INBURSA
Grupo Financiero

2019

ANNUAL REPORT

MISSION:

A Financial Group committed to working for Mexico, and consisting of the best human capital, created to watch over and grow as efficiently as possible our customers' and partners' resources.

VISION:

To be leaders in Mexico's growing financial sector with profitability for our customers, collaborators and partners.

VALUES:

- Commitment to Mexico
- Long-term vision
- Comprehensive staff development
- Integrity
- Austerity
- Innovation

KEY CAPACITIES

- Operating Efficiency.
- Customer & Service oriented.
- Lean structure with good communication and clear leadership.
- Focused on results.
- Wise selection of risks.

ANNUAL REPORT 2019

CONTENT

STOCKHOLDERS' EQUITY

(Million pesos)

- **BANCO** 99,299
  - **AFORE** 2,148
  - **INMOBILIARIA** 1,450
  - **SINCA** 15,897
  - **FC FINANCIAL** 4,955
  - **SOFOM INBURSA** 15,548
- **INVERSORA** 3,311
- **OPERADORA** 2,735

Pietro Bazzanti (Florence, Italy, 1842)
"The Wrestlers"
Second half of 19th century,
White Marble.

INBURSA Grupo Financiero

147,832

SEGUROS
15,145

PATRIMONIAL
2,353

PENSIONES
8,980

PROMOTORA
8,287

SEGUROS DE CAUCIÓN Y FIANZAS
3,188

RELEVANT FIGURES

(Million pesos)

STOCKHOLDERS' EQUITY

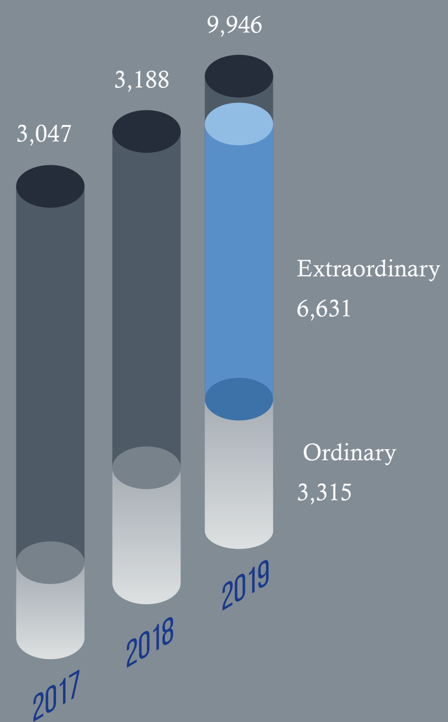
(Million pesos)

NET PROFIT

(Million pesos)

DIVIDENDS

(Million pesos)



GFI FINANCIAL INFORMATION

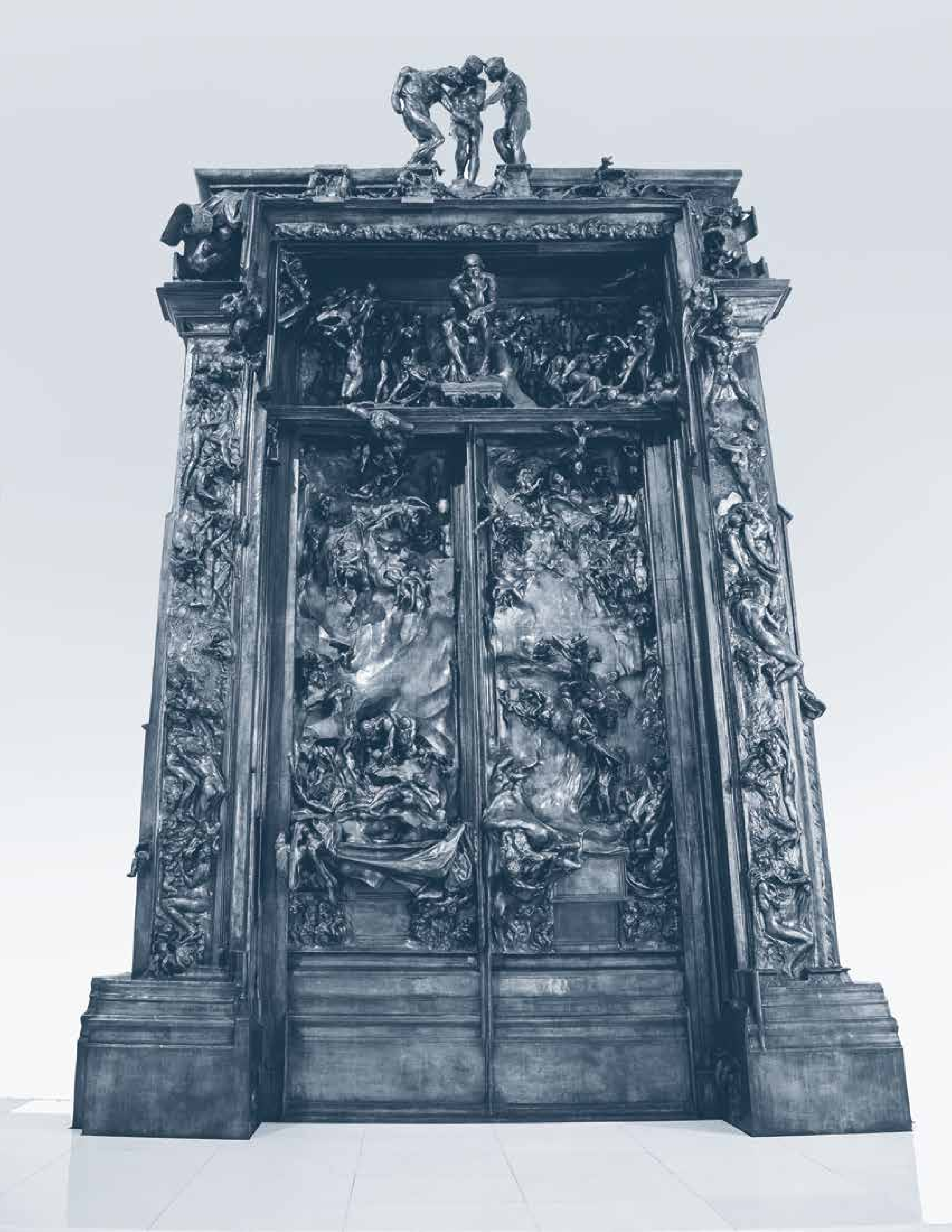
Million pesos

Net Result	2017	2018	2019	% var 2019 vs. 2018	% var 2019 vs. 2017
Grupo Financiero Inbursa	**20,038**	**17,124**	**12,957**	**-24.3%**	**-35.3%**
Banco Inbursa	13,964	11,975	7,050	-41.1%	-49.5%
Inversora Bursátil	331	509	410	-19.4%	23.9%
Operadora Inbursa	305	283	344	21.6%	12.8%
Seguros Inbursa	2,975	2,895	3,689	27.4%	24.0%
Pensiones Inbursa	2,467	1,035	140	-86.5%	-94.3%
Seguros de Caución y Fianzas	527	604	693	14.7%	31.5%

Assets	2017	2018	2019	% var 2019 vs. 2018	% var 2019 vs. 2017
Grupo Financiero Inbursa	**517,675**	**509,501**	**486,095**	**-4.6%**	**-6.1%**
Banco Inbursa	410,343	415,373	381,840	-8.1%	-6.9%
Inversora Bursátil	6,609	9,069	8,219	-9.4%	24.4%
Operadora Inbursa	2,314	2,577	2,940	14.1%	27.1%
Seguros Inbursa	72,024	72,608	67,498	-7.0%	-6.3%
Pensiones Inbursa	30,103	12,001	9,635	-19.7%	-68.0%
Seguros de Caución y Fianzas	3,585	4,189	4,980	18.9%	38.9%

Stockholders' Equity	2017	2018	2019	% var 2019 vs. 2018	% var 2019 vs. 2017
Grupo Financiero Inbursa	**134,139**	**148,401**	**147,832**	**-0.4%**	**10.2%**
Banco Inbursa	102,540	114,917	99,299	-13.6%	-3.2%
Inversora Bursátil	2,392	2,901	3,311	14.1%	38.4%
Operadora Inbursa	2,107	2,391	2,735	14.4%	29.8%
Seguros Inbursa	13,520	16,694	15,145	-9.3%	12.0%
Pensiones Inbursa	13,471	11,354	8,980	-20.9%	-33.3%
Seguros de Caución y Fianzas	1,940	2,504	3,188	27.3%	64.3%

Dividends Paid	2017	2018	2019	% var 2019 vs. 2018	% var 2019 vs. 2017
Grupo Financiero Inbursa	**3,047**	**3,188**	**9,946**	**212.0%**	**226.4%**



INFRASTRUCTURE

	2017	2018	2019
Employees	11,441	11,827	11,812
ATMs (Inbursa and alliances)	4,685	4,928	5,138
Branches	908	904	884
Salesforce	30,908	20,851	20,150

INDICATORS

	2017	2018	2019
Credit Portfolio / Total Assets (Bank)	70.5%	60.2%	65.2%
Past Due Portfolio / Credit Portfolio (Bank)	3.0%	2.4%	2.1%
Preventive Reserves / Past Due Portfolio (Bank)	1.4	1.6	1.7

Auguste Rodin
François-Auguste-René Rodin
(Paris, Île-de-France, France, 1840 - Meudon, Île-de-France, 1917)

The Gates of Hell (Porte de l'Enfer).
Conception: 1880-1917
Foundry: 8/8, 2013=2015, de Coubertin
Bronze with light brown patina

SHAREHOLDERS' REPORT

ECONOMIC ENVIRONMENT 2019

During 2019 the world economic environment showed a deceleration scenario partly due to the uncertainty in the tension between United States and China trade.

The American economy increased 2.3% boosted by a 3.7% increase in consumption of goods and unfavourably compensated by a smaller growth in gross fixed investment of 1.8%, against 5.1% growth in 2018. Against this backdrop, the Federal Reserve lowered the reference interest rate on 3 occasions to close the year in a range from 1.75% to 2.00%.

In Mexico, the Gross Domestic Product fell by -0.1% impacted by the decrease in the gross creation of fixed capital of -4.9%, cuts in government spending of -1.5% and the deceleration of private consumption, which grew 0.6% while it had increased 2.3% in 2018.

The Mexican peso closed at $18.93 against the dollar, revaluing 72 cents during the year, recording a minimum during the period of $18.75. Interest rate differential between the Mexico and United States risk-free bonds and the House of Representatives' approval of the USMCA in December contributed to the currency's appreciation.

Inflation in 2019 was 2.83% against 4.83% the year before. Non-underlying inflation rose 0.59% mainly due to the slight 0.2% increase in low octane gasoline, which compares with a 15.4% increase the year before. Underlying inflation grew 3.59%.

The trade balance showed a surplus of $5,820 MUSD, against a deficit the year before of $13,618 MUSD. The crude oil balance reached a deficit of $21,222 MUSD, $1,938 MUSD less than in 2018; the non-oil one increased its surplus $17,500 MUSD ending on $27,042 MUSD. Within exports, manufacturing - which is the greatest share -, increased 3.4% while in terms of imports, all sectors reduced with the fall of 8.9% in capital goods standing out and explained by the fall in investment in the country.

The Public Balance showed a deficit of 398,356 MP (-1.6% of the GDP), budget revenue increased 1.6% real with regards to the year before, budgetary expenditure decreased -0.1% in real terms thanks to the cut in public spending. The Primary Balance showed a surplus of 1.1% of the GDP. During the year, 121,227 MP (0.5% of the GDP) from the Budgetary Revenue Stabilization Fund were used to compensate for smaller tax revenues due to the deceleration of the Mexican economy.

The beginning of 2020 has been greatly impacted by the COVID-19 pandemic, which began in China and subsequently spread throughout the rest of the world and has generated uncertainty and unease in the financial markets bringing the global economy to a standstill with the prospects of recession. The dollar appreciated considerably against the rest of the currencies and the price of crude fell to levels not seen in the last 18 years.

GRUPO FINANCIERO INBURSA

The economy in Mexico and globally is going through the most difficult period in recent times; the fall in economic activity due to the COVID-19 pandemic is expected to challenge financial institutions. In this environment, Banco Inbursa has liquidity and capitalization indexes far superior to legally required norms and dispositions and remains one of the best reserved and capitalized banks in Mexico - with a capitalization index of 17.9% at the close of December 2019 which compares favorably with the market average. This indicator shows, as well as financial robustness, the capacity Inbursa has to continue participating cautiously in the credit market.

Inbursa posted profits for $12.957 million pesos at the close of December 2019 compared to $17,124 million pesos at the close of December 2018. The financial margin increased 3.1% as a consequence of the growth in interests charged, going from $46,482 million pesos at the close of December 2018 to $48,542 million pesos at the close of December 2019: 4.4% more. Likewise, income from commissions and fees charged (net) was $2,875 million pesos at the close of 2019 which compares with $2,639 million pesos during the same period the year before.

Stockholders' Equity was $147,832 million pesos, a similar amount when compared with the same period the year before. It is important to note the $9,946 million pesos dividend paid in May, as well as the buy-back of shares for $652 million pesos; adjusted by these, equity growth would have been 6.8%.

The overall credit portfolio was $248,867 million pesos which represents a decrease of 0.5% which is explained mainly by a smaller commercial credit portfolio and growth in government entities. The commercial portfolio went from $173,770 million pesos to $162,928 million pesos when comparing 2018 with 2019, while the credit portfolio for government entities grew from $12,284 million pesos to $27,103 million pesos in the same period.

The credit risk preventive reserve was $8,898 million pesos. Overall, this amount represents a cover of 1.7x the past due portfolio and 3.6% of the total credit portfolio.

The past due portfolio represented 2.1% of the overall portfolio which compares positively with the 2.4% the year before; it is mainly underwritten by assets whose actual value is greater than the amount of the credit.

Inbursa closed the year with 884 offices that support and complement the commercial work of 20,150 financial advisors that constitute our sales-force, enabling important increases in retail deposit-taking and contributing to an operating efficiency index (management costs over financial margin, net fees and other operating revenues), of 31.5% in 2019 which compares favourably with the Mexican market.

Our wide service portfolio is offered comprehensively, meeting the diverse needs of our client base and thereby consolidating their loyalty.

The wide range of services we can offer is managed under one leadership and as one business which increases certainty, confidence and assurance in our services and allows us to better benefit from margins for growth and profit in each business segment.

The business model capitalizes our integrated corporate strategy, with a solid distribution platform offering our complete range of products, a unique database, a single systems platform for all our products and a shared infrastructure. All this allows us to actively offer integral and personalized solutions to each of our clients within a quality, consistent, low-cost and high efficiency framework.

We focus our distribution effort in regional and integrated channels rather than on each product. We also use flexible, alternative and diverse channels, like the i-mobile App, call centres, an Internet portal and strategic alliances with several self-service chains, and telecommunications for payments and deposits. On the other hand, our focus on reaching out to our clients, promotion of our integral service portfolio and sale of complementary services and products, as well as our emphasis on the strength and efficiency of these endeavours allow us to have a model which has controlled costs, is flexible, efficient and managed within efficiency, regard to and risk control standards.

Though the office network we capture sight and term deposits from the general public closing the year with a balance of $163,772 million pesos which represent 74.2% of traditional streams. At the close of 2018 the retail deposits were $148,891 million pesos. It is worth noting that, as part of our funding strategy we have gradually replaced part of our money market deposits and stock certificates with retail deposits and development banking loans with longer terms, contributing to greater funding stability. The rating of each issue is "mxAAA" by Standard & Poors and "HR+1" from HR Ratings.

It is important to note the release by Seguros Inbursa on 31 December 2018 and 2019 of catastrophic loss reserves for earthquake of $2,017 million pesos and $482 million pesos, respectively, as well as $115 million pesos and $50 million pesos respectively for hurricane and other hydrometeorological hazards.

Inbursa having over 54 years' experience has greater possibility of seizing growth opportunities, not only through the high potential of its greater market participation, but also given the growth expectations in our country following the recent structural reforms as well as its characteristic dynamism and firm resolve to contribute to the development of the nation.

The development of Inbursa is based on its operating efficiency, service culture, wide client base, wise risk choices, financial strength, spearhead technology, quality assets, and above all a human element that works in coordination and is aware that everything can be improved, always seeks to optimize products and processes to continue being different and the best for our clients and partners.

MEMBERSHIP OF THE BOARD OF DIRECTORS

NON-INDEPENDENT DIRECTORS

Propietary

Marco Antonio Slim Domit (President)
Javier Foncerrada Izquierdo (General Director)
Arturo Elías Ayub
Juan Fábrega Cardelus
Jordi Morera Conde
José Kuri Harfush
Héctor Slim Seade

INDEPENDENT DIRECTORS

Antonio Cosío Pando
Agustín Franco Hernaiz
Patricio Gutiérrez Fernández
Patricia Raquel Hevia Coto
David Ibarra Muñoz

MAIN INBURSA OFFICIALS

Guillermo René Caballero Padilla
General Directorate of Legal and Institutional Affairs

José Federico Loaiza Montaño
Internal Audit Director

Raúl Reynal Peña
Administration and Finance Director

CHIEF EXECUTIVE OFFICERS

Marco Antonio Slim Domit
GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.
Chairman of the Board

Antonio Cosío Pando
COMPAÑÍA INDUSTRIAL DE TEPEJI DEL RÍO, S.A. DE C.V.
CEO

Arturo Elías Ayub
TELÉFONOS DE MÉXICO, S.A.B. DE C.V.
Communications, Institutional Relations and Strategic Alliances Executive Officer

Juan Fábrega Cardelus
CAIXABANK, S.A.
Executive Director

Agustín Franco Hernaiz
GRUPO PISCIMEX, S.A. DE C.V.
Chairman of the Board

Patricio Gutiérrez Fernández
GRUPO IDESA, S.A. DE C.V.
Chairman of the Board

Javier Foncerrada Izquierdo
GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.
CEO

Patricia Raquel Hevia Coto
AMÉRICA MÓVIL, S.A. DE C.V.
Strategic Planing

David Ibarra Muñoz
IDEAL, S.A.B. DE C.V.
Management Board

José Kuri Harfush
JANEL, S.A. DE C.V.
CEO

Jordi Morera Conde
CRITERIA CAIXA
Banking Investment Director

Juan Antonio Pérez Simón
SANBORNS HERMANOS, S.A. DE C.V.
Chairman of the Board

Héctor Slim Seade
TELÉFONOS DE MÉXICO, S.A.B. DE C.V.
CEO

GFI CHIEF EXECUTIVE OFFICER		JOINED GFI
Grupo Financiero Inbursa	Javier Foncerrada Izquierdo	1992
Seguros Inbursa	Rafael Audelo Méndez	1980
Pensiones Inbursa	Guillermo René Caballero Padilla	1994
Afore Inbursa	José Ignacio Jiménez Santos	2006
Seguros de Caución y Fianzas	Alfredo Ortega Arellano	1991
Operadora Inbursa	Alejandro Ovejas Busqueta	2002
Inversora Bursátil	José Antonio Ponce Hernández	1991

BANCO

Banco Inbursa is the seventh bank of the country in terms of total assets, seventh in credit portfolio and fourth in equity to 31 December 2019. Banco Inbursa is the commercial bank with highest capitalization index amongst the main banks in Mexico with an ICAP (capitalization index) of 17.95%.

Banco Inbursa posted profits of $7,050 million pesos at the close of December 2019 compared to $11,975 million pesos at the close of December 2018. The financial margin showed an increase of 2.0% as a consequence of growth in interest charged going from $40,282 million pesos at the close of December 2018 to $41,662 million pesos at the close of 2019; 3.4% more. Similarly, commissions and tariffs charged (net) represented revenues of $4,940 million pesos at the close of 2019 compared with $4,809 million pesos in the same period the year before.

The result comes alongside losses in financial intermediation amounting to $2,880 million pesos which contrasts with revenue of $1,922 million pesos in the same period the previous year and growth of 14.2% in management and promotion costs.

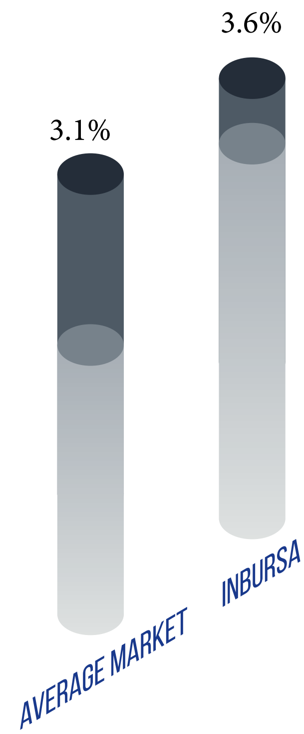
The overall credit portfolio was $248,867 million pesos which represents a decrease of 0.5% explained mainly by a smaller credit portfolio for commercial activity and growth in government entities. The credit portfolio for commercial activities went from $173,770 million pesos to $162,928 million pesos when comparing 2018 against 2019, while the credit portfolio for government entities increased from $12,284 million pesos to $27,103 million pesos in the same period.

The preventive risk reserves for loan losses was $8,898 million pesos. On aggregate this amounts to a hedging of 1.7x delinquency and 3.6% of the total credit portfolio.

Delinquency represented 2.1% of the total portfolio which compares favourably with 2.4% the previous year; for the most part, it is secured with assets whose current value is greater than the amount of credit.

Banco Inbursa closed the year with 884 offices that support and complement the commercial work of 20,150 financial advisors who comprise our sales-force, allowing important increases to retail and have contributed to maintaining an operating efficiency index (management costs, over financial margin, net fees and other operating revenues) of 33.5% in 2019 which compares favourably with the Mexican market average.

PREVENTIVE RESERVES / TOTAL PORTFOLIO



* Non-audited information with data to 31 December 2019.

Our wide service portfolio is offered in a comprehensive manner, fully satisfying the diverse needs of our clients and therefore consolidating our customer loyalty.

The wide range of services we can offer is managed under one leadership and as a single business increasing certainty, confidence and conviction in our services and allows us to take better advantage of growth and profit margins in each segment of the business.

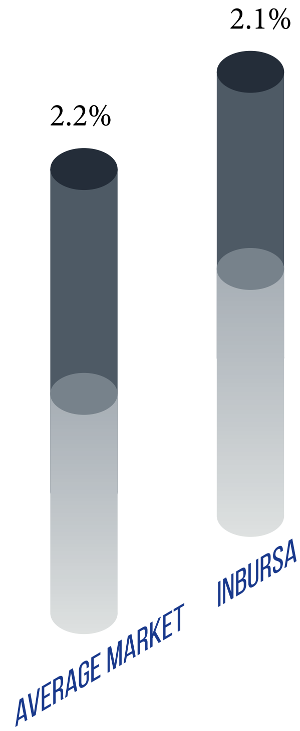
The business model capitalizes on our integrated corporate structure, with a solid distribution platform offering our complete range of products, a unique database, a single systems platform for all our products and a shared infrastructure. All of this allows us to actively offer integrated solutions personalised to each of our clients in a quality, consistent, low-cost and high-efficiency framework.

We focus our distribution effort into integrated regional channels, rather than into each product. Furthermore, we use flexible, alternative and diverse channels such as the i-movil App, call centers, an Internet portal and strategic alliances with different self-service and telecommunications chains for payments and deposits. Similarly, our focus on reaching out to our customers, promoting our integral services portfolio and sales of complementary services and products, as well as our emphasis on the strength and efficiency of our efforts, allow us to have a costs model which is controlled, flexible and managed within efficiency, attention and risk control standards.

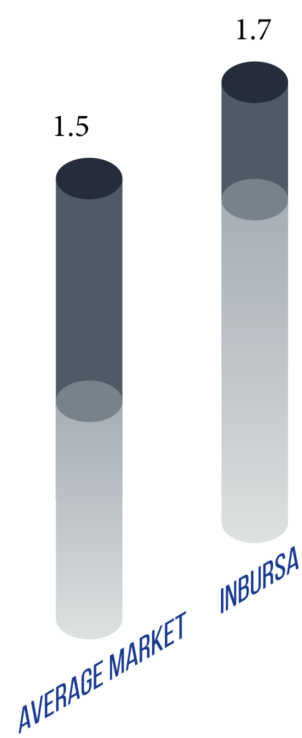
Through the office network we captured sight deposits from the general public closing the year with a balance of $164,519 million pesos which represent 74.1% of traditional deposits. At the close of 2018, retail deposits were $149,845 million pesos. It is worth noting that within our funding strategy we have gradually replaced part of our money market and bank bonds with retail deposits and development banking bonds with a longer term, contributing to greater funding stability. The rating for each emission is Standard & Poors 'mxAAA' and HR Ratings 'HR+1'.

Equity was $99,299 million pesos, representing a decrease of 13.6% when compared to the same period the year before. It is worth mentioning the $20,500 million peso dividend paid in May; adjusted by this, equity growth would have been 4.2%.

