (excluded derivative financial instruments and SFT, sum of lines 1 and 2)**	574,669
Exposure to derivative financial instruments		
4	Current replacement cost associated with all operations with derivative financial instruments (net of the margin of variation in admissible cash)	-
5	Amounts of additional factors due to future potential exposure, associated with all operations with derivative financial instruments	2,042
6	Increase in collateral contributed in operations with derivative financial instruments when said collaterals are derecognized from the balance sheet in accordance with the operating accounting framework	**N.A.**
7	(Deductions to accounts receivable for variation margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure due to transactions in derivative financial instruments on behalf of clients, in which the settlement partner does not grant its guarantee in case of breach of the obligations of the Central Counterparty)	**N.A.**
9	Adjusted notional cash amount of the credit derivative financial instruments subscribed	**N.A.**
10	(Offsetting made to the adjusted notional cash of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	**N.A.**

(Continued)

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11	**Total exposure to derivative financial instruments (sum of lines 4 and 10)**	2,042
Exposures for financing transactions with securities		
12	Gross SFT assets (without recognition offsetting), after adjustments for accounting transactions for sales	17,066
13	(Accounts payable and receivable from SFT compensated)	(17,066)
14	Counterparty Risk Exposure by SFT	194
15	Exposures by SFT acting on behalf of third parties	-
16	**Total exposures from securities financing transactions (sum of lines 12 to 15)**	194
Other off-balance sheet exposures		
17	Off balance sheet exposures (gross notional amount)	149,733
18	(Adjustments for conversion to credit equivalents)	(134,760)
19	**Items out of balance (sum of lines 17 and 18)**	14,973
Capital and total exposures		
20	Tier 1 capital	29,478
21	Total exposures (sum of lines 3, 11, 16 and 19)	591,878
Leverage ratio		
22	Basel III leverage ratio	5.0%

(Continued)

TABLE II.1
ADJUSTED ASSETS AND TOTAL ASSETS COMPARATIVE

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	597,605
2	Adjustment for investments in the capital of banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	-
3	Adjustment related to trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	N.A.
4	Derivative financial instruments adjustment	(3,828)
5	Repurchase/resell agreements and securities lending transactions adjustment	(16,872)
6	Adjustment for items recognized in the balance sheet	14,973
7	Other adjustments	-
8	**Exposure of the leverage ratio**	**591,878**

TABLE III.1
RECONCILIATION OF TOTAL ASSETS AND EXPOSURE WITHIN THE BALANCE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	597,605
2	Derivative financial instruments transactions	(5,870)
3	Repurchase/resell and securities lending transactions	(17,066)
4	Trust assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio	**N.A.**
5	**Exposures in the Balance**	**574,669**

(Continued)

(Millions of Mexican pesos)

TABLE IV.1

MAIN CAUSES OF THE MAJOR VARIATIONS OF THE ELEMENTS

(NUMERATOR AND DENOMINATOR) OF LEVERAGE RATIO

CONCEPT/QUARTER	Nov 18	Dec 18	VARIATION (%)
Basic capital	27,355	29,478	17.8%
Adjusted assets	575,503	591,878	2.8%
Leverage ratio	**4.75%**	**4.98%**	**4.8%**

(27) Recently issued financial reporting standards

<u>Changes in the provisions of the Banking Commission</u>

On December 27, 2017, the Banking Commission published in the Official Gazette various modifications to the Accounting Criteria. These changes will be effective on January 1, 2019, Management is in the process of evaluating the effects that these modifications will have on the financial information. Most relevant changes are shown below:

Criterion A-2 "Application of particular rules"

Certain MFRS issued by the CINIF are incorporated, with the purpose of being applicable to the credit institutions, so as the term for its application, in order for credit institutions to comply with them. Mentioned MFRS are the following: B-17 "Fair value determination", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "SPPI Financial instruments", D-1 "Revenue from contracts with customers" and D-2 "Costs from contracts with customers".

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

Accounting Criteria for credit institutions are adjusted so these institutions be able to cancel, in the period of occurrence, excess of allowance for loan losses, as well as to recognize recovery of loans previously impaired in the "allowance for loan losses" caption in the consolidated income statement.

Management is assessing the possible impacts of the change in the Provissions on the financial statements.

(Continued)

<u>Standards recently issued by the CINIF</u>

The CINIF has issued the MFRS and improvements listed below:

MFRS B-17 ***"Determination of fair value"*-** effective for years beginning on or after January 1, 2018 (January 1, 2019 for credit institutions). Changes in valuation or disclosure have to be recognized prospectively. It establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS

MFRS C-16 ***"Impairment of financial instruments receivable"*-** effective for years beginning on January 1, 2018 (January 1, 2019 for credit institutions) with retrospective effects. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this MFRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.

- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

MFRS C-19 ***"Financial instruments payable"*** **-** effective for years beginning on or after January 1, 2018 (January 1, 2019 for credit institutions) with retrospective effects. Some of the main points covered by this MFRS include the following

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.

(Continued)

- It includes the provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which was not provided for by the existing standard.

- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.

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

MFRS C-20 *"SPPI Financing instruments receivable"* - effective for years beginning January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

- The valuation effect of investments in financial instruments is also focused on the business model.

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

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

MFRS D-1 *"Revenue from contracts with customers"*- establishes standards for the accounting recognition of revenues arising from contracts with customers and is effective for periods beginning on or after January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. It eliminates the supplementary application of International Accounting Standard (IAS) 18 *"Revenues"*, SIC 31 *"Revenues – Barter transactions of advertising services"*, IFRIC 13 *"Customer Loyalty Programs"*, and IFRIC 18 *"Transfers of assets from customers"*. Additionally, this MFRS, along with MFRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*. Some of the primary changes are the following:

- The transfer of control as basis for the opportunity of revenue recognition is established.

- The identification of the obligations to be fulfilled in a contract is required.

- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.

- The concept "conditional account receivable" is introduced.

- The recognition of collection rights is required.

- Requirements and guidance on how to value the variable consideration and other aspects, upon valuing the income are established.

MFRS D-2 "Costs from contracts with customers"- establishes rules for the accounting recognition of costs of sales of goods or provision of services. This is effective for periods starting on or after January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. Along with MFRS D-1 *"Revenues from contracts with customers"*, it repeals Bulletin D -7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*, except regarding the recognition of assets and liabilities in this type of contracts within the scope of other MFRS.

The primary change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

MFRS mentioned will come into force as of January 1, 2020 according to the resolution that modifies the general provisions applicable to credit institutions published in the Official Gazette of the Federation on November 15, 2018.

Management is evaluating the possible impacts of the MFRS in the financial statements, considering if they are applicable or if there is specific criterion of the Banking Commission in this regard.

(Continued)

Nacional Financiera, S. N. C.,
Institución de Banca de Desarrollo
and Subsidiaries

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(28) Approval of the financial statements-

On March 6, 2019, the officers who signed the consolidated financial statements, authorized the issuance of the accompanying consolidated financial statements and related notes. These accompanying notes are part of the consolidated financial statements at December 31, 2018 and 2017.

SIGNATURE

Eugenio Francisco Domingo Najera Solorzano
Chief Executive Officer

SIGNATURE

Martha Patricia Jimenez Oropeza
CEO General Director of
Finance and Administration

SIGNATURE

Cesar Edmundo Bonada Meneses
Subdirector of Financial Information
Accounting and Fiscal
(In charge of the Office of the Accounting
and Budget Deparment)

SIGNATURE

Manuel Anaya Vallejo
Audit Subdirector
(In charge of the Office of the
Internal Audit Department)