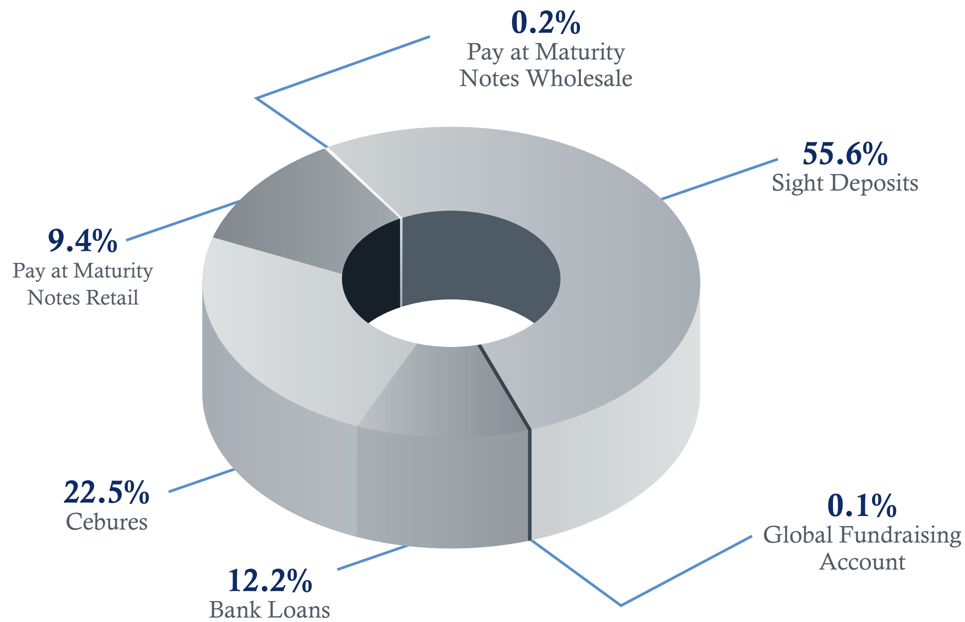
DELINCUENCY INDEX



HEDGING

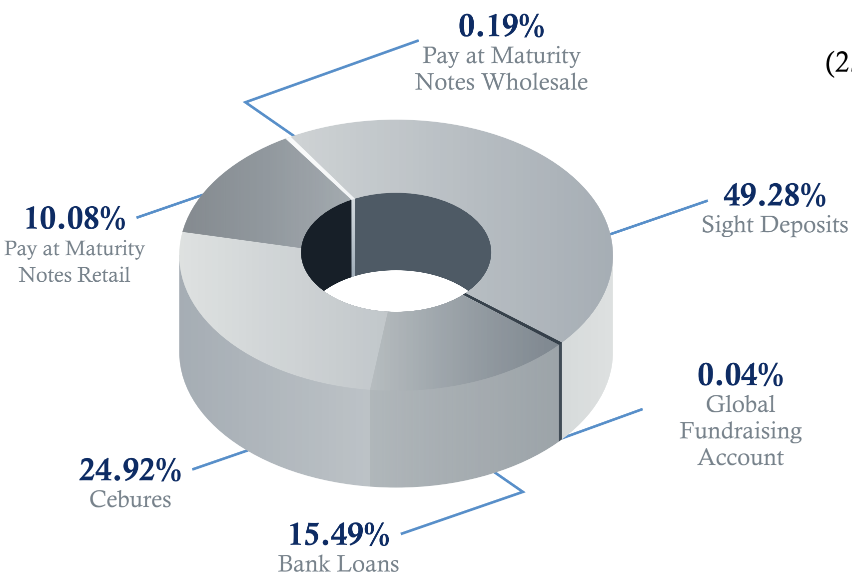


REVENUE STREAMS



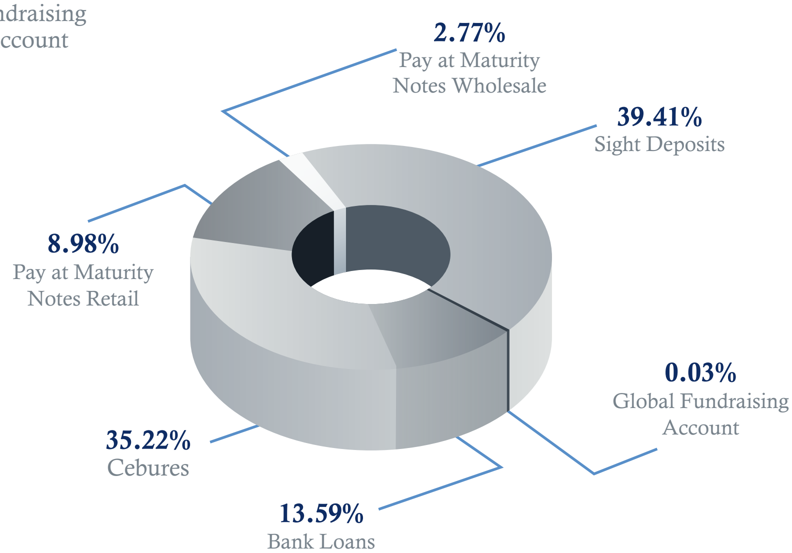
2019

(253,064 million pesos)



2018

(252,427 million pesos)



2017

(270,463 million pesos)

The Thinker (Le Penseur)
Auguste Rodin
1881 and 1882
Bronze with green and black patina

AFORE

Afore Inbursa made $1,192 million pesos in revenue from commissions during 2019, which represents an increase of 4.7% when compared with the same period the year before with growth of 10.4% in managed assets - going from $119,511 million pesos in 2018 to $131,951 million pesos in 2019 - and a 3.6% market share.

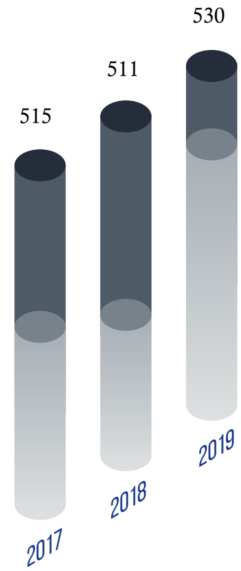
Market share in terms of client numbers was 1.9% during 2019, closing the year with 1,028,840 clients. The number of members at the close of 2019 was 407,282 – which represents a market share of 2.0%.

Net profit for Afore Inbursa at the close of 2019 was $513 million pesos which compares with $511 million pesos in 2018. This result is a consequence of higher earnings from commissions charged, partially compensated by an increase in management costs.

Stockholders' equity was $2,148 million pesos at the close of 2019 compared with $1,968 million pesos at the close of 2018 which represents an increase of 9.1%. During 2019 dividends worth $350 million pesos were paid; adjusting for the effect of these, the increase in stockholders' equity would have been 26.9%.

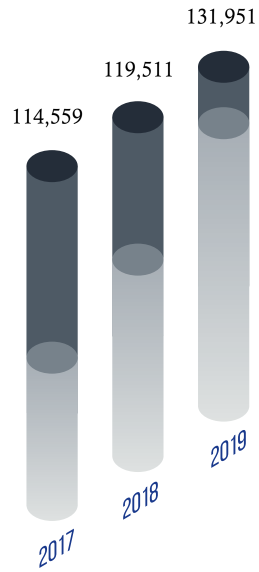
NET PROFIT

Million pesos



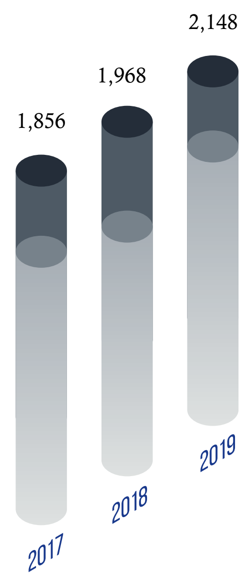
MANAGED ASSETS

Million pesos

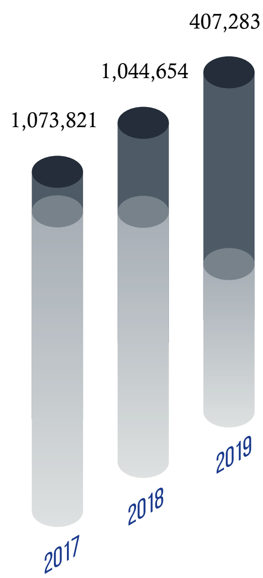


STOCKHOLDERS' EQUITY

Million pesos



MEMBERS *

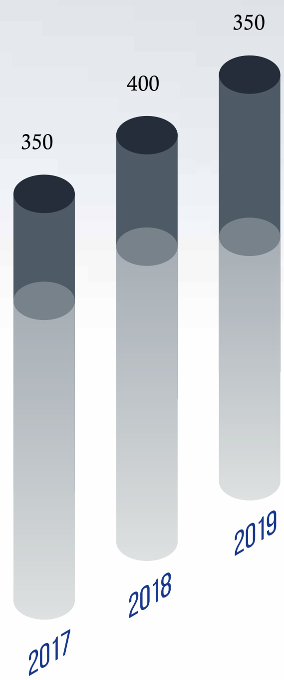


* The amounts shown in statistics are non-audited data.

Giacomo Manzú
Giacomo Manzoni
(Bérgamo, Lombardy, Italy, 1908 - Rome, Lacio, Italy, 1991)
Thebe sitting on a poltrona chair
Tebe in poltrona 1987
Pink Portuguese Marble

DIVIDENDS

Million pesos



OPERADORA

To 31 December 2019, Operadora Inbursa manages the following investment funds:

1 Fondo de Dinero Inbursa, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (“DINBUR 1”),
2 Fondo de Dinero Empresarial Inbursa, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (“DINBUR 2”),
3 Dinbur 3, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (“DINBUR 3”),
4 Inburex, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (“INBUREX”),
5 Inbumax, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (“INBUMAX”),
6 Fondo Inbursa, S.A. de C.V., Fondo de Inversión de Renta Variable (“INBURSA”),
7 Fondo Dinámico de Inversiones Bursátiles, S.A. de C.V., Fondo de Inversión de Renta Variable (“FONIBUR”),
8 Inbuplus, S.A. de C.V., Fondo de Inversión de Renta Variable (“INBUPLUS”),
9 Inburmex, S.A. de C.V., Fondo de Inversión de Renta Variable (“INBUMEX”),
10 Inbuinter, S.A. de C.V., Fondo de Inversión de Renta Variable (“INBUINT”).

Fondo Inbursa, S.A de C.V., Fondo de Inversión de Renta Variable (INBURSA) posted assets worth $15,245 million pesos to 31 December 2019 and presents an average compound annual yield in US dollars of 15.29% for the period between 31 March 1981 and 31 December 2019. The IBUPLUS, S.A. de C.V, Fondo de Inversión de Renta Variable (IBUPLUS) and Fondo Dinámico de Inversiones Bursátiles, S.A. de C.V., Fondo de Inversión de Renta Variable (FONIBUR) funds show portfolios at the end of year of $37,654 million pesos and $16,208 million pesos, respectively.

As far as performance of mutual funds in debt instruments is concerned, Inburex, S.A de C.V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales (INBUREX), closed 2019 with assets worth $20,666 million pesos. Fondo de Dinero Inbursa, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (DINBUR1) had an annual yield of 6.41% and assets worth $5,578 million pesos. Likewise, Inbumax, S.A. de C.V., Fondo de Inversión en Instrumentos de Deuda (INBUMAX) had an annual yield of 7.23% and a portfolio worth $22,957 million pesos.

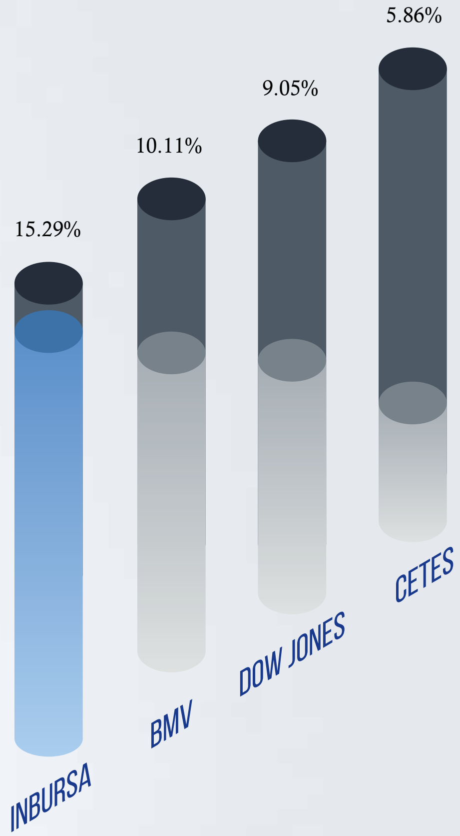
Inburmex, S.A. de C.V., Fondo de Inversión de Renta Variable (INBUMEX), whose assets are also managed by Operadora Inbursa, closed 2019 with assets worth $261 million pesos.

In 2019, Operadora Inbursa posted profits of $344 million pesos which compares with $283 million pesos obtained in 2018.

Operadora Inbursa’s stockholders’ equity was $2,735 million pesos compared to $2,391 million pesos in 2018.

AVERAGE COMPOUND ANNUAL YIELD IN US DOLLARS*

(From March 31st 1981 to December 31st 2019)



* Data not audited

Camille Claudel
(Villeneuve-sur-Fère, France, 1864 - Montdevergues,
Montfavet, France, 1943)
The Waltz (La valse) 1895
Bronze with brown patina

SEGUROS

During 2019, total Seguros Inbursa premiums were $19,389 million pesos,which represented a 2.7% decrease when compared with the same period the previous year which was $19,935 million pesos.

Seguros Inbursa posted profits for $3,689 million pesos at the close of 2019, which compares with $2,895 million pesos in 2018. The result is explained mainly by an increase in technical profits of 24.5% as a consequence of lower acquisition costs and accident costs alongside greater income resulting from integral financing.

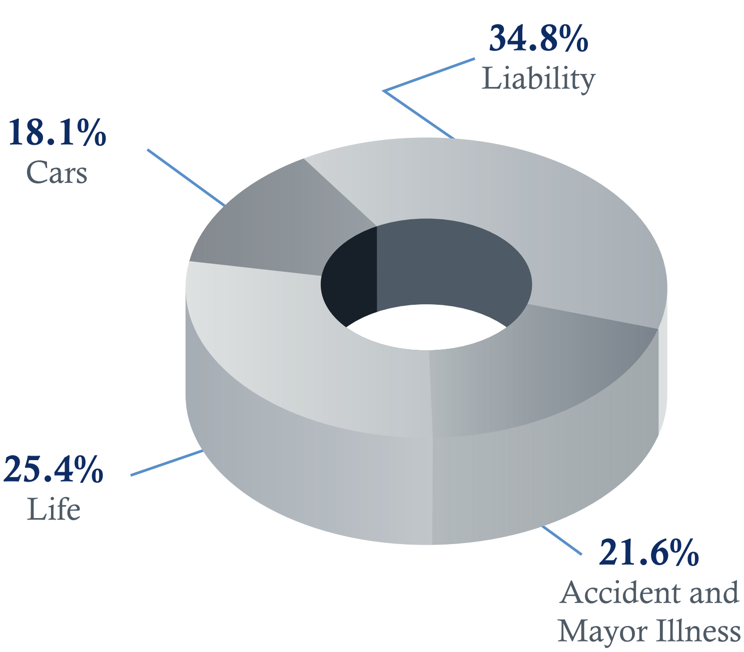
Accident costs went from $9,868 million pesos at the close of fiscal year 2018 to $ 8,812 million pesos in 2019 which represented a decrease in the combined index which was 92.5%, taken as operating, acquisition and accident costs in relation to retained premiums. The combined index at the close of 2018 was 97.1%.

It is important to note that to 31 December 2018 and 2019, Seguros Inbursa paid out $2,017 million pesos and $482 million pesos, respectively, from its earthquake catastrophic loss reserves with $115 million pesos and $50 million pesos, respectively, from the hurricane and hydrometeorological risk reserves.

Investments of the Seguros Inbursa business went from $46,801 million pesos in 2018 to $44,999 million pesos in 2019; a 3.9% decrease.

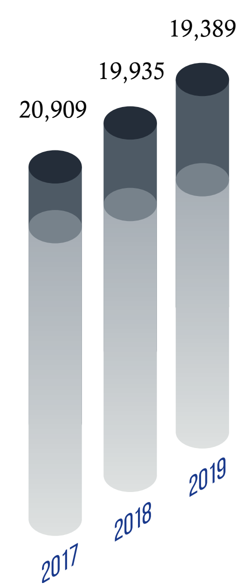
Stockholders' equity was $15,145 million pesos which compares to $16,694 million pesos in 2018. It is worth mentioning the dividend payment of $4,500 million pesos in May. Without the effect of this, shareholders' equity would have grown 17.7%.

PREMIUMS BY BUSINESS LINES



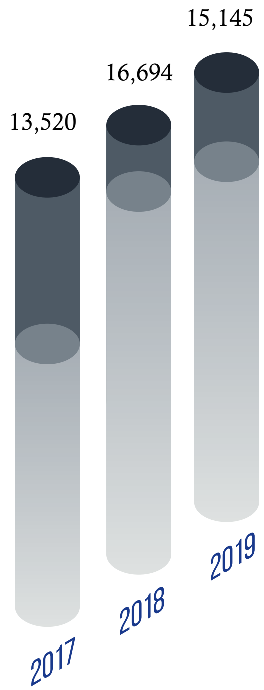
TOTAL PREMIUMS

Million pesos



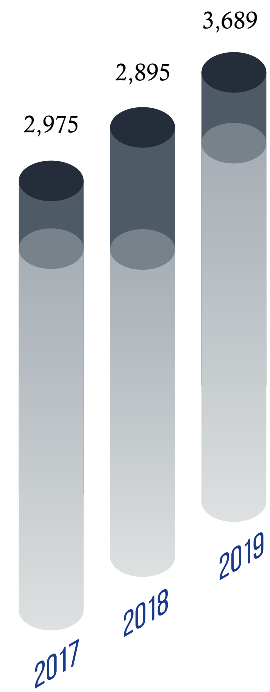
STOCKHOLDERS' EQUITY

Million pesos



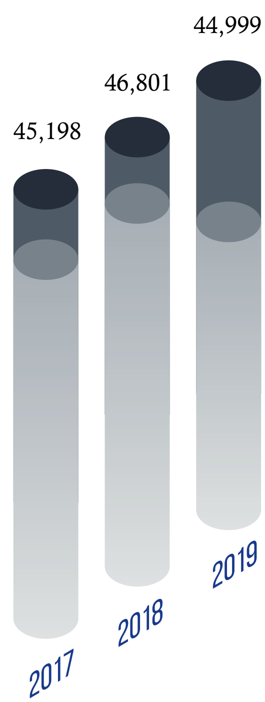
NET PROFIT

Million pesos

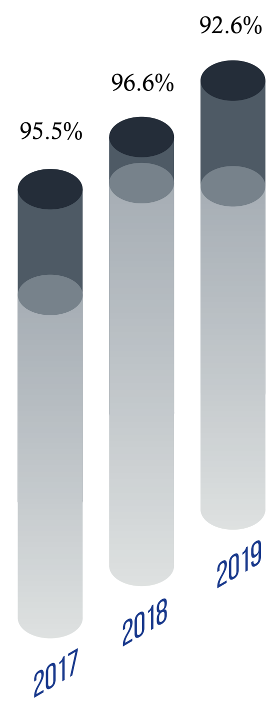


INVESTMENTS

Million pesos



COMBINED INDEX



PENSIONES

By the close of 2019, Pensiones Inbursa reported profits amounting to $140 million pesos compared to $1,035 million pesos the year before. The outcome is explained by lower revenue in the integrated financing result going from $1,451 million pesos in 2018 to $7 million pesos in 2019. Likewise, in July 2018 Pensiones Inbursa gave up most of its pension insurance portfolio derived from social security laws, changing the investment regime to real rate assets with profits of $1,471 million pesos before tax.

Investments in the pension business went from $6,740 million pesos in 2018 to $4,665 million pesos in 2019.

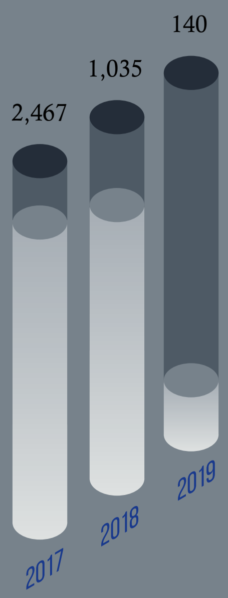
Stockholders' equity for Pensiones Inbursa was $8,980 million pesos at the close of the 2019 fiscal exercise, 20.9% lower if compared to the close of 2018. It is worth highlighting the dividend payment of $2,500 million pesos made in May. Without its effect, stockholders' equity would have grown 1.1%.

INVESTMENTS

Million pesos

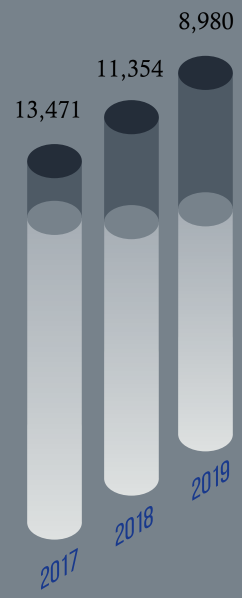
NET PROFIT

Million pesos



STOCKHOLDERS' EQUITY

Million pesos



INVERSORA

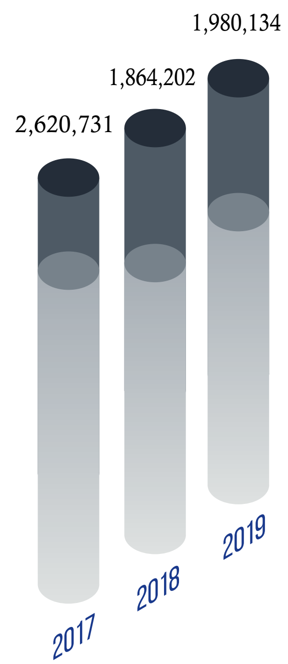
During 2018, Inversora posted profits for $410 million pesos, compared with $509 million pesos at the close of 2018; representing a decrease of 19.4%. This result is explained by lower commissions and tariffs charged going from $657 million pesos in 2018 to $473 million pesos in 2019, 28.0% less. Additionally, there was a higher financial margin from intermediation showing a growth of 19.2%.

During 2019 the assets held in custody amounted to $1,980 thousand million pesos.

Stockholders' equity of the Society grew by 14.1% in 2019, to reach $3,311 million pesos compared to the $2,901 million pesos in the previous year.

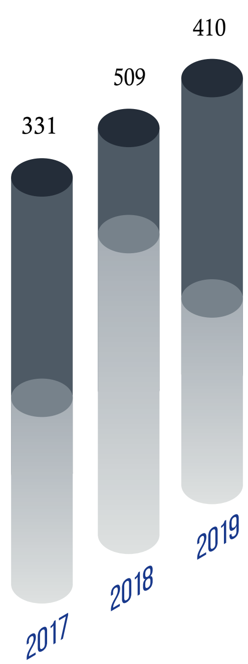
MANAGED ASSETS

Million pesos



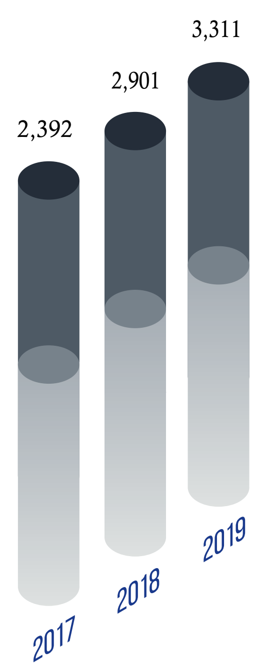
NET PROFIT

Million pesos



STOCKHOLDERS' EQUITY

Million pesos



SEGUROS DE CAUCIÓN Y FIANZAS

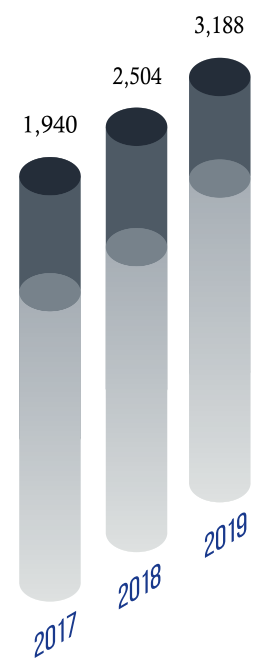
At the close of the fiscal year on 31 December 2019, the Society's premiums were $2,152 million pesos, representing an increase of 6.5% in comparison with $2,021 million pesos at the close of the previous year.

The net profits were $693 million pesos compared with $604 million pesos the previous year, which represents an increase of 14.7 %.

Stockholders' equity was $3,188 million pesos, which represents an increase of 27.3% if compared to the close of the 2018 period which was of $2,504 million pesos.

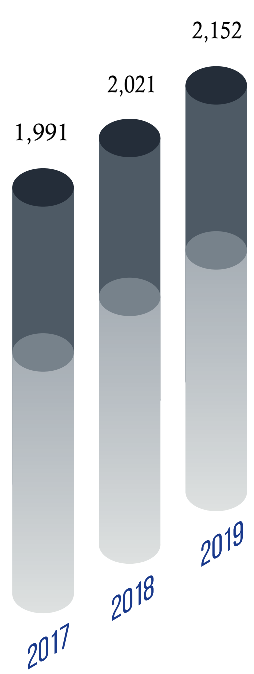
STOCKHOLDERS' EQUITY

Million pesos



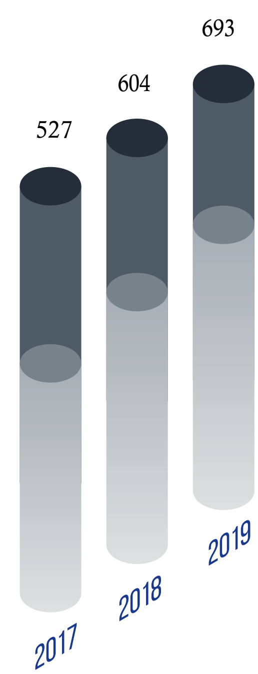
TOTAL PREMIUMS

Million pesos



NET PROFIT

Million pesos



Salvador Dalí
Surreal Newton
Bronze, lost wax casting 1984

Camille Claudel
(Villeneuve-sur-Fère, France, 1864 - Montdevergues,
Montfavet, France, 1943)
The Waltz (La valse) 1895
Bronze with brown patina.

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2019 AND 2018

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF GRUPO FINANCIERO INBURSA, S.A.B. DE C.V.

Opinion

We have audited the consolidated financial statements of Grupo Financiero Inbursa, S.A.B. de C.V. and subsidiaries (the "Financial Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Financial Group were prepared in all material respects, in accordance with the Accounting Criteria (the "Accounting Criteria") established by the Mexican National Banking and Securities Commission (the "Commission") in the General Provisions Applicable to Financial Groups, Credit Institutions, Institutions and Mutual Insurance Companies, Brokerage Houses, Regulated Multiple Purpose Financial Companies and Mutual Funds and Companies that Provide Services Thereto (the "Provisions").

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Independent auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Financial Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have complied with all other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Other information

The information included in the accompanying consolidated financial statements as unaudited, is presented to comply with the requirements of the Provisions issued by the Commission.

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 for the 2019 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 those matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

- **Valuation of financial derivatives (Notes 3 and 10 of to the consolidated financial statements)**

  The valuation of the Financial Group's financial derivatives was considered as a key area of our audit approach due to the valuation process which requires Management, using professional judgment, to determine certain quantitative and qualitative factors that are applied for the determination of the fair value of the financial derivatives.

  In Note 3 to the accompanying consolidated financial statements, Management has described the main Accounting Criteria applied to determine the valuation of both the trading and hedging financial derivatives.

  Our audit procedures included a combination of tests of controls and substantive tests of balances:

1. We conducted interviews with Management and top executives to understand the risk management policy.

2. We evaluated the design and implementation of the relevant controls, and also reviewed their operating effectiveness.

3. Based on a sample, we obtained confirmation letters for certain trading and hedging financial derivatives. We checked that the information incorporated into the SII Inversiones system, which is used in the valuation calculatation, was correct.

4. We involved the Firm's team of specialists to review the valuation of the financial derivatives. This work included the calculation of the valuation as of June 30, 2019 based on a sample of financial derivatives using independent variables, and in certain cases, they produced valuations different from those calculated by the Financial Group, although the differences were within reasonable ranges.

5. Our team of specialists also reviewed compliance with the requirements established in the Accounting Criteria to designate financial derivatives as hedges.

6. At December 31, 2019, we performed an analysis to identify new significant financial derivative transactions. For the financial derivatives identified, we requested that Management obtain a confirmation letter from the counterparty and we reviewed transaction details.

7. We reviewed the accounting records of such instruments as of December 31, 2019, as well as their correct presentation and disclosure in the consolidated financial statements at the same date. We obtained an accounting consultation in financial instruments from our specialists.

The results of our audit procedures were reasonable.

- **Allowance for loan losses – commercial and consumer credit portfolio (see Notes 3 and 13 to the consolidated financial statements)**

  The Financial Group establishes the allowance for loan losses of its credit portfolio based on the portfolio classification rules determined in the Accounting Criteria, which establish methodologies for evaluation and creation of reserves by type of loan. The preparation of such methodology requires Management, using professional judgment, to determine the quantitative and qualitative factors that will be applied to determine the probability of default, the severity of the loss and exposure to default of the loans. The determination of the allowance for loan losses was considered to be a key audit matter due to the importance of the completeness and accuracy of the information used in its determination, as well as the correct application of the methodology established by the Commission to determine the calculation of the allowance.

Our audit procedures included a combination of tests of controls and substantive tests of balances:

1. To identify the controls established by Management for the proper inclusion of the information in the loan files during the loan origination and management processes, we performed a walk-through of internal controls to corroborate the design and implementation of such controls.

2. Using a sample of files, we checked that the upload of the inputs used in the calculation engine of the allowance for loan losses was complete and accurate.

3. We observed the review controls implemented by Management to follow up on the results of the calculation of the allowance for loan losses.

4. In order to ascertain the accuracy of the calculation of the allowance for loan losses, we involved our specialists in reserve models to review the application of the model and the parameters established by the Commission.

5. We reviewed the completeness of the information and verified that the total loan portfolio was include in the calculation to determine the allowance for loan losses.

6. At December 31, 2019, as a substantive analytical test, we estimated an allowance for loan losses at that date based on the behavior of the loan portfolio.

The results of our audit procedures were reasonable.

Other information included in the document containing the audited consolidated financial statements

Management is responsible for the other information. The other information comprises the information included in the Annual Report that the Financial Group is obligated to prepare pursuant to Article 33 Fraction I, subsection b) of Title Four, First Chapter of the General Provisions Applicable to Issuers and Other Securities Market Participants in Mexico and the Instructions accompanying those Provisions. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and when we do so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter. We will issue the declaration about the reading of the annual report, required by Article 33 Fraction I, subsection b) numeral 1.2. of the Provisions.

Responsibilities of Management and those charged with governance of the Financial Group in relation to the consolidated financial statements

Financial Group's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as Management determines is necessary to enable the preparation of the 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 Financial Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Financial Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Financial Group's financial reporting process.

Independent 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 ISA 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 ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

Identify and asses 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 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 Financial Group'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 concerns 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 Financial Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Financial Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves the presentation in accordance with the Accounting Criteria established by the Commission

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Financial Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Financial Group. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with the Financial Group's governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the 2019 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.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.A. Jorge Adrián Ramírez Soriano
Mexico City, Mexico
March 19, 2020

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

As of December 31, 2019 and 2018
(In millions of Mexican pesos)

Assets	2019	2018
Funds available (Note 6)	$ 29,633	$ 32,106
Margin accounts (Note 7)	2,436	315
Investment in securities (Note 8)		
Trading securities	130,416	123,270
Securities available for sale	11,154	11,764
Securities held to maturity	333	2,214
	141,903	137,248
Repurchase agreements (Note 9)	10,044	25,816
Derivatives (Note 10):		
Trading purposes	4,787	7,864
Hedging purposes	1,258	3,708
	6,045	11,572
Valuation adjustment for hedged financial assets (Note 11)	286	323
Performing loan portfolio:		
Commercial loans:		
Commercial or corporate activity	161,214	171,637
Loans to financial entities	5,875	8,800
Loans to government entities	27,103	12,284
Consumer loans	44,355	45,978
Housing loans		
Middle and residential	5,000	5,512
Social interest	7	7
Total performing loan portfolio	243,554	244,218
Non-performing loan portfolio:		
Commercial loans:		
Commercial or corporate activity	1,714	2,133
Loans to financial entities	-	1
Consumer loans	2,706	2,969
Housing loans		
Middle and residential	892	850
Social interest	1	2
Total non-performing portfolio	5,313	5,955
Total loan portfolio (Note 12)	248,867	250,173
Allowance for loan losses (Note 13)	(8,898)	(9,618)
Total loan portfolio, net	239,969	240,555
Receivables from insurance and surety companies, net (Note 14)	1,688	1,676
Premiums receivable, net (Note 15)	7,898	8,253
Receivables from reinsurance and surety, net (Note 16)	7,602	9,702
Other receivables, net (Note 17)	11,433	15,304
Foreclosed assets, net (Note 18)	713	1,311
Property, furniture and fixtures, net (Note 19)	7,165	6,793
Investments in shares (Note 20)	11,558	11,582
Employee profit sharing payable, deferred	351	-
Other assets, deferred charges and intangibles, net (Note 21)	7,371	6,945
Total assets	$ 486,095	$ 509,501

Liabilities and Stockholders' equity	2019	2018
Deposits		
Demand deposits (Note 22a)	$ 140,605	$ 124,232
Time deposits (Note 22b)		
General public	23,167	24,659
Debt securities (Note 22c)	56,944	62,589
	220,716	211,480
Bank and other loans (Note 23)		
Demand loans	-	3,163
Short-term loans	162	201
Long-term loans	30,805	35,736
	30,967	39,100
Technical reserves (Note 24)	45,269	47,083
Liabilities arising from sale and repurchase agreements (Note 9)	1,524	317
Collateral received and sold or pledged as guarantee		
Repurchase agreements (Credit balance)	2	-
Derivatives (Note 10)		
Trading purposes	8,571	10,488
Hedging purposes	5,047	6,978
	13,618	17,466
Liabilities to reinsurance and surety, net (Note 25)	952	788
Other payables:		
Income taxes payable	2,282	2,338
Employee profit sharing payable	1,153	479
Obligations arising from settlement of transactions	11,472	24,168
Obligations arising from margin accounts	-	529
Liabilities arising from cash collateral received (Note 27)	268	4,180
Sundry creditors and other payables (Note 28)	6,791	7,292
	21,966	38,986
Deferred taxes, net (Note 30)	1,853	4,242
Deferred charges and income received in advance	1,396	1,638
Total liabilities	338,263	361,100
Stockholders' equity (Note 32)		
Contributed capital:		
Capital stock	14,167	14,177
Additional paid-in capital	13,201	13,201
	27,368	27,378
Earned capital:		
Capital reserves	2,224	3,563
Retained earnings	106,155	101,212
Result from holding non-monetary assets	(971)	(971)
Net income	12,926	17,100
Earned capital attributable to controlling interest	120,334	120,904
Non-controlling interest	130	119
Total stockholders' equity	147,832	148,401
Total liabilities and stockholders' equity	$ 486,095	$ 509,501

Memorandum accounts (Note 38)

	2019	2018
Transactions on behalf of third parties		
Customers current account		
Customer banks	$ 1	$ 3
Settlement of customer transactions	150	(59)
	151	(56)
Customer securities		
Customer securities in custody	1,944,521	1,842,054
Transactions on behalf of customers:		
Customer repurchase agreements	31,658	54,475
Customer collateral received in guarantee	-	17
	31,658	54,492
Total on behalf of third parties	$ 1,976,330	$ 1,896,490

	2019	2018
Transactions on own behalf:		
Own registry accounts:		
Contingent assets and liabilities	$ 38,788	$ 24,890
Assets in trust or mandate:		
Trusts	382,474	378,032
Mandates	1,285	1,111
	383,759	379,143
Collateral received by Financial Group (Note 9)		
Government debt	56,185	72,042
Other debt securities	3,024	8,658
	59,209	80,700
Collateral received and sold or pledged as guarantee by Financial Group		
Government debt	46,124	46,872
Other debt securities	3,024	8,658
	49,148	55,530
Assets in custody or administration	306,483	358,900
Loan commitments	81,392	94,204
Uncollected interest earned on non-performing loan portfolio	2,124	1,996
Guarantees of recovery by bonds issued	8,379	8,684
Paid-out claims	1,772	1,709
Cancelled claims	10	124
Recovered claims	149	112
Liabilities under bonds in force, net	20,149	20,244
Other memorandum accounts	1,070,659	1,170,838
Total on own behalf	$ 2,022,021	$ 2,197,074

The accompanying notes are part of these consolidated financial statements.

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2019 and 2018
(In millions of Mexican pesos)

	2019	2018
Interest income	$ 48,542	$ 46,482
Income from premiums, net	16,100	16,979
Interest expense	(20,783)	(19,989)
Decrease (increase) in technical reserves	349	1,167
Losses, claims, and other contractual obligations, net	(10,457)	(11,914)
Financial margin (Note 35)	33,751	32,725
Provision for loan losses (Note 13)	(7,293)	(6,903)
Financial margin after provision for loan losses	26,458	25,822
Commission and fee income (Note 36)	6,891	7,253
Commission and fee expense	(4,016)	(4,614)
Gains/losses on financial assets and liabilities (Note 37)	(2,402)	1,841
Other operating income (expenses), net (Note 39)	2,124	2,882
Administrative and promotional expenses	(12,195)	(11,434)
Result of operations	16,860	21,750
Equity in income of unconsolidated subsidiaries and associates	593	904
Income before income taxes	17,453	22,654
Current income taxes (Note 26)	4,716	5,476
(Anticipated benefit) deferred income taxes (Note 30)	(220)	54
	4,496	5,530
Net income	12,957	17,124
Non-controlling interest	(31)	(24)
Controlling interest	$ 12,926	$ 17,100

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2019 and 2018
(In millions of Mexican pesos)

	Contributed capital	
	Capital stock	Additional paid in capital
Balances at the beginning of 2018	$ 14,182	$ 13,201
Entries approved by stockholders:		
Transfer of prior year results	-	-
Dividends declared	-	-
Share repurchase reserve	-	-
Repurchase of shares	(5)	-
Total	(5)	-
Comprehensive income:		
Net income	-	-
Participation in other capital accounts of subsidiaries, net of deferred taxes	-	-
Total	-	-
Balances as of December 31, 2018	14,177	13,201
Entries approved by stockholders:		
Transfer of prior year results	-	-
Dividends declared	-	-
Share repurchase reserve	-	-
Repurchase of shares	(10)	-
Total	(10)	-
Comprehensive income:		
Net income	-	-
Participation in other capital accounts of subsidiaries, net of deferred taxes	-	-
Total	-	-
Balances as of December 31, 2019	$ 14,167	$ 13,201

The accompanying notes are part of these consolidated financial statements.

Earned capital					
Capital reserves	Retained earnings	Result from holding non-monetary assets	Net income attributable to controlling interest	Non-controlling interest	Total stockholders' equity
$ 3,114	$ 84,515	$ (971)	$ 19,985	$ 113	$ 134,139
-	19,985	-	(19,985)	-	-
-	(3,188)	-	-	-	(3,188)
782	(782)	-	-	-	-
(333)	-	-	-	-	(338)
449	16,015	-	(19,985)	-	(3,526)
-	-	-	17,100	24	17,124
-	682	-	-	(18)	664
-	682	-	17,100	6	17,788
3,563	101,212	(971)	17,100	119	148,401
-	17,100	-	(17,100)	-	-
-	(9,946)	-	-	-	(9,946)
(697)	697	-	-	-	-
(642)	-	-	-	-	(652)
(1,339)	7,851	-	(17,100)	-	(10,598)
-	-	-	12,926	31	12,957
-	(2,908)	-	-	(20)	(2,928)
-	(2,660)	-	12,926	11	10,029
$ 2,224	$ 106,155	$ (971)	$ 12,926	$ 130	$ 147,832

Grupo Financiero Inbursa, S.A.B. de C.V. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018
(In millions of Mexican pesos)

	2019	2018
Net income	$ 12,957	$ 17,124
Adjustments for items that do not require cash flows:		
Depreciation of property, furniture and fixtures	510	657
Amortization of intangible assets	17	15
Current and deferred income taxes	4,496	5,530
Equity in income of unconsolidated subsidiaries and associates	(593)	(904)
	17,387	22,422
Operating activities:		
Change in margin accounts	(2,121)	(74)
Change in investment in securities	(4,655)	(3,275)
Change in repurchase agreements	15,772	(17,632)
Change in derivatives (asset)	3,077	(1,241)
Change in loan portfolio, net	586	37,177
Change in receivables from insurance and surety companies	(12)	13
Change in premiums receivable	355	392
Change in receivables from reinsurance and surety	2,100	1,648
Change in foreclosed assets, net	598	695
Change in other operating assets, net	3,428	2,905
Change in deposits	9,236	(18,745)
Change in bank and other loans	(8,133)	2,339
Change in liabilities arising from sale and repurchase agreements	1,207	(3,376)
Change in collateral sold or pledged as guarantee	2	-
Change in derivatives (liability)	(1,917)	(1,886)
Change in liabilities to reinsurance and surety, net	164	(31)
Change in other operating liabilities	(22,654)	25,091
Change in hedging instruments	556	(6,608)
Change in technical reserves	(1,814)	(19,032)
Payment of income tax	(4,772)	(5,837)
Net cash flows from operating activities	8,390	14,945
Investing activities:		
Payments for acquisition of property, furniture and fixtures	(882)	(1,136)
Dividends and proceeds from sales of permanent investments	617	758
Net cash flows from investing activities	(265)	(378)
Financing activities:		
Dividends paid	(9,946)	(3,188)
Repurchase of own shares	(652)	(338)
Net cash flows from financing activities	(10,598)	(3,526)
Net (decrease) increase in funds available	(2,473)	11,041
Funds available at the beginning of the year	32,106	21,065
Funds available at the end of the year	$ 29,633	$ 32,106

The accompanying notes are part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018
(In millions of Mexican pesos, except foreign currency and exchange rates)

1. Activity and economic regulatory environment

Grupo Financiero Inbursa, S.A.B. de C.V. (hereinafter the Group or the Financial Group), is authorized by the Treasury Department (SHCP) to operate as a financial group under the form and terms established by the Financial Group Law (the Law) and is subject to the supervision and oversight of the National Banking and Securities Commission of Mexico (the Commission) and Banco de México (Central Bank). The Financial Group is authorized by the Central Bank to transact derivative financial instruments and its main activities include the acquisitions of financial sector entities shares and supervision of the activities of such entities, which activities are carried out in accordance with the above-mentioned Law and. The Group and its subsidiaries are regulated by, depending on their activities, the Commission, the Central Bank and other applicable laws.

The main activity of the subsidiaries is conducting financial transactions such as the provision of commercial banking and brokerage services, and the provision of life, accident and disease and damage insurance services in accordance with applicable Law.

In accordance with the Law, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The Financial Group is subject to provisions issued by the SHCP regarding resources of illegal origin.

The Commission, within its legal powers of inspection and supervision, may order amendments or corrections, which it deems necessary, for the publication of the consolidated financial statements of Credit Institutions.

Significant 2019 and 2018 events

i. *Fiscal 2005 profit sharing* - Through the Central Tax Inspection Office for the Financial Sector, the Tax Administration Service (SAT) issued document number 900 06 01-2010-9149 on March 18, 2010, which determined an additional profit-sharing amount for the year from January 1 through December 31, 2005, in conformity with Article 16 of the Income Tax Law in effect in 2005. In response to this document, Seguros Inbursa, S.A., Grupo Financiero Inbursa (Seguros Inbursa) filed a proceeding for annulment which, on March 3, 2015, upheld the additional profit-sharing amount determined by the authorities. On December 5, 2019, the First Court of the Supreme Court issued a definitive verdict upholding the payment of additional profit-sharing of $355 to the workers of Seguros Inbursa.

ii. *Registration of debt securities* - On November 1, 2019, through document number No. 153/12269/2019, Banco Inbursa, S.A. Institución de Banca Múltiple (Banco Inbursa) obtained authorization from the Commission to register Bank Deposit Certificates and long-term promissory notes with interest payable at maturity for an amount of $100,000 for a five-year period. Likewise, it obtained authorization to place these instruments through a public offering and publish the respective information. As of December 31, 2019, Banco Inbursa has not issued any certificates

iii. *Amendment of the investment regime in the Investment Fund Specialized in Retirement Funds (SIEFORES) to transit into a generational SIEFORES scheme* – On May 31 2019, the Federal Official Gazette published a series of amendments to the SIEFORES Investment Regime to:

a) Encourage the design of a long-term investment strategy in accordance with the evolution of the risk/return profile of workers throughout their working lives.

b) Offer more investment alternatives to seek improved returns and, accordingly, better pensions for workers (higher replacement rate).

c) Grant better tools to defend against market volatility cycles.

d) Provide clarifications to grant legal certainty to regulated entities

The most significant changes to the investment regime authorized by the Governing Board of the National Commission of the Retirement Savings System (CONSAR) consisted of the move to a scheme of generational SIEFORES. Under this scheme, the resources of each worker are assigned to the SIEFORE linked to their date of birth and are maintained in it throughout their working life. Likewise, the investment regime of each SIEFORES evolves and becomes increasingly conservative as its affiliates approach retirement age.

Accordingly, workers' resources are no longer transferred to or from one SIEFORE to another when individual workers reach a certain age. Instead, the SIEFORE's Investment Regime changes over time.

This transition involved managing the resources of ten generational SIEFORES:

- 1 Initial SIEFORE.
- 8 Generational SIEFORES with five-year age groups.
- 1 Pension SIEFORE.

This transition took place on December 16, 2019.

iv) *Personnel transfer* - On March 16, 2019, an employer substitution agreement was executed for the transfer of 4,338 employees of Seguros Inbursa to Banco Inbursa and SOFOM Inbursa, S.A. de C.V. Sociedad Financiera de Objeto Múltiple (SOFOM Inbursa). For this purpose, each employee signed an agreement to terminate their work relationship with Seguros Inbursa, together with a new individual employment contract with Banco Inbursa and SOFOM Inbursa. The new contracts maintain the working conditions originally agreed with when employees were hired by Seguros Inbursa. Accordingly, when the employer substitution took place, Banco Inbursa and SOFOM Inbursa received the Reserve Fund for labor obligations of $1,253, which was recognized under the heading of "Investments for labor obligations"; a credit for the same amount was also applied to the liability denominated "Employee retirement obligation provision". It is important to mention that this employer substitution had no effect on the consolidated financial statements of the Financial Group.

v) *Release of catastrophic reserve* - As a result of the calculation through the natural risks evaluation model determined by the actuarial department of Seguros Inbursa and Patrimonial Inbursa, S.A. (Patrimonial Inbursa), as of December 31, 2018, such entities carried out releases in the balance sheet of "Reserves for catastrophic risks" for earthquakes for an amount of $2,017, and hurricanes and other meteorological risks for an amount of $115. These releases were recorded directly in the consolidated statement of income under "Increase in technical reserves".

vi) *Authorization for transformation to Inbursa Seguros de Caución* - In accordance with articles 41 and 42 of the Law on Insurance and Bonding Companies (LISF) and that established in Annex 2.1.3-g of the Sole Circular of Insurance and Bonds (CUSF), with regard to the Law published in the Federal Official Gazette on January 10, 2014, on April 12, 2017, Management of the Financial Group requested authorization from the National Insurance and Bonding Commission (CNSF) to transform Fianzas Guardiana Inbursa to Inbursa Seguros de Caución y Fianzas. At the date of issuance of the financial statements the authorization is still being reviewed by the Commission.

vii) *Bonds issued for the New Mexico City International Airport ("NAICM")* - From 2015 through 2018, Inbursa Seguros de Caución issued seven bonds related to the design of the NAICM, which were issued for the company "FP-FREE, S. de R.L. de C.V." in its capacity as principal obligor (the Obligor) providing surety only for the oversight and design contract of the airport. At the date of these consolidated financial statements, given that the design phase ended and the oversight phase of construction will not take place due to the project's cancellation, Inbursa Seguros de Caución requested cancellation of such sureties for the Obligor. As of December 31, 2018, Inbursa Seguros de Caución y Fianzas requested the cancellation of differences in bonds, which was carried out on August 5, 2019, through the Official Notice No. GACM/DG/DCT/SDP/GTLT/431/19.

viii) *viii. Acquisition of Energy and Infrastructure Investment Fiduciary Stock Certificates* - During March 2018, Seguros Inbursa acquired 13,260,000 certificates issued by Irrevocable Trust No. CIB/2930, "FINAIM 18" for $1,326, which was recorded on the consolidated balance sheet in "Trading securities" under "Investments in securities". The market value of such securities as of December 31, 2018 is $1,233. As mentioned in Note 43, at the date of issuance of the financial statements, such investment has been settled. As of December 31, 2018, said investment had been liquidated.

ix) On May 10, 2018 Pensiones Inbursa y Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte ("Pensiones Banorte") signed an agreement of assignment of rights and obligations for 19,709 policies to Pensiones Banorte; which was authorized on June 29, 2018 through Official Notice No. 06-C00-41100/36679 of the CNSF. On July 12, 2018, Pensiones Inbursa carried out the transfer of the following technical reserves: i) unearned premiums reserve of $14,905, ii) reserve for unfulfilled obligations of $54 and iii) reserve for contingency and fluctuation of investments for $587; furthermore, it carried out the transfer of 23,985,313 UDIBONOS certificates of the S461108 series related to the investment of the proceeds from the policies through a transfer on the Mexican Stock Market without any payment. The consideration for Pensiones Inbursa in this operation was $239, which was paid on July 24, 2018.

2. Basis of presentation

Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Accounting Criteria prescribed by the Commission. Certain accounting practices applied by the Financial Group may not conform to accounting principles generally accepted in the country of use.

Monetary unit of the consolidated financial statements - The consolidated financial statements and notes as of December 31, 2019 and 2018 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power. Cumulative inflation rates over the three-year periods ended December 31, 2019 and 2018 were 15.69% and 12.71%, respectively; accordingly, the economic environment is not inflationary effects were recognized in the accompanying consolidated financial statements. The inflation rate for the three-year period ended December 31, 2019 was 15.06%. Inflation rates for the years ended December 31, 2019 and 2018 were 2.83% and 4.83%, respectively.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of the Financial Group, those of its controlled subsidiaries and the trusts for securitization operations as of December 31, 2019 and 2018 and for the years then ended.

Entities Regulated by the Commission

Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (Banco Inbursa or the Bank) –Acts in accordance with the Law of Credit Institutions (LIC), as well as the provisions of the Commission and Central Bank. It is a multiple-service banking institution engaged in providing banking and credit services and acting as a trust company. This institution holds a majority equity interest in the following entities:

- Afore Inbursa, S.A. de C.V., Grupo Financiero Inbursa (Afore Inbursa) - The purpose of this business is to manage employee retirement savings pursuant to the Retirement Savings System Law. Afore Inbursa is regulated by the Mexican National Commission of Retirement Savings (CONSAR).

- SOFOM Inbursa, S.A. de C.V., SOFOM, E.R., Grupo Financiero Inbursa (SOFOM Inbursa) - It is a multi-purpose financial company, regulated entity, which operates in accordance with the rules supplied by the Commission, the SHCP and Central Bank. Its main activity is to grant in lease and pure all kinds of real and personal property, as well as the granting of revolving credit for consumption through credit cards and loans to small and medium enterprises, in addition to the granting of any type of credit to manufacturers, distributors and consumers of the automotive sector.

- FC Financial, S.A. de C.V., SOFOM, E.R., Grupo Financiero Inbursa (FC Financial) - The main business purpose is the customary and professional carrying out of credit operations, financial leasing and factoring, and, additionally, the management of various types of loan portfolio related to the leasing of real estate and non-real estate property.

- Sinca Inbursa, S.A. de C.V., Fondo de Inversión de Capitales (Sinca Inbursa) – Is a capital investment company, whose objective is to invest in stock of publicly held Mexican companies that need long term resources and whose main activities are related to carrying out the national development plan, thereby contributing to the country's economic and social growth. This entity is regulated by the Commission.

  Sinca Inbursa does not exercise control over the promoted companies except Inbursa Private Capital, S.A. de C.V., Capital Inbursa, S.A. de C.V. and Inbursa Ventures, S.A. de C.V., in which it has control through the possession of 99.99% of its outstanding shares.

- Inmobiliaria Inbursa, S.A. de C.V. (Inmobiliaria) - Real Estate Company authorized and regulated by the Commission.

Inversora Bursátil, S.A. de C.V., Casa de Bolsa, Grupo Financiero Inbursa (Inversora Bursátil) - This entity acts in terms of the Mexican Securities Trading and the general regulations established by the Commission. Its main activity is to act as a stockbroker in the securities and currency markets.

Operadora Inbursa de Fondos de Inversión, S.A. de C.V., Grupo Financiero Inbursa (Operadora Inbursa) - Carries out its transactions in conformity with the Mexican Investment Funds Act and the general regulations established by the Commission. This entity is engaged primarily in providing administrative and stock distribution and repurchasing services, as well as in managing its investment fund portfolio.

Regulated by the CNSF

Seguros Inbursa, S.A. Grupo Financiero Inbursa (Seguros Inbursa) - Its purpose is the provision of insurance services through the sale of insurance in life operations, accident, illness and damage operations, accepting reinsurance and refinancing and serving as a fiduciary under the terms of the LISF. Seguros Inbursa holds a majority equity interest in the following entities:

- Asociación Mexicana Automovilista, S.A. de C.V. (Asociación Mexicana Automovilistica) – An entity whose purpose is to provide all kinds of services to motorists and to tourism in general, develop educational, cultural and training activities related to their purposes, as well as provide services in relation to all procedures involved with the automotive field.

- Autofinanciamiento Inbursa, S.A. de C.V. (Autofinanciamiento Inbursa) - Its business purpose is the acquisition, distribution, purchase and sale of all types of automotive vehicles, under the terms of Article 63 of the Federal Law on Consumer Protection and the regulation of marketing systems consisting of the integration of groups of consumers, published on March 10, 2006 in the Official Gazette of the Federation.

- Patrimonial Inbursa, S.A. (Patrimonial Inbursa) – It is a Mexican company, whose business purpose is the provision of insurance services in life operations, accidents and illnesses and damages, under the terms of the LISF.

- Servicios Administrativos Inburnet, S.A. de C.V. (Servicios Administrativos Inburnet) - Its main purpose is the provision of administrative services related to individuals who have provisional authorization from the National Insurance and Bonding Commission (the NIBC), to act as insurance agents. These services are provided exclusively to Seguros Inbursa.

Inbursa Seguros de Caución y Fianzas, S.A., Grupo Financiero Inbursa (Inbursa Seguros de Caución y Fianzas) – It is a commercial company authorized by the SHCP and CNSF, to practice operation in bonds, counter-guarantees, re-guarantee or co-guarantee and the administration of guarantee trusts, in all branches permitted by the Mexican legislation, according to the provisions of the LISF.

Pensiones Inbursa, S.A. (Pensiones Inbursa) - Its business purpose is to carry out life insurance operations, pension insurance, the payment of periodic rents during the life of the insured or those corresponding to their beneficiaries in accordance with insurance contracts derived from social security laws, under the terms of the LISF.

Pensiones Inbursa holds majority equity interest in Promotora Inbursa, S.A. de C.V. (Promotora Inbursa), whose corporate purpose is the acquisition of all types of shares, social parties of all types of entities, participation in all types of tenders and tenders for the award, concessions, permits or contracts for the provision of various services, as well as the acquisition of all types of securities and the granting of any type of financing. Promotora Inbursa has the shareholding in the following Entities, according to the percentages indicated below:

Efectronic, S.A. de C.V.	99.999983%
Compañía de Servicios Multifuncionales, S.A. de C.V.	99.998000%
CE EFE Controladora, S.A. de C.V.	99.999999%
Promotora Loreto, S.A. de C.V.	99.999999%
Vale Inbursa, S.A. de C.V.	99.999999%
ClaroShop.com Holding, S.A. de C.V.	16.4630%

Entities providing supplementary services

Out Sourcing Inburnet, S.A. de C.V. (Outsourcing) - Is engaged in providing professional, administrative, accounting, information technology and management services exclusively to its affiliate companies. On March 23, 2019, the stockholders' extraordinary meeting approved the merger of Outsourcing, as the merging company, with SAI Inbursa S.A. de C.V. (SAI) and SP Inbursa S.A. de C.V. (SP), as the merged entities. The merger took effect as of October 1, 2019.

Asesoría Especializada Inburnet, S.A. de C.V. (Asesoría) - Provides promotional services for the sale of financial products offered exclusively by companies in the Financial Group.

SAI Inbursa S.A. de C.V. (SAI) – Until September 30, 2019, provided management services, accounting, computer and general services, among others, which were provided solely to affiliated companies. On October 1, SAI merged with Outsourcing.

SP Inbursa S.A. de C.V. (SP) – Until September 30, 2019, provided management services, accounting, computer and general services, among others, which were provided solely to affiliated companies. On October 1, SP merged with Outsourcing.

The balances and significant transactions between the consolidated entities have been eliminated. Permanent investments in shares are valued according to the equity method.

Preparation of the consolidated financial statements - The Provisions established by the Commission in relation to the issuance of the consolidated financial statements, established that the figures should be presented in millions of Mexican pesos. As a result, figures are not presented for those items of the consolidated financial statements with accounting balances less than one unit (one million Mexican pesos).

Comprehensive income – Represents changes in stockholders´ equity during the year, for concepts other than capital contributions, reductions and distributions; and is comprised of the net income of the year, plus other comprehensive income (loss) items for the same period, which are presented directly in stockholders' equity without affecting the Financial Group's results in accordance with the Accounting Criteria. The other items of comprehensive income are represented by net income and participation in other capital accounts of subsidiaries.

3. Significant accounting policies

The accompanying consolidated financial statements comply with the Accounting Criteria established by the Commission (the Accounting Criteria) in the General Provisions Applicable to Groups, Credit Institutions, Brokerage Houses, Retirement Fund Administrators, Mutual Funds and Companies that Provide Services Thereto and Regulated Multiple Purpose Financing Entities (the "Provisions") and in its rulings, which are considered a Special Purpose Framework. These policies require the Financial Group's Management to make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and their related disclosures. However, actual results may differ from such estimates. The Financial Group´s Management, upon applying professional judgment, considers that estimates made and assumptions used were appropriate under the circumstances.

Under Accounting Criteria, A-1 issued by the Commission, the Financial Group is required to apply Mexican Financial Reporting Standards ("MFRS" or "NIF's) issued by the Mexican Board of Financial Reporting Standards ("CINIF"), except with regard to topics for which the Commission has issued specific accounting guidance on the basis that the Financial Group and its subsidiaries are subject to its regulations and carries out specialized operations.

The regulation of the Commission mentioned in the previous paragraph, is at the level of rules over recognition, valuation, presentation and, if applicable, disclosure, suitable for specific captions in the consolidated financial statements, as well as those applicable to its preparation.

To that effect, the Commission clarifies that it will not apply the Accounting Criteria, or the concept of supplemental application, in the case of transactions that are expressly allowed or prohibited by legislation or are not expressly authorized.

Accounting policy changes

On December 27, 2017, the Commission issued an amendment ruling to Criterions B-6, "Credit Portfolio" and D-2, "Statement of income" of the Accounting Criteria to implement adaptations that would allow credit institutions to cancel surpluses derived from the balance of the allowance for loan losses during the period in which they arise, while also recognizing the recovery of previously written-off loans under the heading of "Provision for loan losses". These adaptations took effect as of January, 1, 2019. In accordance with NIF B-1, "Accounting changes and correction of errors", this change of Accounting Criteria was applied retrospectively. The Financial Group recognized the amount of $1,026 for previously written-off loans under the heading of "Provision for loan losses" in the consolidated statement of income at December 31, 2019. Likewise, at December 31, 2018, it reclassified the amount of $1,296 from "Other operating income (expenses), net" to that heading for the same item.

The significant accounting policies of the Financial Group's Management for the preparation of its consolidated financial statements are as follows:

Reclassifications - Certain amounts in the consolidated financial statements for the year ended December 31, 2018 have been reclassified to conform to the presentation of the 2019 consolidated financial statements.

Recognition of the effects of inflation in the financial information - Beginning on January 1, 2008, the Financial Group discontinued recognition of the effects of inflation in its financial statements, however, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

Offsetting of financial assets and financial liabilities - The recognized financial assets and financial liabilities are subject to offsetting so that the debit or credit balance, are presented on the consolidated balance sheet, as the case may be, if and only if, there is a contractual right to offset the amounts recognized, and the intention to settle the net amount, or to realize the asset and cancel the liability simultaneously.

Recording of the operations - Transactions in securities, repurchase and lending of securities, among others, on their own behalf or on behalf of third parties, are recorded on the date they are agreed, regardless of the date of their clearance.

Valuation of financial instruments - For the determination of the fair value of the positions in financial instruments, both, its own and those of third parties, the Financial Group uses the prices, rates and other market information provided by a price supplier, and which is authorized by the Commission, except for the operations that refers to futures contracts, which are valued at the market prices determined by the clearing house of the exchange in which they are operated.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate in effect on the transaction date. Assets and liabilities denominated in foreign currency are adjusted at the year-end exchange rates determined and published by the Central Bank.

Revenues and expenses from foreign currency transactions are translated at the exchange rate in effect on the transaction date, except for transactions carried out by the foreign subsidiaries, which are translated at the fix exchange rate at the end of each period.

Foreign exchange fluctuations are recorded in the consolidated statements of income of the year in which they occur.

Funds available - Cash is mainly represented by bank deposits and short-term investments of not more than 90 days, which are presented at acquisition cost, plus accrued interest at the balance sheet date.

Call money transactions granted and received have a maximum term of three business days and are recorded within Funds available and Demand loans, respectively. Accrued interest income and expense from call money transactions are recorded within Financial Margin in the consolidated statements of income.

Other liquid notes are recognized as "other funds available" if they are collectible within 2 business days (if national) or 5 business days (if international) after the contract is signed. Deposits with maturities in excess of the above terms are classified as Non-performing loans or Other receivables.

Operations pending settlement

- **Foreign currency purchase-sale transactions**

  Foreign currency purchase-sale transactions are recognized at the settlement prices. When its settlement is agreed within a maximum period of two banking business days following the date of agreement, these transactions are recorded as restricted funds available (purchases) and outputs of funds available (sales), against the corresponding settlement account. Profits or losses obtained from foreign currency purchase-sale transactions are recognized in the consolidated statements of income in the gains/losses on financial assets and liabilities.

  Foreign currency purchase-sale transactions in which the immediate settlement or the same value is not agreed are recorded in settlement accounts for the amount in national currency receivable or payable. The debit and credit settlement accounts are presented under Other receivable, net and Obligations arising from settlement of transactions, as appropriate.

Margin accounts *-* The margin accounts given in cash (and other cash equivalents) required from entities when performing transactions with derivative financial instruments in recognized markets are recorded at face value.

Margin accounts are used to ensure compliance with the obligations related to the derivatives executed in recognized markets and refer to the initial margin, and subsequent contributions and withdrawals made during the term of the respective contracts.
As of December 31, 2019 and 2018, the Financial Group held standardized and futures derivatives operations for which deposits of financial assets were recognized (cash margin calls) intended to ensure compliance with the obligations derived from the transactions performed in recognized markets so as to better mitigate the risk of default.

Investments in securities - These consist of debt instruments and share certificates and their classification is determined based on Management's intention at the time they are acquired. Each category has specific standards for recording, valuation and presentation in the financial statements, as described below:

- ***Trading securities***

  Trading securities represent investments in debt and equity securities, in proprietary position and pledged as guarantee, which are acquired with the intention of selling them to realize gains arising from changes in fair value. Upon acquisition, they are initially recorded at fair value (which includes applicable discounts or premiums). Furthermore, the cost is determined by the average cost method. They are subsequently valued at fair value, determined by using the prices calculated by the price vendor contracted by the Financial Group in accordance with the Provisions of the Commission.

The difference between the cost of investments in debt securities plus their accrued interest and the cost of equity instruments relative to the respective fair values of such instruments is recorded in the consolidated statements of income under the caption "Gains/losses on financial assets and liabilities". The effects of valuation are classified as unrealized and, therefore, cannot be distributed to stockholders until the securities are sold.

Fair value is the amount at which an asset may be exchanged or a liability may be settled by informed, willing and interested parties in an arm's length transaction.

Transaction costs incurred in connection with the acquisition of trading securities are recognized in results on the acquisition date.

Cash dividends of shares are recognized in the results of the year in the same period in which the right to receive such payment arise.

The exchange gains or loss on foreign currency investment in securities is recognized in the results of the year.

Trading securities also include transactions pending settlement, which refer to sale and repurchase transactions of securities not settled. These transactions are valued and recorded as trading securities, recording the receipt and expense (debit or credit balance) of the securities subject to the transaction against the respective debit or credit settlement account, when the transaction is agreed upon.

The Accounting Criteria of the Commission allow for certain reclassifications from trading securities to securities available for sale, only in extraordinary circumstances (for example, a lack of liquidity in the market, no active market for them, among others), which should be evaluated and, if applicable, validated with the specific authorization of the Commission. As of December 31, 2019 and 2018, no reclassifications were made.

- ***Securities available for sale***

Securities available for sale are debt instruments and equity shares that are not held for purposes of obtaining gains on sales transactions derived from increases in value and, in the case of debt instruments, those that the Financial Group intends or is able to hold to maturity and, therefore represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the Financial Group intends to trade such securities in the future prior to maturity.

Upon acquisition, the securities are initially recorded at fair value plus the acquisition transaction cost, (including the discounts or markup, as applicable) and are subsequently valued at fair value.

The Financial Group determines the increase or decrease in the fair value using prices provided by the price vendor, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security and is recognized in the consolidated statement of income under "Interest income". Unrealized gains or losses resulting from changes in fair value as reported by pricing vendors are recorded in other comprehensive income under the heading "Result from valuation of securities available for sale" net of related deferred taxes, except when such securities are hedged in a fair value hedging relationship, in which case they are recognized in results for the year.

Cash dividends of shares are recognized in the result for the year during the same period in which the right to receive the dividend arises.

The exchange gains or loss on foreign currency-denominated investments in securities is recognized in results for the year.

The Accounting Criteria of the Commission allow for certain reclassification from securities held to maturity to securities available for sale, provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of liquidity in the market, no active market for them, among others), which should be evaluated and, if applicable, validated with the specific authorization of the Commission.

As of December 31, 2019, no reclassifications were made. On March 13, 2018, Pensiones Inbursa requested authorization from the CNSF to carry out a transfer of categories of debt securities classified as "held to maturity" from its capital surpluses to "available-for-sale" in the amount of $2,521, which was authorized through Official Notice No. 06-C00-22100/21809 dated April 19, 2018.

- ***Securities held to maturity***

  Securities held to maturity are those instruments whose payments are fixed or determinable and with a fixed maturity, which the Financial Group has both the intention and the ability to hold to maturity: these instruments are recorded initially at fair value, plus transaction costs from the acquisition (which includes, as the case may be, the discount or markup). Subsequently they are valued at amortized cost. Accrued interest is recorded in the consolidated statements of income using the accrued interest method under the heading "Interest income".

Impairment in the value of a financial instrument - The Financial Group must evaluate whether there is objective evidence that a credit instrument is impaired as of the consolidated balance sheet date.

A credit instrument is deemed to be impaired and an impairment loss is recognized, only if, there is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the credit instrument, which had an impact on its estimated future cash flows that can be determined reliably. It is highly unlikely that one event can be identified that is the sole cause of the impairment, and it is more feasible that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of the probability that such events might occur.

Objective evidence that a credit instrument is impaired includes observable information such as, among others, the following events:

a) Significant financial difficulties of the issuer of the instrument;
b) It is probable that the issuer of the instrument will be declared bankrupt or another financial restructuring will take place;
c) Noncompliance with the contractual clauses, such as default on payment of interest or principal;
d) Disappearance of an active market for the instrument in question due to financial difficulties, or
e) A measurable decrease in the estimated future cash flows of a group of securities since the initial recognition of such assets, even though the decrease cannot be matched with the individual securities of the group, including:

i. Adverse changes in the payment status of the issuers in the group, or
ii. Local or national economic conditions which are correlated with defaults on the group's securities.

Repurchase agreements - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and agrees within the agreed term and against reimbursement of the same price plus a premium, to transfer ownership of similar securities to the seller. Unless otherwise agreed, the premium is for the benefit of the buying party.

For legal purposes, repurchase transactions are considered as a sale in which an agreement to repurchase the transferred financial assets is executed. However, the economic substance of repurchase transactions is that of a secured financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as collateral in the event of default.

The repurchase transactions are recorded as indicated below:

When the Financial Group acts as the buying party on the contracting date of the repurchase transaction, the withdrawal of funds available or a credit settlement account is recognized, giving rise to an account receivable at fair value, which it is equal to the agreed price, representing the right to recover the cash delivered. The account receivable is valued subsequently during the term of the repurchase agreement at its amortized cost, recognizing the interest on the repurchase agreement.

On the contracting date of the repurchase transaction, when the Financial Group acts as the selling party, the entry of the cash or asset or a debit settlement account is recognized, as well as an account payable at fair value, which represents the obligation to repay such cash to the buying party. The account payable is valued during the term of the repurchase transaction at its amortized cost, recognizing the interest in results as they are accrued.

When the transactions performed are classified as cash-oriented, the seller's intention is to obtain cash financing by using financial assets as collateral while the buying party obtains a return on its investment and, as it does not seek ownership over specific securities, receives financial assets held as collateral which serve to mitigate the exposure to risk face by the party in relation to the selling party. The selling party repays to the buying party the interest calculated based on the agreed of the repurchase agreements. Also, the buying party obtains yields on its investment, which is secured by the collateral.

When the transactions performed are considered as securities-oriented, the intention of the buying party is to temporarily access certain specific securities held by the selling party, by granting cash as collateral, which serves to mitigate the exposure to risk faced by the selling party in relation to the buying party. In this regard, the selling party pays the buying party the interest agreed at the repurchase agreement rate for the implicit financing obtained on the cash that it received, which such repurchase rate is generally lower than that which would have been agreed in a "cash-oriented" repurchase agreement.

Cuando las operaciones llevadas a cabo se consideran como orientadas a valores, la intención del reportador es acceder temporalmente a ciertos valores específicos que posee el reportado, otorgando efectivo como colateral, el cual sirve para mitigar la exposición al riesgo que enfrenta el reportado respecto al reportador. A este respecto el reportado paga al reportador los intereses pactados a la tasa de reporto por el financiamiento implícito obtenido sobre el efectivo que recibió, donde dicha tasa de reporto es generalmente menor a la que se hubiera pactado en un reporto "orientado a efectivo".

Regardless of the economic intent, the accounting for "cash-oriented" or "securities-oriented" repurchase transactions is identical.

Noncash collateral granted and received in repurchase agreements - In relation to the collateral granted by the selling party to the buying party (other than cash), the buying party recognizes the collateral received in memorandum accounts, following the valuation guidelines for the securities established in Criterion B-9, "Custody and Management of Assets" (Criterion B-9), issued by the Commission. The selling party reclassifies the financial asset in its consolidated balance sheet to restricted assets, which follows the valuation, presentation and disclosure standards as applicable.

Memorandum accounts recognized for collateral received by the buying party are cancelled when the repurchase transaction matures or when the selling party defaults.

When the buying party sells or pledges the collateral, the proceeds from the sale are recorded, and a liability for the obligation to repay the collateral to the selling party (measured initially at the fair value of the collateral) and is subsequently valued at fair value in a sale, and at amortized cost if is considered as a pledge in another repurchase transaction (in which case, any difference between the price received and the fair value of the liability is recognized in results of the year). For purposes of presentation, the liability is offset by accounts receivable referred to as Repurchase agreements, which is generated when the purchases are reported. The debit or credit balance is shown under Repurchase agreements or sold collaterals or pledged as security as appropriate.

Similarly, if the buying party becomes a selling party due to another repurchase transaction with the same collateral as the initial transaction, the interest on the second repurchase transaction must be recognized in results for the year as earned, based on the liability valued at amortized cost.

For transactions where the buying party sells or pledges the collateral received (for example, when another repurchase or securities loan transaction is agreed), memorandum accounts are used to control such collateral sold or pledged, which is valued using the standards applicable to custody transactions included in Criterion B-9.

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged by the buying party are cancelled when the collateral sold is purchased to return it to the selling party, or when the second transaction matures or the other party defaults.

Derivatives - The Financial Group carries out two types of transactions:

– *Trading purposes* - Its objective is different from that of covering open risk positions by assuming risk positions as a participant in the derivatives market.

– *Hedging purposes* - Its objective is to mitigate the risk of an open risk position through operations with financial derivatives instruments.

The Financial Group initially recognizes all its derivatives (including those that are part of a hedging relationship) as assets or liabilities (depending on the related rights and/or obligations) in the consolidated balance sheet at fair value, which is presumed to be equal to the price agreed in the transaction.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives are valued at fair value without deducting any transaction costs incurred during the sale or any other type disposal, recognizing the valuation effect in results for the period under "Gain/losses on financial assets and liabilities", except when the derivative financial instruments forms part of a cash flow hedge relationship.

The rights and obligations of derivatives that are traded in recognized markets or stock exchanges are considered to have matured when the risk position is closed, i.e., when an opposite derivative with the same characteristics is traded in such market or stock exchange.

The rights and obligations of derivatives that are not traded in a recognized markets or stock exchanges are considered to have matured when they reach their maturity date, when the rights are exercised by either party or when the parties early exercise the rights in accordance with the related conditions and the agreed consideration is settled.

Derivatives are presented in a specific heading of assets or liabilities, depending on whether their fair value (as a result of the rights and/or obligations established) refers to a debit or credit balance, respectively. Such debit or credit balances may be offset as long as they comply with the respective offsetting rules.

The Financial Group presents this item under the caption "Derivatives" (debit or credit balance) on the consolidated balance sheets by segregating derivatives for trading purposes from derivatives for hedging purposes.

Derivatives held for trading

– *Forward and future contracts for trading:*

  Forward and future contracts for trading are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established amount, quality and price on a trading contract. Both forward and futures contracts are recorded by the Financial Group as assets and liabilities in the consolidated balance sheets at the exchange rate established in the related underlying asset purchase-sale contract, to recognize the right and the obligation to receive and/or deliver the underlying asset, and the obligation to receive and/or deliver the cash equivalent to the underlying asset specified in the contract.

  Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

  For forward contracts, the exchange difference between the exchange rate agreed in the contract and the monthly forward exchange rate, as well as the valuation effects, are recorded in the consolidated statements of income under "Gains/losses on financial assets and liabilities".

  For futures contracts, a margin account us created whose counterparty is a clearing house, so as to minimize counterparty credit risk.

  The margin account given in cash, does not form part of the initial net investment of the derivative, which is accounted for separately from the derivative.

  For financial statement classification purposes, with respect to derivative instruments that incorporate both rights and obligations, such as forwards and futures, such rights and obligations are offset by contract and the result net debit o credit balances are recognized a derivative asset or liability, respectively.

– *Option contracts:*

  Options are contracts that, in exchange for a premium, grant the right, but not the obligation, to buy or sell a specified number of underlying instruments at a fixed price within a specified period. For the rights that grant the options are divided in purchase options (call) and sale options (put).

The holder of a call has the right, but not the obligation, to purchase from the issuer a specified number of underlying assets at a fixed price (exercise price) within a specified period.

The holder of a put has the right, but not the obligation, to sell a specified number of underlying assets at a fixed price (exercise price) within a specified period.

Options may be exercised at the end of the specified period (European options) or at any time during such period (American options); the exercise price is established in the contract and may be exercised at the holder's discretion. The instrument used to set this price is the reference value or underlying asset. The premium is the price paid by the holder to the issuer in exchange for the rights granted by the option.

The Financial Group records the premium paid/received for the option on the transaction date as an asset or liability. Any fluctuations in the fair value are recognized in the consolidated statements of income under "Gain/losses on financial assets and liabilities". When an option matures or is exercised, the premium is cancelled against results for the year, also under "Gains/losses on financial assets and liabilities".

Recognized options that represent rights are presented, without offsetting, as a debit balance under the asset line item "Derivatives". Recognized options that represent obligations are presented, without offsetting, as a credit balance under the liability line item "Derivatives".

Trading option contracts are recorded in memorandum accounts at their exercise price, multiplied by the number of securities, distinguishing between options traded on the stock market from over-the-counter transactions, in order to control risk exposure.

All valuation gains or losses recognized before the option is exercised or before its expiration, are treated as unrealized and are not capitalized or distributed to stockholders until realized in cash.

– *Swaps:*

A swap contract is an agreement between two parties establishing a bilateral obligation for the exchange of a series of cash flows within a specified period and on previously determined dates.

The Financial Group recognizes in the consolidated balance sheet an asset and a liability arising from the rights and obligations of the contractual terms, valued at the present value of the future cash flows to be received or delivered according to the projection of the implicit future rates to be applied, discounting the market interest rate on the valuation date using curves provided by the price vendor, which are reviewed by the Market Risk department.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in results.

Subsequently, all derivatives other than hedging derivatives are valued at fair value, without deducting any transaction costs incurred during the sale or any other type of disposal, recognizing the valuation effect in results of the year.

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in the results of the year. If the impairment situation subsequently disappears, the impairment is reversed up to the amount of the previously recognized impaired loss, recognizing this effect in the results of the period in which this occurs.

A swap contract may be settled in kind or in cash, according to the conditions established.

For purposes of classification in the financial information, with financial derivatives instruments that incorporate rights and obligations at the same time, such as swaps, the asset and liability positions are offset contract by contract; if the offsetting results in a debit balance, the difference is presented as part of the assets, under the heading "Derivatives". If a credit balance is generated, it is presented as part of the liabilities under the heading "Derivatives" in the consolidated balance sheet.

Hedging derivatives

The Financial Group's Management enters into transactions with derivatives for hedging purposes using swaps.

Financial assets and liabilities which are designated and fulfill the requirements to be designated as hedged items, as well as financial derivatives which form part of a hedging relationship, are recognized in accordance with the hedge accounting provisions for the recognition of the gain or loss on the hedging instrument and of the hedged item, in conformity with that established in Criterion B-5, "Derivatives and hedging transactions" issued by the Commission.

A hedge relationship qualifies for designation as such when all the following conditions are fulfilled:

- Formal designation and sufficient documentation of the hedging relationship.
- The hedge should be highly effective in achieving the offsetting of the changes in fair value or in the cash flows attributable to the risk covered.
- For cash flow hedges, the forecast transaction proposed for hedging should be very likely to occur.
- The hedge should be reliably measurable.
- The hedge should be valued continuously (at least quarterly).

All the derivatives for hedging purposes are recognized as assets or liabilities (depending on the rights and/or obligations that they contain) on the consolidated balance sheet, initially at fair value, which is the price agreed in the transaction.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged and forms part of the heading "Derivatives" on the consolidated balance sheet and the accrued interest is recorded in the consolidated statements of income under the heading "Interest income" or "Interest expense".

Derivatives transactions for hedging purposes are valued at market price and the effect is recognized depending on the type of accounting hedge, as follows:

Fair value hedges - Represents a hedge against exposure to changes in the fair value of recognized assets and liabilities or of firm commitments not recognized, or a portion of both, which is attributable to a specific risk and which may affect the results for the period. The primary position for the risk hedged and the derivative hedge instrument are valued at fair value with the net effect recorded in of results of the period in the heading "Gains/losses on financial assets and liabilities". In fair value hedges, the adjustment to the book value for the valuation of the hedged item is presented in a separate heading on the consolidated balance sheets.

Fair value hedges - Represents a hedge against exposure to changes in the fair value of recognized assets and liabilities or of firm commitments not recognized, or a portion of both, which is attributable to a specific risk and which may affect the results for the period. The primary position for the risk hedged and the derivative hedge instrument are valued at fair value with the net effect recorded in of results of the period in the heading "Gains/losses on financial assets and liabilities". In fair value hedges, the adjustment to the book value for the valuation of the hedged item is presented in a separate heading on the consolidated balance sheets.

Cash flow hedge - Represents a hedge against exposure to variations in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect the result of the period. The hedged derivative instrument is valued at fair value. The effective portion of the gain or loss on the hedge instrument is recorded in the comprehensive profit and loss account as part of stockholders' equity and the ineffective portion is recorded in the results for the year as part of the "Gains/losses on financial assets and liabilities".

The effective hedge component recognized in stockholders' equity associated with the hedged item, is adjusted to equal the lower (in absolute terms) of the accumulated gain or loss on the financial hedge derivative since its inception, and the accumulated change in the present value of the future cash flows expected from the hedged item since the inception of the hedge.

Any residual gain or loss of the hedge instrument is recognized in the results for the period.

The Financial Group suspends hedge accounting when the derivative has matured, when the derivative is cancelled or exercised, when the derivative is not sufficiently effective to offset the changes in the fair value or cash flows from the hedged item, when it is established that the forecast transaction will not occur, or when it is decided that the hedge designation will be cancelled.

When fair value hedge accounting is no longer applied prospectively, any adjustment to the book value for the valuation of the hedged item attributable to the hedged risk, is amortized in the results for the period. The amortization is performed by the straight-line method over the remaining life of the item originally hedged.

When a cash flow hedge accounting is suspended, the accumulated gain or loss related to the effective portion of the hedge derivative that was recognized in the stockholders' equity as part of comprehensive income during the period of time that the hedge was effective, remains in stockholders' equity until the effects of the forecast transaction affect results. If it is no longer probable that the forecast transaction will occur, the gain or loss that was recognized in the comprehensive income account is recorded immediately in results. When the coverage of a forecast transaction is demonstrated to be effective on a prospective basis and subsequently is not highly effective, the accumulated gain or loss for the effective portion of the hedge derivative that was recognized in stockholders' equity as part of compressive income during the period that the hedge was effective, is reclassified proportionally to results, when the forecast transaction is affected in the results.

Derivative packages listed on recognized markets as a single instrument are recognized and valued collectively (i.e. without disaggregating each financial derivative individually). Derivative packages not listed on a recognized market are recognized and valued on a disaggregated basis for each derivative that comprises such packages.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the primary position hedged, as part of the heading of "Derivatives" on the consolidated balance sheet.

Embedded derivatives - An embedded derivative is a component of a hybrid (combined) financial instrument that includes a non-derivative contract (known as the host contract) in which certain cash flows vary in a manner similar to that of a standalone derivative. An embedded derivative causes certain cash flows required by the contract (or all cash flows) to be modified according to changes in a specific interest rate, the price of a financial instrument, an exchange rate, a price or rate index, a credit rating or index, or other variables allowed by applicable laws and regulations, as long as any non-financial variables are not specific to a portion of the contract. A derivative that is attached to a financial instrument but that contractually cannot be transferred independently from that instrument or that has a different counterparty, is not an embedded derivative but a separate financial instrument (i.e., in structured transactions).

An embedded derivative is separated from the host contract for purposes of valuation and to receive the accounting treatment of a derivative, only if all the following characteristics are fulfilled:

a) The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract;

b) A separate financial instrument that has the same terms of the embedded derivative would comply with the definition of a derivative, and

c) The hybrid (compound) financial instrument is not valued at fair value with changes recognized in earnings (for example, a derivative that is not embedded in a financial asset or a financial liability valued at fair value should not be separated).

The effects of the valuation of embedded derivatives are recorded under the same line item in which the host contract is recorded.

A foreign currency embedded derivative in a host contract, which is not a financial instrument, is an integral part of the agreement and therefore clearly and closely related to the host contract provided that it is not leveraged, does not contain an optional component and requires payments denominated in:

- The functional currency of one of the substantial parties to the contract;

- The currency in which the price of the related good or service that is acquired or delivered is regularly denominated for commercial transactions around the world;

- A currency which is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction is performed (i.e. a stable and liquid currency which is commonly used in local transactions, or in foreign trade transactions).

There is no established valuation of the embedded derivatives denominated in foreign currency contained in contracts when such contracts require payments in a currency commonly used to purchase or sell nonfinancial items in the economic environment in which the transaction is carried out (i.e. a stable and liquid currency commonly used in local transactions, or in foreign trade).

Loan portfolio - Represents the outstanding balance of cash disbursed to borrowers, plus the uncollected interest earned. The “Allowance for loan losses” is presented as a reduction to the balances of the portfolio

The Financial Group has classified its loan portfolio as follows:

a. *Commercial*: Direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency, investment units (UDI) or multiples of the minimum wage (VSM), together with any accrued interest, which are granted to corporations or individuals with business activities and are used in connection with commercial or corporate activity; includes loans granted to financial entities (other than interbank loans with maturities of less than 3 business days), loans arising from financial factoring, discounts and the assignment of credit rights and leasing transactions executed with such corporations or individuals; loans granted to trustees who act under the protection of trusts, and the credit schemes commonly known as “structured” in which a net worth effect allows the associated risks to schemes be individually evaluated. Also, are included loans granted to states, municipalities and their decentralized agencies as well as those assumed by the federal government or with an express federal guarantee, registered before the SHCP´s General Department of Public Credit and the Central Bank.

b. *Housing loans*: Direct loans denominated in Mexican pesos, foreign currency, UDI or VSM, and the interest they generate, granted to individuals and intended for acquisition or construction for non-profit making purposes that have guaranteed by the borrower's home. Furthermore, housing loans are considered to include those intended for remodeling or improvements of the home which are backed by the savings from the borrower's housing subaccount, or have collateral granted by a development bank or a public trust established by the Federal Government for economic development. Also, they include the loans granted for such purposes to former employees of the states and those liquid loans secured by the home of the borrower.

c. *Consumer:* Direct credits, including liquidity credits which do not have collateral from real estate property, denominated in Mexican pesos, foreign currency, UDI or VSM, and the interest they generate, granted to individuals, derived from credit card transactions, personal loans, payroll transactions (different from those granted through a credit card), loans for the acquisition of consumer durables (known as ABCD), which includes, among others automotive loans and loans for financial leases which are carried out with individuals, including those loans granted for such purposes to the former employees of the states.

Performing loan portfolio - - The Financial Group applies the following criteria to classify the loans within performing portfolio:

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

- Loans with extension of the loan payment, as well as those loans with payment of principal and overdue interest which had no classified as non-performing portfolio, and

- Restructured or renewed loans, which were previously classified as non-performing loan portfolio, which have evidence of sustained payment.

Non-performing loan portfolio - The Financial Group applies the following criteria to classify uncollected loans as non-performing:

1. 1. If the borrowers are declared bankrupt, except for those loans:

    i. For which the Financial Group continues to receive payment under the terms of section VIII of Article 43 of the Bankruptcy Law, or

    ii. That are granted under Article 75 in relation to Sections II and III of Article 224 of the above mentioned Law;

2. Loans with outstanding principal, interest or both, with the following characteristics:

    a) Loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the date of maturity.
    b) Loans with a single payment of principal at maturity and with periodic interest payments are classified as non-performing 90 calendar days after interest is due or 30 calendar days after principal is due.
    c) Loans, including housing loans, whose principal and interest payments have been agreed in periodic installments are classified as non-performing 90 calendar days after they become due.
    d) Revolving loans for which the borrower has failed to render payment on two monthly billing periods, or, if the billing period is different from monthly, are 60 or more calendar days overdue.
    e) Immediate collection documents referenced in Criterion B-1"Funds available" will be reported in the non-performing portfolio at the date of the overdraft.

These exceptions will not be mutually exclusive.

In the case of loan portfolio acquisitions, to determine the days in arrears and the respective transfer to non-performing portfolio, any defaults on the part of the borrower since origination must be taken into account.

The accrual of interest earned on the credit transactions is suspended at the time the loan is classified as non-performing portfolio, including those loans which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When this non-performing interest is collected, it is recognized in results of the year under the heading of "Interest income".

With regard to ordinary uncollected accrued interest on loans which are considered as non-performing portfolio, the Financial Group creates an allowance for the total amount of the interest at the time the loan is transferred to non-performing portfolio.

Restricted loans **-** Are considered those loans for which there are circumstances which cannot provide or make used of them, having to be submitted as restricted; for example, the loan portfolio given the transferor as security or collateral in securitization transactions.

Evidence of sustained loan payment - Payment fulfillment by the borrower without delay for the total due and payable amount of principal and interest, in relation to at least three consecutive repayments under the credit payment scheme, or, in the case of credits with repayments that cover periods longer than 60 calendar days, the payment of one repayment.

In the case of loans with a single payment of principal maturity, regardless of whether the payment of interest is periodic or at maturity, sustained payment of the loan is deemed to exist when either of the following assumptions is fulfilled:

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

b) The amount of accrued interest was covered in accordance with the restructuring or renewal payment scheme for a period of 90 days.

Restructuring processes and renewals - A restructuring process is a transaction derived from any of the following situations:

a) The extension of the guarantees covering the loan in question, or

b) The modification of the original loan conditions or payment scheme, including the following:

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

A renewal occurs when the loan balance is settled partially or totally, through an increase in the original amount of the loan, or with the product derived from another loan contracted with the same entity, to which the same borrower is party, a joint obligor of such borrower or another person who due to his property links assumes common risks.

Notwithstanding the above, a loan will not be considered as renewed for the dispositions made during the effective term of a pre-established credit line, as long as the borrower has settled the total amount of the payments which are due and payable under the original conditions of the loan.

The specific standards related to the recognition of restructurings and renewals are as follows:

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

2. Loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, which are restructured during their term or renewed at any time, will be considered as non-performing portfolio until there is evidence of sustained payment.

3. Loans granted under a line of credit, whether revolving or not, which are restructured or renewed at any time, may be kept in the performing portfolio provided that there were elements to justify the payment capacity of the borrower. Additionally, the borrower must have:

    a) Settled the total due and payable interest, and

    b) Rendered total payments required to cover the terms of the contract at the date of the restructuring or renewal.

4. In the case of dispositions made under a line of credit, when they are restructured or renewed independently from the credit line supporting them, they must be evaluated in accordance with the provisions based on the characteristics and conditions applicable to the restructured or renewed dispositions. When as a result of such analysis it is concluded that one or more of the dispositions made under a credit line should be transferred to non-performing loan portfolio due to the effect of their restructuring or renewal, and whether individually or collectively, represent at least 25% of the total balance exercised of the line of credit at the date of the restructuring or renewal, such balance, as well as subsequent dispositions, must be transferred to non-performing loan portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing loan portfolio. Also, the total dispositions made under the line of credit have complied with the due and payable obligations at the date of the transfer to performing loan portfolio.

5. Performing loans with characteristics different from those included in numerals 2 through 4 before, those which are restructured or renewed, without at least 80% of the original term, will still be considered as performing, only when:

    a) The borrower has settled the total amount of the accrued interest as the date of the renewal or restructuring, and

    b) The borrower has settled the principal of the original amount of the loan, which should have been settled at the date of the renewal or restructuring.

    Absent compliance with all the conditions described in the preceding numeral, the loan will be considered as non-performing loan portfolio since the time they are restructured or renewed until there is evidence of sustained payment, as the case may be.

6. 6. Performing loans with characteristics different from those established in numerals 2 through 4 which are restructured or renewed during the course of the final 20% of the original loan term, will be considered as performing only when the borrower has:

a) Settled the total accrued interest as of the date of the renewal or restructuring;

b) Settled the principal of the original amount of the loan, which should have been settled as of the date of the renewal or restructuring, and

c) Settled the 60% of the original amount of the loan.

Absent compliance with all the conditions described in the preceding numeral, loan will be considered as non-performing loan portfolio from the moment they are restructured until here is evidence of sustained payment.

The requirements referred to the numerals 5 and 6 of subsection above, will be considered as fulfilled when, after the accrued interest as of the last cutoff date has been settled, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half the payment period in question or 90 days.

Performing loans with partial periodic payments of principal and interest restructured or renewed on more than one time, may remain in performing loan portfolio if, in addition to the conditions established in numerals 5 or 6 above, as the case may be, the Financial Group has elements to substantiate the payment capacity of the borrower. Elements must be clearly documented and included in the loan file in the case of commercial loans.

If in a restructuring or renewal, different loans granted to the same entity to the same borrower are consolidated, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to non-performing loan portfolio as a result of such restructuring or renewal, the total balance of the consolidated loan must be transferred to non-performing loan portfolio.

The foregoing shall not applicable to those restructurings which at the transaction date submit payment for the total amount of the principal and interests and only modify one or more of the following original loan conditions:

- Guarantees: only when they involve the extension or substitution of guarantees by others of better quality.

- Interest rate: when the interest rate to the borrower is improved.

- Currency or unit of account: Provided that the exchange rate corresponding to the new currency or unit of account is applied.

- Payment date: Only in the case that the exchange rate does not imply to exceed or modify the periodicity of the payments. In no case shall the change of the payment date must allow the omission of payment in any period.

Write-offs, eliminations and recoveries of credit portfolio - The Financial Group periodically evaluates whether a non-performing loan should remain on the balance sheet or be written off. Such write-offs are made by cancelling the unpaid balance of the loan against the allowance for loan losses. When the loan to be written off exceeds the balance of its related allowance, before completing such write-off the allowance is increased up to the amount of the difference.

Any recovery derived from loans already written off or eliminated is recognized in results of the year under allowance for loan losses.

Classification of leasing transactions - Leases are recognized as finance leases if the contract implies a transfer of the risks and benefits from the lessor to the lessee; otherwise, they are considered operating leases. In this regard, a transfer of risks and benefits takes place if, at the starting date of the lease, any of the assumptions described below is fulfilled:

- The lease agreement transfers ownership of the leased good to the lessee at the end of the lease term.
- The lease agreement contains a purchase option at a reduced price.
- The lease term is substantially the same as the remaining useful life of the leased asset.
- The present value of the minimum payments is substantially the same as the market value of the leased asset or scrap value which the lessor may keep for itself.
- The lessee may cancel the lease agreement and the losses associated with the cancellation will be covered by the latter.
- The profits or losses derived from fluctuations in the residual value accrue to the lessee, or
- The lessee may extend the lease for a second term with a rental substantially lower than market value.

For the application of the above-mentioned requirements it is understood that:

- The lease term is substantially the same as the remaining useful life of the leased asset, if the lease agreement covers at least 75% of such useful life.
- The present value of the minimum payments is substantially the same as the market value of the leased asset, if it constitutes at least 90% of the value of the asset.
- The minimum payments consist of those payments which the lessee is required to make or may be required to make in relation to the property leased, plus the guarantee of a third party not related to the Financial Group, of the residual value or rental payments beyond the term of the lease agreement.

The classification of the leases based on the aforementioned policies presents differences, both in the legal form in which the transactions are contracted, and in the criteria of their classification for tax purposes. This situation generates effects in the recognition of the allowance for loan losses and of deferred taxes.

Finance lease transactions are recorded as direct financing, considering the total rentals agreed in the respective contracts as loan portfolio. The financial revenue from these operations is equivalent to the difference between the value of the rentals and the cost of the leased assets, which is recorded in results as it is accrued. The reduced-price purchase option of the finance lease agreements is recognized as revenue on the date that it is collected or as amortizable revenue during the remaining term of the lease, at the time that the lessee undertakes to exercise such option. For purposes of presentation, the balance of the portfolio refers to the unpaid balance of the loan granted, plus the uncollected accrued interest.

During the effective term of the contract the Financial Group recognizes interest income as it is accrued, cancelling the deferred credit already recognized (financial charge). When the loan portfolio is considered non-performing the recognition of interest is suspended.

The rentals agreed in the operating leases are recognized as they are accrued. The costs and expenses associated with granting the lease are recognized as a deferred charge, which is amortized in results within the financial margin, as the rental income from the respective contracts is recognized.

Allowance for loan losses - The Financial Group creates the allowance for loan losses based on the portfolio classification rules established in the General Provisions Applicable to Credit Institutions issued by the Commission, which establish methodologies for the recognition and measurement of reserves based as follows:

- *Commercial loans portfolio*

The Financial Group rates commercial loan portfolio considering the Probability of Default (PI), Loss Severity (SP) and Exposure at Default (EIi) and classifies the aforementioned commercial loan portfolio into different groups and provides different variables for estimating the PI.

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

$$R_i = PI_i \, x \, SP_i \, x \, EI_i$$

Where:

Ri = Amount of reserves to be created for the nth loan.
PIi = Probability of default of the nth loan
SPi = Severity of loss of the nth loan
EIi = Exposure to default of the nth loan.

Default Exposure (EI) is the balance of revocable credit lines plus the unused portion of irrevocable credit lines. The Probability of Default (PI) is the probability of customer default, which considers quantitative and qualitative information, the Financial Group classifies the commercial loan portfolio in groups to calculate the PI The Loss Severity (SP) is the percentage of the EI that would be lost in the event of loan default and depending on the loan enhancements and portfolio type.

The parameter EI, should calculated each month, the PIi; and the SPi at least each quarter.

a) *The probability of default*

It is calculated using the following formula:

$$PI_i = \frac{1}{1+e^{-(500-\textit{Total Credit Score}_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the above:

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

Total Credit Score$_i$ = a x (Quantitative CreditScore) + (1- a) x (QualitativeCredit Score$_i$)

Where:

Quantitative Credit Score i = Is the score obtained for the nth borrower when evaluating the risk factors.

Qualitative Credit Score i = Is the score obtained for the nth borrower when evaluating the risk factors.

a = Is the relative weight of the quantitative credit score.

Unsecured loans

The SP for commercial loan portfolio and which lack actual or personal guarantees and those derived from the loan itself will be:

a) 45% for Preferred Positions.

b) 75% to syndicated loans, in those contractually subordinated to those of other creditors for payment prioritization purposes.

c) 100% for loans with payments that are 18 months or more past-due based on the settlement terms under the original agreed terms.

The Financial Group may recognize mortgage collateral, personal guarantees, and credit derivatives in the estimation of the Severity of the Loss on the loans for the purpose of decreasing the loan reserves originated by the loan portfolio rating. In any case, it may elect to not recognize the guarantees if they result in larger loan reserves. For such purpose, the Accounting Criteria established by the Commission are applied.

b) Default exposure -

The EI of each loan is determined by considering the following factors:

I. Uncommitted credit lines that can be unconditionally canceled or automatically cancelled at any time and without prior notice.

$$EI_i = S_i$$

II. For other lines of credit:

Where:

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

Si: The unpaid balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as debt reductions, forgiveness, rebates and discounts granted. In any case, the amount subject to be classification must not include uncollected accrued interest recognized in memoranda accounts on the balance sheet for loans classified in non-performing portfolio.

In any situation, the amount subject to classification shall not include the uncollected accrued interest recognized in memorandum accounts corresponding to non-performing portfolio.

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

The allowance for loan losses of commercial loan portfolio of a Multiple Purpose Financial Entity, in which the institutions held less than 99% of their capital stock, is calculated by multiplying the exposure to default by 0.5% in accordance to the Provisions.

Loans granted under the terms of the Bankruptcy Law (BL)

In the case of loans granted under the terms of section II of Article 224 of the BL, the Severity of the Loss is subject to the following treatment:

$$SP_i = Max\ (Min\ \left(1 - \frac{Credit\ Enhancements + Adjusted\ net\ Worth}{Si}, 45\%\right), 5\%\ )$$

Where:

Credit Enhancements = The credit enhancements provided pursuant to Article 75 of the BL by applying, as the case may be, the required adjustment factors or discount percentages based on each type of admissible enhancement.

Adjusted Net Worth = Net Worth, as defined by the BL, after deducting the amount of the obligations referred to by section I of Article 224 of the BL and applying a 40% discount to the resulting amount.

Si = the outstanding balance of loans granted under the terms of section II of Article 224 of the BL as the classification date.

In the case of loans granted under the terms of section III of Article 224 of the BL, the Severity of the Loss is subject to the following treatment:

$$SP_i = Max\ (Min\ \left(1 - \frac{Adjusted\ Net\ Worth}{Si}, 45\%\right), 5\%\ )$$

Where:

Adjusted Net Worth = Net Worth, as defined by the BL, by deducting the amount of the obligations referred to by sections I and II of Article 224 of that Law and applying a 40% discount rate to the resulting amount.

Si = the outstanding balance of loans granted under the terms of section III of Article 224 of the BL at the rating date

Credit portfolio of states and municipalities

When classifying the credit portfolio of states and municipalities, the Financial Group considers the PI, SP and EI, while also classifying the aforementioned portfolio of States and municipalities into different groups and establishing different variables for the estimate of the Probability of Default of the commercial portfolio, in relation to credits granted to states and municipalities.

The allowance for loan losses of each credit will be the result of applying the following expression:

$$R_i = PI_i\, x\, SP_i\, x\, EI_i$$

Where:

Ri = Amount of reserves to be created for the nth loan.
PIi = Probability of default on the nth loan.
SPi = Severity of loss of the nth loan.
EIi = Exposure to default of the nth credit.

The PI of each loan, is calculated using the following formula :

$$PI_i = \frac{1}{1+e^{-(500-\mathit{Total\ Credit\ Score}_i)\times\frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PIi, the total credit score of each borrower is calculated by using the following expression:

$$\mathit{Total\ Credit\ Score} = a\text{x}(\text{PCCt}) + (1\text{-}a)\ \text{PCCl}$$

Where:

PCCt = Quantitative Credit Score = IA+ IB + IC

PPCl = Qualitative Credit Score = IIA + IIB

a = 80%

IA = *Risk Factor Payment experience* - Average number of days in arrears with banks (IFB) + percentage of timely payments with IFB + percentage of timely payments with non-bank financial institutions.

IB = *Risk Factor Evaluation of Ratings Agencies* - Number of recognized ratings agencies in accordance with the provisions which provide a rating to the state or municipality.

IC = *Risk Factor Financial* - Total debt to eligible participations + debt service to total adjusted revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.

IIA = *Risk Factor Socioeconomic* - Local unemployment rate + presence of financial services of regulated entities.

IIB = *Risk Factor Financial strength* - Contingent obligations derived from retirement benefits to total adjusted revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + soundness and flexibility of the regulatory and banking framework for the approval and execution of the budget + soundness and flexibility of the regulatory and banking framework for the approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the securities market.

Unsecured loans

The SP on the credits granted to states or municipalities which have no real, personal or credit-based collateral will be:

a) 45%, Preferred Positions.

b) 100%, para Posiciones Subordinadas o cuando el crédito reporte 18 o más meses de atraso en el pago del monto exigible en los términos pactados originalmente.

The EI will be determined based on the following:

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

Where:

Si = The unpaid balance of the nth credit at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reductions, amounts forgiven, rebates and discounts granted. In every case, the amount subject to the rating must not include the uncollected accrued interest, recognized in memorandum accounts within the consolidated balance sheet of loans in non-performing portfolio.

Línea de Crédito Autorizada = Monto máximo autorizado de la línea de crédito a la fecha de calificación.

Authorized Lined of Credit = The maximum authorized amount of the line of loan at the classification date.

The Financial Group may recognize mortgage collateral, personal guarantees and credit derivatives in the estimation of the SP on the loans, for the purpose of decreasing the loan reserves originated by the loan portfolio rating. For such purpose, the Provisions established by the Commission are applied.

Eligible real collateral may be financial and non-financial. Furthermore, only the real collateral which complies with the requirements established by the Commission will be recognize.

Housing loan portfolio:

The Financial Group, when classifying the housing mortgage loan portfolio, considers the type of loan, the estimated PI of the borrowers, the SP associated with the value and nature of the loan's collateral and the EI.

Furthermore, the Financial Group rates, calculates and records the allowance for loan losses on the housing mortgage loan portfolio as follows:

Due and Payable Amount - Amount which the borrower is obligated to pay in the agreed billing period, without considering any previous due and payable amounts that were not paid.

If the billing is semi-monthly or weekly, the due and payable amounts of the two semi-monthly payments or four weekly payments in the month, respectively, must combined so that the due and payable amount reflects a monthly billing period.

The discounts and rebates may reduce the due and payable amount only when the borrower complies with the conditions required in the loan contract for such purpose.

Payment Made - Includes total payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the loan or group of loans are not considered as payments. If the billing is semi-monthly or weekly, the two semi-monthly payments or four weeks of a month, respectively, must be combined so that the payment made reflects one full monthly billing period.

The variable "payment made" must be greater than or equal to zero.

Value of the Home Vi - The value of the home at the time of the loan origination, restated in accordance with the following:

I. For loans with an origination date prior to January 1, 2000, in two stages:

a) First stage, based on the General Minimum Wage (SMG)

$$\text{Value of Home 1st Stage} = \frac{SMG_{\ 31/DIC/1999}}{SMG_{\text{ in the month of the origination}}} \text{ x Value of Home at Origination}$$

Where:

The value of the home on the origination date reflects the home value ascertained through an appraisal at the time the loan was originated.

b) Segunda etapa, mediante el Índice Nacional de Precios al Consumidor ("INPC") mensual.

$$\text{Value of Home} = \frac{INPC_{\text{ month of classification}}}{INPC_{\text{ Jan 1, 2000}}} \text{ x Value of Home 1st Stage}$$

II. Para créditos con fecha de originación a partir del 1 de enero de 2000 conforme al inciso b) del numeral I anterior.

$$\text{Value of Home} = \text{Value of Home} = \frac{INPC_{\text{ month of classification}}}{INPC_{\text{month of origination}}} \text{ x Value of Home at Origination}$$

In any case, the home value at the time of the origination may be restated based on a formal appraisal.

Loan Balance Si - The unpaid balance at the classification date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less any insurance payments which were financed, collections of principal and interest, as well as reductions, amounts forgiven, rebates and discounts granted, as the case may be.

The total amount of the allowance for loan losses to be established by the Financial Group will be equal to the allowance for loan losses on each loan, as follows:

$$R_i = PI_i \, x \, SP_i \, x \, EI_i$$

Where:

Ri = Amount of reserves to be created for the nth lons.
PI_i = Probability of default on the nth loan.
SPi = Severity of the loss on the nth loan.
EIi = Exposure to default on the nth loan.

In any case, the amount subject to the classification must not include uncollected accrued interest recorded on the consolidated balance sheet, of loans classified within non-performing portfolio.

Consumer loan portfolio

The Financial Group classifies the non-revolving consumer portfolio in accordance with the Provisions as follows:

- ABCD (B): Personal loans destined for the acquisition of durable consumer goods, with the exception of loans whose destination is the acquisition of private automotive vehicles.

- Auto (A): Personal loans destined for the acquisition of private automotive vehicles.

- Payroll (N): Liquidity loans granted by the Financial Group where the payroll account of the borrower is managed and which are collected through said account.

- Personnel (P): Loans that are collected by the Financial Group by any means of payment other than the payroll account, as well as loans with a billing period other than weekly or biweekly, which are granted to groups of people in which each member is jointly and severally liable for the total payment of the loan, even though the credit rating is made individually for each member of the Financial Group.

- Other (O): Any other non-revolving consumer loan, different from the ABCD, Auto, Payroll or Personal categories.

The total amount of the allowance for loan losses corresponding to the non-revolving consumer portfolio will be equal to the allowance for loan losses for each loan, in accordance with the following:

$$R_i = PI_i \, x \, SP_i \, x \, EI_i$$

Where:

R_i = Amount of reserves to be constituted for the nth loan.
PI_i^x = Probability of default of the nth loan, classified as "B, A, N, P or O", respectively.
SP_i^x = Severity of the loss of the nth loan, classified as "B, A, N, P or O", respectively
EI_i = Exposure to default of the ith loan
X = Superscript indicating whether the type of loan corresponds to ABCD (B), auto (A), payroll (N), personal (P) or other (O)..

The total amount of the allowance for loan losses to be constituted by the Financial Group for this portfolio will be equal to the sum of the allowance of each loan.

The consumer loan portfolio related to credit card operations

The allowance for credit card losses is calculated by considering a loan by loan base, using the figures for the last period of known payment and taking into account factors such as: i) balance payable, ii) payment made, iii) credit limit, iv) minimum payment required, v) nonpayment vi) amount payable to the Financial Group, vii) amount payable reported in the credit information agencies, as well as viii) seniority of the borrower in the Financial Group.

- *Provisioning and classification by degree of risk*

The total amount of the allowance for loan losses to be created by the Financial Group for the loan portfolio is equal to the sum of the reserves for each loan.

Allowance for loan losses that should be create for loan portfolio are calculated based on the general methodology, should be classified according to risk levels A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E in accordance with the following table:

	Consumer		Commercial
	Non- revolving	**Other revolving loans**	
A-1	0 to 2.0	0 to 3.0	0 to 0.9
A-2	2.01 to 3.0	3.01 to 5.0	3.01 to 1.5
B-1	3.01 to 4.0	5.01 to 6.5	1.501 to 2.0
B-2	4.01 to 5.0	6.51 to 8.0	2.001 to 2.50
B-3	5.01 to 6.0	8.01 to 10.0	2.501 to 5.0
C-1	6.01 to 8.0	10.01 to 15.0	5.001 to 10.0
C-2	8.01 to 15.0	15.01 to 35	10.001 to 15.5
D	15.01 to 35.0	35.01 to 75.0	15.501 to 45.0
E	35.01 to 100	Greater than 75.01	Greater than 45.0

Other receivables, net - These items primarily represent receivable or payable amounts derived from the purchase-sale of currency in which immediate settlement was not agreed (value date exchange transactions). These transactions are recorded on the day they are agreed and settled within periods of 24, 48, 72 or 96 hours.

The Financial Group has a policy of reserving in the results those receivable accounts identified and not identified within 90 days and 60 days after the initial recognition, respectively.

Income is recorded on an accrual basis and the accumulation of accrued income is maintained at the moment in which the debit for the current 90 or more calendar days of non-payment.

Premiums receivable - Uncollected premiums represent the balances of premiums which are aged less than the term agreed or 45 days, according to the provisions of the Commission. When they exceed the aforementioned aging, they are cancelled against results of the year, except when involving premiums receivable from agencies or entities of the Federal Public Administration, which are reclassified to "Debts payable by agencies or entities of the Federal Public Administration"; if they are backed by a national public tender covered by such entities which, for purposes of the tender, have signed an agreement with the Executive Branch which are supported in the Federal Spending Budget for the fiscal year in question.

Reinsurer and reinsurance receivable- The Financial Group has reinsurance accounts receivable and receivable balances due from reinsurers. The placement of businesses and their recovery is usually through intermediaries. Reinsurers have the obligation to reimburse the Group for the claims paid based on their participation.

Foreclosed assets, net - Foreclosed assets are recorded at the lower of cost or fair value less direct and incremental costs and expenses incurred in the foreclosure process. In the case of foreclosures, the cost is the amount established for purposes of the foreclosure, whereas for accord and satisfaction, it is the price negotiated between the parties.

The Financial Group creates allowances on the book value of these assets based on percentages established by the Commission, by type of property (movable or real property) and based on the time elapsed as of the date of the foreclosure or accord and satisfaction.

The Financial Group records additional provisions on a quarterly basis on foreclosed judicial and extrajudicial assets or assets received as payment in kind, whether movable or real property, and the collection rights and investment in securities according to the following procedure:

I. For collection rights and property, the amount of reserves to be created will be the result of applying the reserve percentage shown in the table below, the value of the collection rights or the value of property obtained in accordance with the Commission's Accounting Criteria.

Reserves for collection rights and property	
Time elapsed since collection or payment in kind (months)	**Reserve percentage**
Up to 6	0%
More than 6 up to 12	10%
More than 12 up to 18	20%
More than 18 up to 24	45%
More than 24 up to 30	60%
More than 30	100%

II. For investment in securities, the must be valued as set forth in Criterion B-2 "Investment in securities" of the Commission's Accounting Criteria, with annual audited financial statements and monthly reports.

After the foreclosure or payment in kind have been valued, the reserves shall be determined using the percentages in the table contained in section I Article 132 of the Provisions, considering estimated values determined in accordance with the preceding paragraph.

III. For real estate assets, the amount of reserves to be created will be the result of applying the reserve percentage in the table below and the value of the foreclosed property calculated in accordance with the Accounting Criteria.

Reserve for real estate assets	
Time elapsed since collection or payment in kind (months)	**Reserve percentage**
Up to 12	0%
More than 12 up to 24	10%
More than 24 up to 30	15%
More than 30 up to 36	25%
More than 36 up to 42	30%
More than 42 up to 48	35%
More than 48 up to 54	40%
More than 54 up to 60	50%
More than 60	100%

If valuations carried out subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of collection rights, securities or real estate assets, the loss reserve percentages referred to this Article 132 of the Provisions may be applied to the adjusted value.

Property, furniture and fixtures, net - Property, installations expenses and leasehold improvements are recorded at acquisition cost. The assets currently on hand that were acquired prior to December 31, 2007 were adjusted for inflation by applying factors derived from the UDI from the date of acquisition up to such date. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful lives, applying the rates indicated below::

	Rate
Buildings	5%
Computer equipment	30%
Furniture and equipment	10%
Vehicles	25%
Machinery and equipment	30%

Maintenance expenses and repairs are recorded in the consolidated statement of income as incurred.

In the case of fixed assets subject to operating leases, depreciation is calculated on the restated value, less residual value, using the straight-line method over the term established in the respective contracts.

Long-term investment in shares - Permanent investments in entities in which significant influence is exercised, are recognized initially based on the net fair value of the identifiable assets and liabilities of the entity at the acquisition date.

i. Ii. Venture capital investments (companies promoted by a mutual fund) - At the time of their acquisition, investments in shares of companies promoted by a mutual fund are recognized for the total amount of resources paid.

In accordance the Accounting Criteria, acquisitions of shares in promoted companies are considered permanent investments, whether or not in control of them. Under NIF, these investments are considered as risk capital investments and are stated at fair value.

The value of investments in shares of companies promoted by a mutual fund is restated every quarter by the equity method, which consists of recognizing the Financial Group's participation in the results for the year and other stockholders´ equity accounts reported in the consolidated financial statements of such promoted companies, and is recorded in results for the year under "Equity in income of unconsolidated subsidiaries and associates", and in stockholders' equity, under "Result from holding non-monetary assets", respectively.

At December 31, 2019 and 2018, the valuations of promoted companies are based on the latter of the consolidated financial statements of the promoted companies used in the valuation of the investments are as of September 30, 2019 and 2018, respectively, or the date of the investment.

The gain or loss obtained on the sale of shares of such promoted companies is recorded on the date that the transaction is performed

ii. *Associates and other investments. -* Investments in associates and other permanent investments are recorded initially at acquisition cost and are subsequently valued under the equity method, on which basis the equity in results and in stockholders' equity is recognized.

Other assets - Software, system developments and intangible assets are recorded originally at the face value disbursed.

The amortization of software, informatics developments and intangible assets with defined lives is calculated by using the straight line method over their estimated useful lives.

The "Other assets" heading is used to record securities investments forming part of the fund used to cover obligations derived from the pension plan and seniority premiums of employees whose contracts are held by a trust administered by the Financial Group.

The securities investments required to cover the pension plan and seniority premium are recorded at their market value.

Goodwill - Represents the excess of the purchase price paid over the fair value of the net assets of the entity acquired on the acquisition date, which is not amortized and is subject to impairment tests at least once a year.

Intangible assets acquired - The intangible assets resulting from the acquisition of the businesses, for the period of 2015 and performed by Banco Brasil and HF Wal-Mart, S.A. de C.V., are recognized in the consolidated balance sheet. The valuation of the intangible asset is in accordance with NIF C-8 "Intangible Assets".

Impairment of long-lived assets in use - The Financial Group reviews the book value of long-lived assets in use for impairment when there are indicators that the net carrying amounts of the assets may not be recoverable. The impairment is recorded to the extent that the book value of the asset exceeds the recoverable amount, which is defined as the higher of the present value of net future cash flows or the estimated sales price. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period which, if combined with a history or projection of losses, depreciation and amortization charged to results as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors. The loss from impairment in value of long-lived assets in use, as well as its reversal, are presented in the statement of income in the line items of costs and expenses in which the respective depreciation or amortization is recognized for such assets. Losses from impairment cannot under any circumstance be presented as part of the expenses that were capitalized in the value of an asset.

As of December 31, 2019 and 2018, the Financial Group has not identified impairment of long-lived assets.

Deposits - Liabilities from deposits through demand deposits and time deposits, as well as interbank loans and from other agencies, are recorded by taking the contractual value of the obligation as their base. Interest payable is recognized in results, within the financial margin, as it is accrued, based on the interest rate agreed.

The securities included in deposits which form part of direct bank deposits, are classified and recorded as follows:

- Securities offered at face value; are recorded based on the contractual value of the obligation, recognizing the accrued interest directly in results.

- Securities offered at a price different from face value (with a premium or a discount); are recorded based on the contractual value of the obligation, recognizing a deferred charge or credit for the difference between the face value of the security and the amount of cash received for it, which is amortized by the straight-line method over the term of the security.

- Securities which are offered at a discount and do not accrue interest (zero coupon); are valued at the time of issue, taking the amount of cash received as their basis. The difference between the face value and the aforementioned amount is considered as interest, and should be recognized in results based on the effective interest method.

Term deposits, placed through promissory notes with realizable returns at maturity (PRLV), deposits that can be withdrawn on pre-established days and bank deposit certificates (CEDES), are offered at face value. The promissory notes issued in the interbank market are offered at a discount.

Commissions paid on the loans received by the Financial Group are recorded in results for the year, under the heading Commissions and fee expense, on the date they are generated.

Issuance costs, as well as the discount or premium on the debt offering, are recorded as a deferred charge or credit, as the case may be, and are recognized in results for the year as interest expense or income, if applicable, as and when accrued, taking into account the term of the underlying securities.

The placement premium or discount is presented as part of the underlying liability, whereas the deferred charge for the issue expenses are presented in the heading "Other assets".

Technical reserves - By express provision of the CNSF, all technical reserves must be audited annually by independent actuaries within the first 60 days following the close of the year. On February 28, 2020 and 2019, the independent actuaries issued their report, indicating that in their opinion, the reserves for unearned premiums, unfulfilled obligations and catastrophic risks as of December 31, 2019 and 2018, respectively, were determined in accordance with legal provisions and the rules, criteria and practices established and sanctioned by the Commission.

Technical reserves are created under the terms established by the LISF, and the provisions issued by the Commission. For purposes of valuing technical reserves, the Financial Group used the valuation methods and assumptions established in its technical notes, as well as the provisions contained in chapters 5.1, 5.2, 5.3, 5.4 and 5.5 of the CUSF.

Provisions – Liability provisions are recognized when there is a present obligation (legal or assumed) as a result of a past event, it is probable the outflow of economic resources as a required to settle the obligation and the obligation can be reasonably estimated.

Employee benefits - Employee benefits are those granted to personnel and/or their beneficiaries in exchange for the services rendered by the employee, which include all kinds of remuneration earned, as follows:

i. Direct employee benefits - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly commissions, bonus and other incentives. .

ii. Post-employment benefits - Liabilities for seniority premiums, pensions and severance for voluntary or involuntary termination benefits are recorded as accrued, and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates

iii. Employee benefits from termination - - The benefits for termination of the employment relationship which do not generate assumed obligations are recorded at the time that: a) the entity no longer has any real alternative other than to fulfill the payments of such benefits or cannot withdraw an offer or b) the entity fulfills the conditions established for a restructuring.

iv. Statutory employee profit sharing (PTU) - PTU is recorded in the results of the year in which it is incurred. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

Bank and other loans - Direct short and long-term loans received from Mexican banks are recorded under this heading, together with loans obtained from development banks. Interest is recognized in results when accrued.

Obligations arising from settlement of transactions - Represent amounts payable for currency purchase-sale transactions in which no immediate settlement is agreed, (foreign exchange trading value date). They are recorded on the day they are negotiated and settled within 24, 48, 72 or 96 hours.

Assets and liabilities in Investment Units (UDI) - Assets and liabilities denominated in UDI are presented in the consolidated balance sheets at the Mexican peso value of the UDI at the date of issuance of the consolidated financial statements. As of December 31, 2019 and 2018, the value of the UDI (Mexican pesos) was $6.399018 and $6.226631, respectively. The value of the UDI at the date of issuance of these consolidated financial statements is $6.484339.

Income taxes - Income tax (ISR) is recorded in results of the year in which incurred. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a highly probability of recovery.

Financial Group's Management records a reserve for certain deferred tax assets to recognize only the deferred tax asset for which there is a high probability of recovery over a short-term period, considering for this treatment the amount generated by the tax credit for un-deducted allowances for loan losses expected to reverse in accordance with the financial and tax projections prepared by Management, therefore, the effect of such tax credit is not fully recorded. The deferred tax is recorded either to results or stockholders' equity, depending on the classification of the item originating the deferred tax.

Financial margin - The financial margin of the Financial Group is composed of the difference between total interest incomes less interest expense.

Interest income is composed of the yields generated by the loan portfolio, based on the terms established in the contracts executed with the borrowers, the negotiated interest rates, the application of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, repurchase agreements and securities loans, as well as debt placement premiums, commissions charged on initial loan grants, and net equity instrument dividends.

Penalty interest related to overdue portfolio is recorded in results at the time of collection, with its accrual controlled in memorandum accounts. Yields on interest related to financial instruments are applied to results on an accrual basis.

Interest expense is composed of premiums, discounts and interest on deposits in the Financial Group, bank loans, repurchase agreements and securities loans, and subordinated obligations, as well as debt placement discount and issuance expenses. The amortization of costs and expenses incurred the origination of the loan is also included under interest expense.

Commissions collected and related costs and expenses – The commissions collected for the initial granting of the loans are recorded as deferred credit under "Deferred charges and income received in advance" in consolidated balance sheets, which is amortized against results of the year under "Interest income", using the straight line method over the loan term, except for those related to revolving loans, which are amortized over a 12-month period.

The commissions collected for loan restructurings or renewals are added to any commissions recorded at loan origination, and are recognized as a deferred credit which is amortized in results using the straight line method over the new term of the loan.

Any commissions recognized after the initial granting of the loans are those incurred as part of the maintenance of such loans, or those collected on loans which were not placed and are recognized in results at the time they are incurred or earned.

Commissions collected for credit card annual fees, whether the first or subsequent renewal fees, are recognized as deferred revenues under "Deferred charges and income received in advance", and are amortized over a 12-month period against results under "Commission and fee income".

Incremental costs and expenses associated with the initial granting of the loan are recognized as a deferred charge, which are amortized to results as "Interest expense" during the same accounting period in which the revenues from collected commissions are recognized.

Any other costs or expenses, including those described above, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other secondary activities related to the establishment and monitoring of loan policies is recognized directly in results of the year as it is accrued and classified in accordance with the nature of the cost or expense.

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

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

Gains/losses on financial assets and liabilities - This mainly refers to the result from valuation at fair value of securities, credit instruments to be received or delivered in repurchase agreements and derivatives trading transactions, as well as the result from the purchase and sale of securities, financial derivatives and foreign exchange.

Earnings per share - Basic earnings per share is calculated by dividing the net income attributable to controlling interest from continuing operations by the weighted average number of shares outstanding in each period, thus giving a retroactive effect to shares issued due to the capitalization of additional paid-in capital or retained earnings.

Information by segments - The Financial Group has identified the operating segments for its different activities by considering each one as a component of its internal structure with specific yield, risks and opportunities. These components are reviewed regularly in order to make decision about allocating monetary resources to the segments and assessing their performance.

Consolidated statement of cash flows - The consolidated statement of cash flows presents the Financial Group's capacity to generate cash and cash equivalents (Funds available), as well as the way in which the Financial Group uses such cash flows to meet its needs. The preparation of the consolidated statement of cash flows is under the indirect method, based on the net result of the period, in conformity with that established in Criterion D-4, "Statement of Cash Flows", issued by the Commission.

The cash flows together with the rest of the financial statements, provides information that allows:

- Analysis of changes in the assets and liabilities of the Financial Group and in its financial structure.

- Analysis of the amounts and dates of collection and payments to adapt to circumstances and the opportunities for generate and/or apply cash and cash equivalents.

Memorandum accounts - Memorandum accounts are used to record assets or commitments which do not form part of the Financial Group's consolidated balance sheets because the respective rights are not acquired or such commitments are not recognized as a liability until such eventualities materialize, respectively.

- *Customer banks and securities held in custody:*

Customer's cash and securities held in custody, guaranteed and managed by Financial Group are recognized at their fair value in memorandum accounts and represent the maximum amount for which the Financial Group is liable as regards its customers based on future events.

a. Cash is deposited with credit institutions in checking accounts other than those registered in the name of the Financial Group, the checking accounts are destined only to manage the cash of the costumers of the Financial Group.
b. Securities held in custody and administration are deposited in S.D. Indeval, S.A. de C.V. (S.D. Indeval).

The Financial Group records transactions performed in customers' names when each transaction is agreed, regardless of its settlement date.

- *Contingent assets and liabilities:*

Different management trusts are kept to separate accounts for assets received. Mandates include the declared value of the assets subject to mandate contracts entered into by the Financial Group. In the mandate is recorder the declared value of the assets established by the mandate contracts celebrated by the Financial Group.

- *Assets in trust or mandate (unaudited):*

Se registra el valor de los bienes recibidos en fideicomiso, llevándose en registros independientes los datos relacionados con la administración de cada uno. En el mandato se registra el valor declarado de los bienes objeto de los contratos de mandato celebrados por el Grupo Financiero.

- *Collateral received by the Financial Group*

The balance is composed of all collateral received in repurchase transactions in which the Financial Group is the buying party.

- *Collateral received and sold or pledged as guarantee by the Financial Group:*

The balance is composed of all collateral received in repurchase agreements in which the Financial Group acts as the purchasing party, which in turn was sold by the Financial Group when it acted as the selling party.

- *Custody and management assets (unaudited):*

This account is used to record the movement of assets and securities of third parties which are received in custody, or to be administered by the Financial Group.

- *Loan commitments:*

This item represents the amount of letters of credit granted by the Financial Group which are considered irrevocable commercial loans. It includes the unused lines granted to clients. The items recorded in this account are subject to classification.

- *Uncollected interest earned on non-performing loan portfolio:*

Represents the uncollected accrued interests of non-performing loan portfolio, as well as the uncollected accrued financial revenues.

– *Other memorandum accounts (unaudited):*

This account is used to record the control maturity of the portfolio, control of maturity of liabilities, the classification of the portfolio by degree of risk, inflationary component and control of notional derivatives.

4. Consolidation of subsidiaries

As of December 31, 2019 and 2018, the Financial Group's equity percentage is as follows:

	Shareholding %	
	2019	**2018**
Asesoría Especializada Inburnet, S.A. de C.V.	99.9993%	99.9993%
Banco Inbursa, S.A. Institución de Banca Múltiple, Grupo Financiero Inbursa	99.9996%	99.9996%
Inbursa Seguros de Caución y Fianzas, S.A., Grupo Financiero Inbursa	90.5767%	90.5767%
Inversora Bursátil, S.A. de C.V., Casa de Bolsa, Grupo Financiero Inbursa	99.9956%	99.9956%
Pensiones Inbursa, S.A., Grupo Financiero Inbursa	99.9999%	99.9999%
Operadora Inbursa de Fondos de Inversión, S.A. de C.V.	99.9985%	99.9985%
Out Sourcing Inburnet, S.A. de C.V.	99.9999%	99.9980%
Seguros Inbursa, S.A., Grupo Financiero Inbursa	99.9999%	99.9999%
SAI Inbursa, S.A. de C.V.	-	99.9980%
SP Inbursa, S.A. de C.V.	-	99.9990%

5. Foreign currency position

As of December 31, the significant foreign currency position in US dollars is comprised as follows:

	2019	**2018**
Millions of US dollars		
Assets	7,387	10,046
Liabilities	(6,508)	(9,301)
Asset (liability) position, net	879	745
Exchange rate (Mexican pesos)	$ 18.8642	$ 19.6512
Total Mexican pesos	$ 16,579	$ 14,640

As of December 31, 2019 and 2018, the Fix (48-hour) exchange rate submitted by the Central Bank and used was $18.8642 and $19.6512 per US dollar, respectively.

On March 19, 2019, the foreign currency position (unaudited), is similar to the position as of the end of 2019, the foreign exchange Fix at this date is $24.0868 per US dollar.

The Central Bank sets the ceilings for foreign currency liabilities and the liquidity ratio that the Financial Group obtains directly or through its foreign agencies, branches or affiliates, which must be determined daily for such liabilities to enable the Financial Group to structure their contingency plans and promote longer term funding within a reasonable time frame.

The Financial Group performs a large number of foreign currency transactions, mainly in US dollar and Euro, among others. Given that the parities of their currencies against the Mexican peso are linked to the US dollar, the overall foreign currency position is consolidated into US dollars at each month-end closing.

6. Funds available

As of December 31, funds available were as follows:

	2019			2018
	Mexican pesos	Foreign currency	Total	Total
Cash	$ 1,936	$ 39	$ 1,975	$ 2,080
Deposits in banks	6,628	809	7,437	7,126
Other funds available	23	8	31	23
Deposits in Central Bank (a)		290	290	111
Foreign currency sale from 24 to 96 hours (b)	-	(1,544)	(1,544)	(4,722)
	8,587	(398)	8,189	4,618
Restricted funds available:				
Deposits in Central Bank (a)	12,753	-	12,753	8,633
Foreign currency purchase from 24 to 96 hours (b)	-	8,691	8,691	18,855
	12,753	8,691	21,444	27,488
	$ 21,340	$ 8,293	$ 29,633	$ 32,106

a. Deposits in Central Bank- As of December 31, deposits in Central Bank were as follows:

	2019	2018
Special accounts [1]		
Regulatory monetary deposits [2]	$ 12,744	$ 8,623
Accrued interest	9	10
Current accounts:		
Deposits in US dollars	290	111
	$ 13,043	$ 8,744

(1) The Central Bank requires credit institutions to constitute regulatory monetary deposits, which are established according to demand deposits in Mexican pesos. The term of these regulatory monetary deposits is indefinite, and accrued interest on these deposits is based on the Weighted Average Funding Bank Rate.

(2) (2) At December 31, 2019 and 2018, the monetary regulation deposit of the Financial Group was $8,623 for both years. Additionally, at December 31, 2019, the Financial Group held available cash of $4,121 to participate in auctions.

b. ***Foreign currency purchase-sale transactions 24/96 hours -*** This item refers to currency purchase-sale transactions to be settled in 24 to 96 hours and which are considered as restricted until their settlement date. At December 31, 2019 and 2018, foreign currency transactions were as follows:

	2019				
	Purchase (sale) of foreign currency		**Exchange rate average value**		**Debit settlement account (creditor) in Mexican pesos**
Purchase of foreign currency	461	$	18.8628	$	(8,690)
Sale of foreign currency	(82)		18.8916		1,546
	379			$	(7,144)
Exchange rate at the end of the period (Mexican pesos)	$ 18.8642				
Exchange rate at the end of the period (Mexican pesos)	$ 7,147				

	2018				
	Purchase (sale) of foreign currency		**Exchange rate average value**		**Debit settlement account (creditor) in Mexican pesos**
Purchase of foreign currency	959	$	19.6613	$	(18,865)
Sale of foreign currency	(240)		19.6441		4,721
	719			$	(14,144)
Exchange rate at the end of the period (Mexican pesos)	$ 19.6512				
Net position in Mexican pesos	$ 14,133				

7. Margin accounts

As of December 31, 2019 and 2018, the margin accounts for futures were as follows:

		2019		2018
Mexican Derivatives (MexDer)	$	2,271	$	-
Chicago Mercantile Exchange (CME)		165		315
	$	2,436	$	315

For the years ended December 31, 2019 and 2018, these deposits generated interest income of $39 and $2, respectively.

8. Investment in securities

As of December 31, 2019 and 2018 the investments in securities were as follows:

a. Trading securities

	2019				2018
	Acquisition cost	Interest accrued	Valuation increase (decrease)	Total	Total
Corporate debt	$ 3,177	$ 38	$ 44	$ 3,259	$ 3,323
Marketable certificates	16,683	191	916	17,790	14,556
Shares	5,997	-	13,017	19,014	23,589
Treasury Bills (CETES)	46,690	929	(186)	47,433	61,266
Bank promissory note	124	-	-	124	100
Certificates of deposits	4,005	7	-	4,012	6,200
Eurobonds	21	1	-	22	20
Euronotes	836	13	185	1,034	977
Promissory note with yield payable at maturity (PRLV)	4,273	8	-	4,281	330
Banking debt	21,623	78	1	21,702	327
Foreign values	-	-	-	-	1,256
BREMS	5,304	5	-	5,309	5,309
Savings Protection Bonds (BPAT´s)	818	20	9	847	858
CEDES FIX	-	-	-	-	2,011
Government bonds	3,337	87	145	3,569	1,792
Others	1,989	30	1	2,020	1,356
	$ 114,877	$ 1,407	$ 14,132	$ 130,416	$ 123,270

As of December 31, 2019 and 2018, the approximate maturity period of debt instruments classified as trading securities less than three years were 55.41% and 52.76% respectively.

Restricted securities - As of December 31, 2019 and 2018, the restricted securities were as follows:

	2019				2018
	Acquisition cost	Interest accrued	Valuation increase (decrease)	Total	Total
Marketable certificates	$ -	$ -	$ -	$ -	$ 316
Shares NYT	1,166	-	2,854	4,020	2,902
Total	$ 1,166	$ -	$ 2,854	$ 4,020	$ 3,218

As of December 31, the main ratings granted to the debt securities classified as trading securities by the Bank are as follows (unaudited):

Rating (mex)	% balance of trading securities 2019	2018
A	0.02%	0.01%
AA	1.32%	0.03%
AA-	-	0.42%
AA+	10.99%	8.95%
AAA	27.85%	63.70%
B-	0.04%	0.03%
B+	0.73%	-
BB	0.08%	-
BB-	0.51%	-
BB+	3.95%	-
BBB	2.07%	2.41%
BBB-	0.65%	0.62%
BBB+	-	3.74%
F1+	22.75%	-
Others	29.04%	20.09%
	100.00%	100.00%

The capital requirement for the capital market positions at December 31, 2019 of the Financial Group was $4,505, the issuer risk requirement of $423 and the requirement for participation in asset securitization schemes $187 (unaudited).

The issuer risk requirement in SOFOM Inbursa as of December 31, 2019 was $1.18.

The types of inherent risks of the trading securities are as follows (unaudited information).

2019	
Type value	**Treatment**
Currency: Mexican peso	
Corporate debt	Market and Credit Risk requirement
Treasury Bills (CETES)	Market Risk requirement
Banking debt	Market and Credit Risk requirement
BPA182	Market Risk requirement
Bondesd	Market Risk requirement
Government bonds	Market Risk requirement
Brems	Market Risk requirement
Currency: UDI	
Marketable certificates	Market and Credit Risk requirement
Corporate debt	Market and Credit Risk requirement
Udibonos	Market Risk requirement
Currency: US dollar	
Corporate debt	Market and Credit Risk requirement
Currency: Euro	
Corporate debt	Market and Credit Risk requirement
Currency: Sterling pound	
Corporate debt	Market and Credit Risk requirement
Currency: Sterling pound	
Shares	Market Risk requirement
Currency: US dollar	
Shares	Market Risk requirement
Currency: Mexican peso	
Fibers	Market Risk requirement

b. ***Securities available for sale-*** As of December 31, the investments in securities available for sale, corresponding to corporate debt, are integrated as follows:

	2019				2018
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Total	Total
Marketable certificates	$ 4,574	$ 86	$ 855	$ 5,515	$ 7,589
Shares	46	-	60	106	95
Other	1,087	18	48	1,153	264
Banking debt	27	2	-	29	-
Eurobonds	4,258	94	(1)	4,351	3,816
Total of available for sale securities	$ 9,992	$ 200	$ 962	$ 11,154	$ 11,764

c. ***Securities held to maturity -*** As of December 31, the securities held to maturity were as follows:

	2019				2018
	Acquisition cost	Accrued interest	Gain	Total	Total
Marketable certificates	$ -	$ -	$ -	$ -	$ 1,727
Udibonos	303	1	29	333	487
	$ 303	$ 1	$ 29	$ 333	$ 2,214

As of December 31, 2019 and 2018, the Financial Group does not hold positions in debt securities, other than government securities, issued by an issuer that represent more than 5% of the net capital of the Financial Group.

9. Repurchase agreements

As of December 31, 2019 and 2018, the Financial Group holds repurchase agreements as follows:

Acting the Financial Group as a reporter:

	2019		
	Repurchase agreements	Collateral received and sold or pledged as guarantee	Repurchase agreements, net
Federal Government Development Bonds (BONDES)	$ 32,641	$ 28,006	$ 4,635
IPAB bonds	23,643	18,234	5,409
	$ 56,284	$ 46,240	$ 10,044

	2018		
	Deudores por reporto	Colateral recibido y vendido o entregado en garantía	Deudores por reporto, neto
Marketable certificates	2,008	2,010	(2)
Federal Government Development Bonds (BONDES)	$ 43,809	$ 43,717	$ 92
IPAB bonds	25,700	-	25,700
Marketable securities	11,465	11,441	24
	$ 80,974	$ 55,158	$ 25,816

As of December 31, 2019 and 2018, the average period for the repurchase agreements is for 3 days, respectively.

Wherein the Financial Group acts as reporter:

	2019	2018
Marketable certificates	$ 1,524	$ 317

As of December 31, 2019 and 2018, the average period for the repurchase agreements is for 3 days for both years.

Premiums earned and paid - For the years ended December 31, 2019 and 2018, the total amount of premiums earned and paid for repurchase agreements were as follows (Note 35):

	2019	2018
Premiums earned (purchaser)	$ 3,888	$ 3,721
Premiums paid (seller)	2,906	2,792
	$ 982	$ 929

Collateral received - As of December 31, the collateral received by the Financial Group concerning sale and repurchase agreements, were comprised as follows:

	2019	2018
Federal Government Development Bonds (BONDES)	$ 32,632	$ 46,365
IPAB bonds	23,553	25,677
Marketable securities	3,024	8,658
Amount recognized in memorandum accounts	$ 59,209	$ 80,700

10. Derivatives

As of December 31, the position for transactions with financial derivatives is as follows:

	2019			
	Recorded amount		Net Balance	
	Asset	Liability	Asset	Liability
Trading derivatives:				
Futures	$ 8,359	$ 8,557	$ -	$ 198
Forward contracts	20,029	23,691	274	3,936
Swaps:				
Currency swaps	44,233	44,938	652	1,357
Rates - US dollars	6,643	6,368	1,095	820
Rates - Mexican peso	45,422	44,916	2,766	2,260
Total trading derivatives	124,686	128,470	4,787	8,571
Hedging derivatives				
Swaps:				
Currency swaps	26,415	30,223	850	4,658
Rates - Mexican peso	10,815	10,796	408	389
Total hedging derivatives	37,230	41,019	1,258	5,047
	$ 161,916	$ 169,489	$ 6,045	$ 13,618

	2018			
	Recorded amount		Net Balance	
	Asset	Liability	Asset	Liability
Trading derivatives				
Futures	$ 3,797	$ 3,885	$ -	$ 88
Forward contracts	44,483	47,063	655	3,235
Options	-	433	-	433
Swaps:				
Currency swaps	41,841	44,004	257	2,420
Rates - US dollars	19,824	18,264	2,545	985
Rates - Mexican peso	39,467	38,387	4,407	3,327
Total trading derivatives	149,412	152,036	7,864	10,488
Hedging derivatives				
Swaps:				
Currency swaps	25,352	32,238	92	6,978
Rates - Mexican peso	17,583	13,967	3,616	-
Total hedging derivatives	42,935	46,205	3,708	6,978
	$ 192,347	$ 198,241	$ 11,572	$ 17,466

Upon executing transactions with Over the Counter ("OTC") derivatives, the Financial Group agrees to deliver and/or receive collateral, to cover any exposure to market risk and the credit risk of such transactions. Such collateral is contractually agreed to with each of the counterparties.

Currently, the collaterals assigned to operations with Mexican and foreign financial entities are comprised mainly of cash deposits, that is, there are no securities delivered as collateral for derivative transactions.

Fair value hedging -

Following is an integration of the hedge transactions as of December 31, 2019 and 2018:

Covered position	Designated financial instrument	Hedge's maturity date
Fair value hedging-		
Commercial loan portfolio-interest rate risk	Swaps IRS	Apr. 10, 2026
Total fair value hedging		
Cash flow hedges-		
Marketable certificates - interest rate risk	Swaps IRS	Apr. 13, 2033
Marketable certificates - interest rate risk	Swaps IRS	Aug. 10, 2034
Marketable certificates - interest rate risk	Swaps IRS	Apr. 3, 2024
Marketable certificates - interest rate risk (loan)	Swaps IRS	Jun. 29, 2034
Commercial loan portfolio-exchange rate risk	Swaps CCS	Apr. 4, 2033
Commercial loan portfolio-exchange rate risk	Swaps CCS	Jun. 25, 2025
Commercial loan portfolio-exchange rate risk	Swaps CCS	Dec. 15, 2023
Commercial loan portfolio-exchange rate risk	Swaps CCS	Dec. 14, 2023
Commercial loan portfolio-exchange rate risk	Swaps CCS	Sept. 21,2023
Commercial loan portfolio-exchange rate risk	Swaps CCS	Feb. 1,2022
Total cash flow hedges		

Covered position	Designated financial instrument	Hedge's maturity date
Fair value hedging-		
Commercial loan portfolio-interest rate risk	Swaps IRS	Apr. 10, 2026
Total fair value hedging		
Cash flow hedges-		
Marketable certificates - interest rate risk	Swaps IRS	Apr. 13, 2033
Marketable certificates - interest rate risk	Swaps IRS	Aug. 10, 2034
Marketable certificates - interest rate risk	Swaps IRS	Apr. 3, 2024
Marketable certificates - interest rate risk (loan)	Swaps IRS	Jun. 29, 2034
Commercial loan portfolio-exchange rate risk	Swaps CCS	Apr. 15, 2033
Commercial loan portfolio-exchange rate risk	Swaps CCS	Jun. 25, 2025
Commercial loan portfolio-exchange rate risk	Swaps CCS	Dec. 15, 2023
Commercial loan portfolio-exchange rate risk	Swaps CCS	Sept. 21,2023
Total cash flow hedges		

In all cases, the derivative instrument seeks to compensate losses in the market value of the hedged position caused by movements in interest rates. In this way, Management provides stability in the result of these positions and limits the risk of abrupt movements in market rates. As result, if fluctuations in exchange rates can cause a loss, the swap covers the amount lost; and vice versa, when additional are generated in the primary position, these are delivered in the hedging swap and are recognized accordingly (with impact on equity and results).

2019

Notional amount	Hedge's fair value	Profit or loss recognized in the year	Profit or loss recognized in comprehensive income	Ineffectiveness generated in the year
$ 481	$ 7	$ (34)	$ -	$ -
481	7	(34)	-	-
5,000	191	-	(403)	-
9,848	(96)	-	(1,255)	-
5,000	(126)	-	(369)	-
15,700	42	-	(1,332)	-
8,423	(4,658)	-	800	-
5,289	381	-	295	(7)
2,881	91	-	141	-
2,034	143	-	143	-
6,746	219	-	316	-
955	17	-	17	-
61,876	(3,796)	-	(1,647)	(7)
$ 62,357	$ 3,789	$ (34)	$ (1,647)	$ (7)

2018

Notional amount	Hedge's fair value	Profit or loss recognized in the year	Profit or loss recognized in comprehensive income	Inffectiveness generated in the year
$ 500	$ 42	$ 5	$ -	$ -
500	42	5	-	-
5,000	594	-	-	-
9,896	1,160	-	44	-
5,000	244	-	297	-
23,100	1,583	-	244	-
10,356	(6,831)	-	5,979	-
5,289	86	-	86	7
2,881	(51)	-	(51)	-
6,746	(97)	-	(97)	-
68,268	(3,312)	-	6,502	7
$ 68,768	$ (3,270)	$ 5	$ 6,502	$ 7

As of December 31, 2019 and 2018, the effectiveness tests of the hedges designed by the Financial Group are in the range of 80% and 125% required by the Commission's Accounting Criteria.

Collateral delivered and received in derivative transactions -

The guarantees and/or collateral received and delivered for the derivative financing transactions as of December 31, 2019 and 2018, are comprised as follows:

Delivered		
Caption	2019	2018
Other receivables, net		
Margin accounts	$ 2,436	$ 315
Collateral and / or guarantee delivered	5,968	6,935
Total	$ 8,404	$ 7,250

Received		
Caption	2019	2018
Collateral and / or guarantee received in cash	$ 268	$ 4,180

Management of derivative financial instruments usage policies

The policies of the Financial Group allow the use of derivatives for hedging and/or trading purposes. The main objectives of these products are covering risks and maximizing profitability.

The instruments used are:

- Forwards contracts for trading purposes.
- Futures contracts for trading purposes.
- Trading and hedging swaps.
- Currency swaps.
- Interest rates swaps.
- Options for trading purposes.
- Mexican peso, currency and UDI
- Nominal interest, real or surcharges rates and debt securities.

Additionally, the Financial Group is authorized to operate credit derivatives in over the counter markets for credit default (Credit Default Swap), Total Return (Total Return Swap) and Securities Credit Linkage (Credit Link Note).

According to the portfolios, implemented strategies can be hedging or negotiation.

Trading markets:

- Listed (Recognized Markets)
- Over the Counter (OTC)

Eligible counterparties: national and foreign with internal authorizations.

The appointment of calculation agents is established in the legal documentation executed with the counterparties. The prices published by price suppliers are used to value derivative instruments is organized markets and are based on the prices generated in derivative markets. OTC derivatives are valued using prices calculated by the derivatives system, using the risk factor information published by the price supplier.

The main terms or conditions of the contracts are based on those of the International Swaps and Derivatives Association, Inc. (ISDA) or the local outline agreement, which is based on the guidelines provided by the ISDA. The specific policies regarding margins, collateral, and lines of credit are detailed in the Derivatives Manual and any changes thereto must be approved by the Risk Committee.

Authorization levels and processes

Pursuant to internal regulations, all products or services sold by the Financial Group are approved by the authorized departments in accordance with the approved development of new products procedure.

All of the departments involved in the operation of the product or service, depending on their nature, as well as those responsible for their accounting, legal documentation, tax treatment and risk assessment, participate in the Committee. The authorizations of the Committees must be unanimous as there are no authorizations granted by a majority of members. In addition to the Committees' approval, certain products require the authorization of local authorities; therefore, the approvals of the Committees are conditional upon the authorization required by competent authorities, as applicable.

Finally, all politics and procedures of new products are presented to the Internal Audit Committee and in other cases to the Board of Directors.

Independent reviews

The Financial Group is subject to the supervision and oversight of the Commission and Central Bank, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports.

Similarly, internal auditors perform periodic reviews.

Generic description of valuation techniques

Derivative financial instruments are valued at their fair value according to the accounting standards detailed in Criterion B-5, "Derivative financial Instruments and Hedge Transactions", issued by the Commission.

Valuation methodology

1. For hedging purposes:

   The Financial Group suspends hedge accounting when the derivative has matured, has been sold, cancelled or exercised, when it does not reach a sufficiently high effectiveness level to offset the changes in the fair value or cash flows of the hedged item, or when the hedging designation is cancelled.

   It must be shown that the hedge effectively complies with the objective for which the derivatives were contracted. This effectiveness requirement assumes that the hedge must comply with a maximum deviation range of 80% to 125% in regard to the initial objective.

   The effectiveness of the hedges must be proven by applying two tests:

   a. Prospective test: Shows that in the future the hedge will remain within the maximum range.

   b. Retrospective test: reviews whether the hedge has remained within the maximum range from its establishment to date.

   As of December 31, 2019 and 2018, fair value and cash flow hedges are prospectively and retrospectively efficient and are located within the maximum permitted deviation range.

2. Reference variables

The most relevant reference variables are:

- Exchange rates
- Interest rates

3. Valuation frequency

The frequency which the derivatives are valued is in accordance with the Accounting Criteria established by the Commission.

a. **Futures** **-** As of December 31, 2019 and 2018, net amount of contracts of futures operations contracted with CME and MexDer were as follows:

	2019			2018		
	Number of contracts			Number of contracts		
	CME	MexDer	Maturity	CME	MexDer	Maturity
Purchase	-	34,300	January 2020	-	-	-
Sale	3,880	-	March 2020	7,868	-	March 2019

As of December 31, 2019 and 2018, the net position for futures contracted with CME and MEXDER are referred to notional values of $1,940 and $6,639, respectively. As of December 31, 2018, the net position for futures contracted with CME are referred to notional values of $3,797.

Impairment of financial derivatives - As of December 31, 2019 and 2018, there is no indication of impairment in credit risk (counterparty) that requires modifying the carrying amount of financial assets from the rights in derivative financial instruments.

Transactions with financial derivative instruments imply liquidity, market, credit and legal risks. In order to reduce risk exposure, the Financial Group has established specific risk management policies and procedures (Note 41).

Formal hedge documentation **-** Once cash flow and fair value hedges are structured, the Financial Group prepares an individual file for each instrument containing the following documentation:

– The strategy and objective of the Financial Group's risk management, as well as the justification to carry out the hedging operation.
– The specific risk or risks to be hedged.
– Hedge structure identifying the derivative financial instruments contracted for hedging purposes and the item generating the hedged risk.
– Definition of the elements composing the hedge, its objective and a reference to the effectiveness valuation method.
– Contracts for the hedged item and hedging instrument, as well as confirmation from the counterparty.
– Periodic hedge effectiveness tests at the prospective level regarding its estimated future evolution and at the retrospective level, concerning its past behavior. These tests are applied at least at the end of each quarter, according to the valuation method defined when creating the hedge files.

11. Valuation adjustment for hedged financial assets

The Financial Group determines the valuation adjustment from the hedging of financial assets by individual and portfolio loans from fair value hedges for interest rate risks.

According to the inherent risk of the loans, the portfolio is classified into three groups: national currency portfolio with fixed interest rate, foreign currency portfolio with fixed interest rate (US dollars) and foreign currency loan portfolio with variable interest rate. For each of these groups, loans which are required to be hedge are identified. Consumer loans, mortgage loans and commercial loans are included within these groups.

As of December 2019 and 2018, the valuation effect regarding the hedged risk by type of loan was $481 and $500, which is detailed as follows:

	2019			
	Valuation adjustment balances as of Dec 31, 2018	Result from valuation	Valuation adjustment amortization (1)	Valuation adjustment balances as of Dec 31, 2019
Loan portfolio with fixed interest rate - Mexican pesos	$ (51)	$ 33	$ (2)	$ (20)
Loan portfolio with fixed interest rate - US dollars	66	-	(66)	-
Loan portfolio with variable interest rate - US dollars	(6)	-	6	-
Ineffective loan portfolio	314	-	(8)	306
	$ 323	$ 33	$ (70)	$ 286

	2018			
	Saldo ajuste de valuación al 31-dic-17	Resultado por valuación	Amortización del ajuste de valuación (1)	Saldo ajuste de valuación al 31-dic-18
Loan portfolio with fixed interest rate - Mexican pesos	$ (10)	$ (4)	$ (37)	$ (51)
Loan portfolio with fixed interest rate - US dollars	167	-	(101)	66
Loan portfolio with variable interest rate - US dollars	(16)	-	10	(6)
Ineffective loan portfolio	295	-	19	314
	$ 436	$ (4)	$ (109)	$ 323

(1) For those cases in which the fair value hedge on primary position is revoked, the valuation effect regarding the hedged risk is amortized over the remaining period of the loan.

As of December 31, 2019 and 2018, changes in the fair value of derivatives were recognized as financial margin within the consolidated statements of income, and are comprised as follows:

	2019	2018
Results from changes in value of hedging instruments (Note 34a)	$ (34)	$ 24
Amortization from valuation of primary position hedge (Note 34a)	(43)	(148)
	$ (77)	$ (124)

As of December 31, 2019 and 2018, effectiveness tests on the Financial Group hedges were within the range of 80% and 125%, required by the Commission's Accounting Criteria.

12. Loan portfolio

a. ***Detail of performing and non-performing loan portfolio by type of*** - - As of December 31, 2019 and 2018, the loan portfolio was as follows:

	Performing loan		
Concept	Principal	Interest	Total
Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	$ 100,671	$ 637	$ 101,308
Loans to financial entities	4,663	12	4,675
Loans to government entities	16,000	83	16,083
Consumer loans	43,785	569	44,354
Housing loans			
Middle and residential	4,974	26	5,000
Social interest	7	-	7
	170,100	1,327	171,427
US dollars translated to Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	55,104	1,089	56,193
Loans to financial entities	1,198	2	1,200
Loans to government entities	10,587	433	11,020
	66,889	1,524	68,413
UDI translated to Mexican pesos			
Commercial loans-			
Commercial or corporate activity	3,699	14	3,713
Consumer loans	1	-	1
	3,700	14	3,714
Total	$ 240,689	$ 2,865	$ 243,554

	Performing loan		
Concept	Principal	Interest	Total
Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	$ 107,423	$ 720	$ 108,143
Loans to financial entities	6,221	147	6,368
Consumer loans	45,391	586	45,977
Housing loans			
Middle and residential	5,484	28	5,512
Social interest	7	-	7
	164,526	1,481	166,007
US dollars translated to Mexican pesos:			
Commercial loans-			
Commercial or corporate activity	58,988	876	59,864
Loans to financial entities	2,425	7	2,432
Loans to government entities	11,824	460	12,284
	73,237	1,343	74,580
UDI translated to Mexican pesos			
Commercial loans-			
Commercial or corporate activity	3,617	13	3,630
Consumer loans	1	-	1
	3,618	13	3,631
Total	$ 241,381	$ 2,837	$ 244,218

2019

Non-performing loan		
Principal	Interest	Total
$ 1,521	$ 62	$ 1,583
-	-	-
-	-	-
2,613	93	2,706
879	13	892
1	-	1
5,014	168	5,182
128	3	131
-	-	-
-	-	-
128	3	131
-	-	-
-	-	-
-	-	-
$ 5,142	$ 171	$ 5,313

2018

Non-performing loan		
Principal	Interest	Total
$ 1,837	$ 46	$ 1,883
1	-	1
2,868	101	2,969
837	13	850
2	-	2
5,545	160	5,705
248	2	250
-	-	-
-	-	-
248	2	250
-	-	-
-	-	-
-	-	-
$ 5,793	$ 162	$ 5,955

b. ***Loans to related parties: -*** The LIC establishes limits for loans granted to related parties. As per regulations, the total sum of loans with unconditional and irrevocable guarantees granted to related parties cannot exceed 35% of the basic net capital. As of December 31, 2019 and 2018, the loan amounts granted to related parties in accordance with Article 73 of the LIC are $17,471 and $25,781, respectively, which were approved by the Board of Directors.

Related parties	2019	2018
Minera Frisco	$ 9,231	$ 7,313
Grupo IDESA	3,273	3,223
Cementos Portland Valderrivas	1,491	1,582
Etileno XXI	884	921
Janel	775	1,260
Caixia	425	301
Excellence Sea & Land Logistics	350	-
Galas de México	221	918
Parque Acuático Nuevo Veracruz	131	140
FCC Construcción América	127	-
Artes Gráficas Unidas	117	565
Jkk Park	76	38
91 Old Corner Road	65	-
Grupo Piscimex	61	58
CIII	55	55
Argos Comunicación	47	49
Tabasco Oil Company Jasame	43	52
Sears Operadora México	29	4
Grupo Sanborns	23	24
Promotora Inbursa	20	20
Aspel de México	10	20
Microfinanciera Crece	8	-
CE G Sanborns, S.A. de C.V.	7	7
Productos Dorel	2	1
Condumex	-	1
Teléfonos de México, S.A.B. de C.V.	-	6,021
Jasame	-	230
Promotora del Desarrollo de América Latina	-	2,781
Operadora Cicsa, S.A. de C.V.	-	135
Ondare	-	30
Bicicletas de México	-	20
Grupo Sedas Cataluña	-	10
CE G Sanborns Monterrey, S.A. de C.V.	-	2
Total	17,471	25,781
Basic Capital (September 2019 and 2018) (unaudited)	69,219	84,256
Basic Capital at 35%	24,227	29,490
Surplus	$ 6,756	$ 3,709

c. ***Limits for operations*** - The Commission and the LIC establish limits which financial credit institutions must take into consideration when granting loans.

- Risk concentration analysis - Policy and methods used to identify distressed commercial loans - The loans granted to the borrower or business groups, they represent a common risk, are considered as one, must comply with the maximum limit that results from applying the following table:

Limit as a percentage of the basic capital	Capitalization level of the financing
12%	More than 8% and up to 9%
15%	More than 9% and up to 10%
25%	More than 10% and up to 12%
30%	More than 12 and up to 15%
40%	More than 15%

Loans granted with unconditional and irrevocable guarantee to institutions or financial foreign entities that are rated in the lowest risk classification may exceed the maximum limit established for that type of entity. However, it cannot represent more than 100% of the Financial Group's basic capital. As of December, 2019 and 2018, the subsidiary Banco Inbursa is performing in accordance with the described limits.

- **Portfolio by economic sector**

As of December 31, the percentages of concentration by economic sector were as follows:

	2019			2018		
		Amount	Percentage of concentration		Amount	Percentage of concentration
Private (business and personal)	$	162,928	66%	$	173,786	69%
Consumer		47,061	19%		48,931	20%
Loans to government entities		27,103	11%		12,284	5%
Finance		5,875	2%		8,801	3%
Housing		5,900	2%		6,371	3%
	$	248,867	100%	$	250,173	100%

- **Por región**

Al 31 de diciembre de 2019 y 2018, el análisis de concentración de la cartera de crédito por región, en forma agregada, es la siguiente:

	2019			2018		
Region		Amount	Percentage of concentration		Amount	Percentage of concentration
Center	$	185,559	74%	$	178,546	72%
North		28,996	12%		32,740	13%
South		9,957	4%		10,856	4%
Foreign countries and others		24,355	10%		28,031	11%
	$	248,867	100%	$	250,173	100%

- **Other financing limits**

The sum of loans granted to the Financial Groups three largest borrowers, loans granted exclusively to other banks and loans taken out by government agencies and state-owned entities, including public trust funds, may not exceed 100% of the bank subsidiary.

As of December 31, 2019 and 2018, the maximum balance of loans granted to the three major clients were $28,913 and $27,733, respectively. This represented 41.77% and 32.91% of Banco Inbursa's basic capital of the previous quarter, calculated at the end of 2019 and 2018, respectively.

As of December 31, 2019 and 2018, Banco Inbursa had granted four and nine loans, respectively, that exceed 10% of the basic capital of the previous quarter. As of December 31, 2019, this funding was $83,137 and represented 120.11% of basic capital of the previous quarter, while at the end of 2018 was $67,317, and represented 79.8% of basic capital of the previous quarter.

d. ***Policy and methods used to identify distressed commercial loans*** - For disclosure proposes in the consolidated financial statements, the Financial Group considers distressed portfolio commercial loans for which it is determined that, based on current information and events as well as in the process of reviewing the loan, there is significant possibility that no can be recovered in full, both its component of principal and interest in accordance with the terms and conditions originally agreed. Both the performing portfolio as non-performing are likely to be identified as distressed portfolio.

Distressed loans include loans that carry risk ratings of D and E. As of December 31, 2019 and 2018, the distressed portfolio was as follows:

	2019		
	Performing	Non-performing	Total
Commercial loans	$ 1,102	$ 1,712	$ 2,814
Consumer loans	2,568	2,715	5,283
Housing loans	56	752	808
Total	$ 3,726	$ 5,179	$ 8,905

	2018		
	Performing	Non-performing	Total
Commercial loans	$ 1,244	$ 2,026	$ 3,270
Consumer loans	2,439	2,969	5,408
Housing loans	49	715	764
Total	$ 3,732	$ 5,710	$ 9,442

e. ***Restructured loan portfolio***

- **Balances** - As of December 31, 2019 and 2018, restructured loan portfolio balances were as follows:

	2019		
	Performing	Non-performing	Total
Commercial loans	$ 15,032	$ 445	$ 15,477
Consumer loans	1	3	4
Housing loans	2	6	8
Total	$ 15,035	$ 454	$ 15,489

	2018		
	Performing	Non-performing	Total
Commercial loans	$ 14,875	$ 418	$ 15,293
Consumer loans	1	3	4
Housing loans	3	7	10
Total	$ 14,879	$ 428	$ 15,307

- **Restructured or renewed loans**

	2019	2018
Non-performing loans that were restructured and renewed	$ 1,294	$ 1,147
Restructured or renewed credits maintained in performing loan portfolio	163	414
	$ 1,457	$ 1,561

- **Additional guarantees for restructured loans**

As of December 31, 2019 and 2018, additional guarantees received for restructured loans were as follows:

2019		
Type of loan	Balance	Nature guarantee
Loans granted in Mexican pesos		
Commercial	$ 19,415	Pledged, mortgage
Housing	-	Mortgage
Consumer	30	Mortgage
	$ 19,445	

2018		
Type of loan	Balance	Nature guarantee
Loans granted in Mexican pesos		
Commercial	$ 22,891	Pledged, mortgage
Housing	9	Mortgage
Consumer	21	Mortgage
	$ 22,921	

f. Non-performing loan portfolio

- **Aging**

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

	2019	2018
From 1 to 180 days	$ 2,954	$ 2,933
From 181 to 365 days	974	1,319
From 366 days to 2 years	419	965
Greater than two years	966	738
	$ 5,313	$ 5,955

- **Transfers**

For the years ended December 31, 2019 and 2018, transfers to non-performing portfolio were as follows:

	2019	2018
Opening balance	$ 5,955	$ 8,696
Add (less):		
Net transfers from performing portfolio to non-performing portfolio and vice versa	8,500	7,011
Foreclosures	(72)	(152)
Impairments	(9,070)	(9,600)
Ending balance	$ 5,313	$ 5,955

Por los ejercicios terminados el 31 de diciembre de 2019 y 2018, el Grupo Financiero no realizó condonaciones, For the years ended December 31, 2019 and 2018, the Financial Group did not record write-offs, impairments and applications of loans granted to related parties, which therefore involved the elimination of the respective assets.

g. ***Commissions and costs charged per consolidated product*** **-** Commissions and costs charged per consolidated product are integrated as of December 31, 2019 and 2018 as follows (Note 36)

	2019	2018
Consumer	$ 1,569	$ 1,560
Commercial	235	519
Letter of credit	64	150
	$ 1,868	$ 2,229

13. Allowance for loan losses

For the years ended December 31, 2019 and 2018, the allowance for loan losses was as follows:

	2019	2018
Commercial loan portfolio:		
Commercial or corporate activity (a)	$ 2,994	$ 3,654
Loans to financial entities (b)	231	200
Loans to government entities (c)	136	61
Consumer loans (d)	5,114	5,321
Housing loans (e)	423	382
	$ 8,898	$ 9,618

As of December 31, 2019 and 2018, the additional allowance was $59 and $50, respectively.

As of December 31, 2019 and 2018, the allowance for loan losses disaggregated was as follows:

a. ***Commercial loans (Commercial or corporate activity)***

Degree of risk	2019 Portfolio classification by degree of risk	2019 Amount of allowance recorded	2018 Portfolio classification by degree of risk	2018 Amount of allowance recorded
A-1	$ 105,094	$ 538	$ 119,150	$ 682
A-2	34,535	392	32,932	391
B-1	9,478	155	10,463	170
B-2	1,784	40	6,480	136
B-3	11,466	315	3,721	143
C-1	1,187	70	313	22
C-2	698	85	1,901	239
D	2,203	757	2,085	666
E	610	610	1,183	1,183
Rated portfolio	167,055	2,962	178,228	3,632
Additional allowance		32		22
Recorded allowance		$ 2,994		$ 3,654
Less – Letter of credit	(3,589)		(3,937)	
Intereses cobrados por anticipado	(538)		(521)	
Loan portfolio, net	$ 162,928		$ 173,770	

b. ***Commercial loans (financial entities)***

Degree of risk	2019 Portfolio classification by degree of risk	2019 Amount of allowance recorded	2018 Portfolio classification by degree of risk	2018 Amount of allowance recorded
A-1	$ 15,022	$ 143	$ 24,110	$ 89
A-2	1,915	19	301	4
B-1	270	5	12	-
B-2	2	-	668	16
B-3	1,920	60	2,117	67
C-1	58	3	263	14
C-2	5	1	76	9
D	1	-	2	1
Rated portfolio	19,193		27,549	
Additional allowance				
Recorded allowance		$ 231		$ 200
Less – Letter of credit	(13,318)		(18,748)	
Loan portfolio, net	$ 5,875		$ 8,801	

c. ***Commercial loans (government entities)***

Degree of risk	2019 Portfolio classification by degree of risk	2019 Amount of allowance recorded	2018 Portfolio classification by degree of risk	2018 Amount of allowance recorded
A-1	$ 27,103	$ 136	$ 12,284	$ 61

d. ***Consumer***

Degree of risk	2019 Portfolio classification by degree of risk	2019 Amount of allowance recorded	2018 Portfolio classification by degree of risk	2018 Amount of allowance recorded
A-1	$ 19,121	$ 418	$ 20,790	$ 401
A-2	6,595	275	5,874	252
B-1	3,551	191	3,661	198
B-2	4,600	232	4,974	250
B-3	1,286	105	1,340	108
C-1	3,842	363	4,167	391
C-2	2,783	433	2,733	428
D	2,171	787	2,087	778
E	3,112	2,289	3,321	2,494
Rated portfolio	$ 47,061	5,093	$ 48,947	5,300
Additional allowance		21		21
Recorded allowance		$ 5,114		$ 5,321

e. ***Housing loans***

Degree of risk	2019 Portfolio classification by degree of risk	2019 Amount of allowance recorded	2018 Portfolio classification by degree of risk	2018 Amount of allowance recorded
A-1	$ 3,923	$ 7	$ 4,476	$ 9
A-2	269	2	253	2
B-1	139	1	163	1
B-2	183	2	206	2
B-3	119	2	124	2
C-1	225	7	164	5
C-2	234	21	221	19
D	402	104	422	112
E	406	271	342	223
Rated portfolio	$ 5,900	417	$ 6,371	375
Additional allowance		6		7
Recorded allowance		$ 423		$ 382

f. ***Movements of the allowance for loan losses***

For the years ended December 31, 2019 and 2018, the movements of the allowance for loan losses were as follows:

		2019		2018
Opening balances	$	9,618	$	11,746
Add (less):				
Increase in allowance (a)		8,319		8,199
Transfer to reserves from foreclosed assets		70		(740)
Applications of allowance		(9,070)		(9,600)
UDI and foreign currency valuation		(39)		13
Ending balance	$	8,898	$	9,618

g. For the years ended December 31, 2019 and 2018, the movements of the allowance in the consolidated statements of income were as follows:

		2019		2018
New reserves	$	8,319	$	8,199
Recoveries		(1,026)		(1,296)
Total	$	7,293	$	6,903

14. Accounts receivable from insurance and surety companies, net

As of December 31, were as follows:

		2019		2018
Loans with collateral	$	24	$	27
Unsecured loans		47		17
Loans on policies		325		343
Non-performing loans		1,296		1,298
		1,692		1,685
Allowance for doubtful accounts		(4)		(9)
	$	1,688	$	1,676

15. Premiums receivable, net

As of December 31, were as follows:

		2019		2018
Premium debtors from accident and health and damage	$	5,379	$	5,943
First year premiums receivable		517		530
Renewal premiums receivable		785		758
Premiums due for bonds		507		480
Debt receivable from federal government agencies and entities		710		542
	$	7,898	$	8,253

16. Receivable from reinsurers and surety, net

As of December 31, were as follows:

		2019		2018
Reinsurers’ share	$	6,963	$	8,951
Insurance companies		641		772
Retained premiums from ceded reinsurance and rebounding		1		1
		7,605		9,724
Allowance for loan losses of foreign reinsurance		(3)		(22)
	$	7,602	$	9,702

17. Other receivables, net

As of December 31, were as follows:

		2019		2018
Recoverable income tax	$	1,362	$	1,008
Receivables from liquidation of transactions		1,546		4,721
Receivables from margin accounts in derivative instruments		5,968		6,935
Commission receivable	4			8
Other debtors		2,706		2,779
		11,586		15,451
Allowance for losses		(153)		(147)
	$	11,433	$	15,304

18. Foreclosed assets, net

As of December 31, were as follows:

		2019		2018
Securities, sundry assets and rights allocated	$	1,092	$	1,089
Foreclosed assets		2,624		2,674
		3,716		3,763
Less - Allowance for losses on assets, real state, securities and foreclosed assets		(3,003)		(2,452)
Total	$	713	$	1,311

19. Property, furniture and fixtures, net

As of December 31, were as follows:

	Depreciation or amortization rate	2019	2018
Buildings	5%	$ 5,667	$ 6,497
Office furniture and equipment	10%	1,079	817
Electronic computers equipment	30%	2,483	1,516
Vehicles	25%	219	53
Land		755	639
Leased assets	48%	936	967
Others		133	119
		11,272	10,608
Less-			
Accumulated depreciation and amortization		(4,107)	(3,815)
Total		$ 7,165	$ 6,793

For the years ended December 31, 2019 and 2018, depreciation was $357 and $497, respectively.

As of December 31, 2019 and 2018, leasing assets under operating leases had carrying values of $153 and $160, respectively.

20. Investment in shares

As of December 31, long term investment in shares were as follows:

			2019		
Entity	Balances at the beginning of 2019	Contributions	Equity in results	Other changes	Balance 2019
Venture capital investments:					
Infraestructura y Transporte de México	$ 919	$ -	$ 15	$ -	$ 934
Havas Media	2	-	(4)	-	(2)
Argos Comunicación	101	-	7	-	108
In Store México	111	-	66	(40)	137
Salud Interactiva	181	(32)	39	-	188
Salud Holding	44	(7)	7	-	44
Giant Motors Latinoamerica	180	-	22	-	202
Gas Natural México	1,850	-	253	(396)	1,707
Enesa	189	-	91	(95)	185
Aspel Holding	882	-	146	(64)	964
Patia Biopharma	10	-	(13)	-	(3)
Grupo IDESA	1,781	96	(379)	-	1,498
Excellence Freights de México	31	-	(5)	(5)	21
Patiacan	1	-	1	-	2
Hitss Solutions	575	-	27	-	602
Parque Acuático Inbursa	71	11	(15)	-	67
Star Médica	1,602	-	142	(55)	1,689
Soficam	23	-	-	-	23
Sistema de Administración y Servicios	1	-	-	-	1
Operadora Chelsen	2	-	-	-	2
Laboratorio de Diseño en Alimentos	1	-	-	-	1
Contalisto	1	-	-	-	1
Fanbot, S.A.P.I.	1	-	-	-	1
Soccerton Games	1	-	-	-	1
Fideicomiso GEO	439	-	-	-	439
	8,999	68	400	(655)	8,812

Entity	Balances at the beginning of 2019	Contributions	2019 Equity in results	Other changes	Balance 2019
Other investments:					
Inbursa Siefore, S.A. de C.V. (60-64)	545	-	48	(270)	323
Inbursa Siefore Básica, S.A. de C.V. (55-59)	162	-	14	(67)	109
Inbursa Siefore Básica 3, S.A. de C.V. (75-79)	523	-	51	(174)	400
Inbursa Siefore Básica 4, S.A. de C.V. (85-89)	400	-	42	(344)	98
Inbursa Siefore Básica de Pensiones, S.A. de C.V.	73	-	5	(39)	39
Inbursa Siefore Básica Inicial, S.A. de .C.V.	-	4	-	-	4
Inbursa Siefore Básica 90-94, S.A. de C.V.	-	33	-	-	33
Inbursa Siefore Básica 80-84 S.A. de C.V.	-	203	-	-	203
Inbursa Siefore Básica 70-74 S.A. de C.V.	-	327	-	-	327
Inbursa Siefore Básica 65-69 S.A. de C.V.	-	327	-	-	327
Procesar, S.A. de C.V.	8	-	-	-	8
Asociación de Bancos de México, A.C.	8	-	-	-	8
Procesadora de Pagos Móviles	72	-	-	-	72
Sociedades de Inversión	149	1	16	(3)	163
Promotora Ideal	405	-	10		415
Autopista Arco Norte	14	-	8	(8)	14
Claro Shop.com	155	-	-	-	155
Guardiana LLC	65	-	5	(65)	5
Global Payments	-	37	-	-	37
Other	4	-	(6)	8	6
	2,583	932	193	(962)	2,746
	$ 11,582	$ 1,000	$ 593	$ (1,617)	$ 11,558

Entity	Balances at the beginning of 2018	Contributions	2018 Equity in results	Other changes	Balance 2018
Venture capital investments					
Infraestructura y Transporte de México	$ 817	$ -	$ 102	$ -	$ 919
Havas Media	9	-	(6)	(1)	2
Argos Comunicación	81	-	21	(1)	101
In Store México	89	-	52	(30)	111
Salud Interactiva	184	-	28	(31)	181
Salud Holding	41	(10)	13	-	44
Giant Motors Latinoamerica	163	-	17	-	180
Gas Natural México	1,897	-	193	(240)	1,850
Enesa	328	(296)	157	-	189
Aspel Holding	781	-	165	(64)	882
Patia Biopharma	21	-	(11)	-	10
Grupo IDESA	1,825	-	(43)	(1)	1,781
Excellence Freights de México	37	-	(2)	(4)	31
Patiacan	2	-	(1)	-	1
Hitss Solutions	546	-	29	-	575
Parque Acuático Inbursa	82	3	(14)	-	71
Star Médica	1,591	-	36	(25)	1,602
Soficam	21	-	2	-	23
Sistema de Administración y Servicios	1	-	-	-	1
Operadora Chelsen	3	-	(1)	-	2
Laboratorio de Diseño en Alimentos	1	-	-	-	1
Contalisto	1	-	-	-	1
Fanbot, S.A.P.I.	2	-	-	(1)	1
Soccerton Games	1	-	(1)	1	1
Fideicomiso GEO	439	-	-	-	439
	8,963	(303)	736	(397)	8,999

2018

Entity	Balances at the beginning of 2018	Contributions	Equity in results	Other changes	Balance 2018
Other investments:					
Inbursa Siefore, S.A. de C.V. (60-64) (antes Inbursa Siefore, S.A. de C.V.)	493	-	26	26	545
Inbursa Siefore Básica, S.A. de C.V. (55-59) (antes Inbursa Siefore Básica, S.A. de C.V.)	153	-	9	-	162
Inbursa Siefore Básica 80-84 S.A. de C.V. (antes Inbursa Siefore Básica 3, S.A. de C.V.)	523	-	26	(26)	523
Inbursa Siefore Básica 70-74 S.A. de C.V. (antes Inbursa Siefore Básica 4, S.A. de C.V.)	386	-	14	-	400
Inbursa Siefore Básica de Pensiones, S.A. de C.V.	68	-	5	-	73
Procesar, S.A. de C.V.	8	-	-	-	8
Asociación de Bancos de México, A.C.	8	-	-	-	8
Procesadora de Pagos Móviles	72	-	-	-	72
Sociedades de Inversión	154	-	9	(14)	149
Promotora Ideal	377	-	56	(28)	405
Autopista Arco Norte	16	-	7	(9)	14
Claro Shop.com	155	-	-	-	155
Guardiana LLC	60	-	30	(25)	65
Other	-	-	(14)	18	4
	2,473	-	168	(58)	2,583
	$ 11,436	$ (303)	$ 904	$ (455)	$ 11,582

21. Other assets, deferred charges and intangibles, net

As of December 31, were as follows:

	2019	2018
Software licenses	$ 683	$ 946
Anticipated payments	2,921	2,630
Goodwill	1,731	1,512
Guarantee deposits	713	657
Investment for employee benefits	92	53
Unamortized discount on securities issued	253	294
Other	1,821	1,665
	8,214	7,757
Amortization of software licenses	(582)	(554)
Other accumulated amortization	(261)	(258)
	$ 7,371	$ 6,945

The amortization of software licenses recorded in the consolidated statement of income during 2019 and 2018, was $17 and $15, respectively.

22. Deposits

a. ***Demand deposits*** - Al 31 de diciembre, los depósitos de exigibilidad inmediata se analizan de la siguiente manera:

	2019			2018		
	Mexican pesos	Translated foreign currency	Total	Mexican pesos	Translated foreign currency	Total
Interest bearing accounts	$ 135,667	$ 2,798	$ 138,465	$ 118,613	$ 3,447	$ 122,060
Non-interest bearing accounts	1,968	172	2,140	2,169	3	2,172
	$ 137,635	$ 2,970	$ 140,605	$ 120,782	$ 3,450	$ 124,232

For the years ended December 31, 2019 and 2018, the interest expense from demand deposits on checking accounts were $8,966 and $7,279, respectively (Note 35b).

b. ***Time deposits*** - Time deposits include fixed-term deposits, deposits from companies and foreign banks and PRLV's. For those deposits in Mexican pesos, the interest rate relates to the interest rate of the CETES and the Mexican equilibrium interest rate (TIIE). For those deposits in foreign currency, the interest rate relates to Libor.

As of December 31, time deposits were as follows:

	2019	2018
Fixed-term deposits:		
US dollars (1)	$ 65	$ 68
UDI (1)	12	12
Mexican peso (1)	1,063	1,229
Real (1)	9	14
	1,149	1,323
Promissory note with yield payable at maturity		
Placed on the counter (1)	11,568	12,048
Withdrawals deposits on pre-established days (1)	10,450	11,288
	$ 23,167	$ 24,659

(1) Placed within general public
(2) Placed within money market

As of December 31, 2019 and 2018, time deposits maturing over periods less than one year, were $22,664 and $24,106, respectively.

For the years ended December 31, 2019 and 2018, the interest expense from time deposits were $195 and $310, respectively (Note 35b).

In accordance with regulations, the Commission must be notified by financial institutions when deposits with one person or group of people legally considered as one person, represent more than 100% of the basic capital. As of December 31, 2019 and 2018, the Financial Group did not exceed this limit.

c. ***Debt securities*** – As of December 31, debt securities issued as marketable certificates, were as follows:

Issuance	Amount of certificates	2019 Balance	2019 Interest Rate	2018 Balance	2018 Interest Rate
Third program [1]					
Binbur 14-7	147,401,266	$ 15,039	7.00%	$ 15,024	7.00%
Binbur16	30,000,000	-	-	2,974	8.54%
Binbur16-2	17,424,750	1,753	8.13%	1,753	8.69%
Binbur16-4	5,528,850	-	-	554	8.81%
Binbur16-6	10,196,108	-	-	747	8.62%
Binbur17	19,179,376	1,923	8.02%	1,923	8.66%
Binbur18	50,000,000	5,029	8.01%	5,029	8.57%
BINBL53	1,000,000	18,916	4.13%	19,705	4.125%
BINBM37	750,000	14,284	4.38%	14,880	4.375%
		$ 56,944		$ 62,589	

(1) On September 23, 2014, the Commission released the Official Notice No. 153/107353/2014 authorizing the Banco Inbursa's issuance of securities under the "Program for unsecured bank bonds, deposits certificates, promissory notes with returns at maturity and bank bonds" subject to registration in the National Securities Registry. The authorized amount is not to exceed $100,000 or its equivalent in UDI.

As of December 31, 2019 and 2018, these issuances represent 23% and 28%, respectively, of the total authorized amount.

Each issuance of securities that is carried out through the program will have its own characteristics: the issuance price, the total balance of each issuance, its nominal value, the issuance and settlement date, the period, the maturity date, the interest rate and the periodicity of interest payments. All of these, will be determined by the issuer and its intermediary agent, and will be documented at the time of each issuance in the respective prospectus.

For the years ended December 31, 2019 and 2018, the interest expense from unsecured bank bonds were $3,493 and $4,754 (Note 35b), respectively.

23. Bank and other loans

This includes loans received from other financial and governmental institutions, at market interest rates.

As of December 31, bank and other loans were as follows:

	2019 Principal	2019 Interest	2019 Total	2018 Principal	2018 Interest	2018 Total
Demand loans:						
Loans in Mexican pesos-						
Call money (1)	$ -	$ -	$ -	$ 3,162	$ 1	$ 3,163
Short-term:						
Loans in Mexican pesos-						
Central Bank´s auctions	100	-	100	-	-	-
NAFIN	60	1	61	191	2	193
	160	1	161	191	2	193
Loans in foreign currency-						
NAFIN	1	-	1	8	-	8
Total short-term loans	161	1	162	199	2	201
Long-term:						
Loans in Mexican pesos-						
BANOBRAS	15,955	262	16,217	16,140	133	16,273
NAFIN	12,927	11	12,938	17,945	13	17,958
Sociedad Hipotecaria Federal	1,500	6	1,506	1,500		
					5	1,505
	144	-	144	-	-	-
Total long-term loans	30,526	279	30,805	35,585	151	35,736
	$ 30,687	$ 280	$ 30,967	$ 38,946	$ 154	$ 39,100

(1) As of December 31, 2019, the Financial Group has not contracted loans corresponding to Call Money.

As of December 31, 2018, these loans are integrated as follows:

	Amount 2018	Interest rate	Deadline days
Multiple Banking	$ 3,163	8.12%	2

As of December 31, 2019 and 2018, short-term loans in Mexican pesos accrued average interest rates of 9.57% and 9.15%, respectively. For the years ended December 31, 2019 and 2018, the long-term portion loans in Mexican pesos accrued average interest rates were 8.12% and 8.91%, respectively.

For the years ended December 2019 and 2018, the interest expense from bank loans were $3,088 and $3,060, respectively (Note 35b).

As of December 31, 2019 and 2018, no guarantees were granted in relation to loans payable.

As of December 31, 2019 and 2018, the Financial Group has no undrawn lines or credit.

24. Technical reserves

As of December 31, were as follows:

	2019	2018
Of risk in progress	$ 25,406	$ 24,349
Obligations to be fulfilled	9,683	12,067
Of contingency	617	682
Specialized insurance	6	7
From catastrophic risk	9,557	9,978
	$ 45,269	$ 47,083

25. Liabilities to reinsurance and surety, net

As of December 31, were as follows:

	2019	2018
Insurance companies	$ 918	$ 702
Surety companies	5	8
Retained premiums from ceded reinsurance and rebounding	2	2
Other businesses	27	76
	$ 952	$ 788

26. Income tax

The Financial Group is subject to ISR. In accordance with the ISR Law as of December 31, 2019 and 2018 the rate was 30% and will continue at the same percentage thereafter.

For the years ended December 31, 2019 and 2018, the "Current income taxes" of the consolidated statement of income is as follows:

	2019	2018
Banco Inbursa	$ 2,445	$ 3,264
Seguros Inbursa	1,378	1,483
Pensiones Inbursa	254	261
Inbursa Seguros de Caución y Fianzas	222	181
Casa de Bolsa	99	160
Operadora Inbursa de Fondos de Inversión	108	104
Other subsidiaries	210	23
	$ 4,716	$ 5,476

At the date of the issuance of these consolidated financial statements, the Financial Group's 2019 annual income tax return and those of its subsidiaries have not been submitted to the tax authorities, therefore the taxes to be filed may be amended; however, Management estimates this will not be relevant.

Reconciliation of accounting and fiscal results - For the years ended December 31, 2019 and 2018, the effective ISR rates were 25.8% and 24.4%, respectively. A reconciliation of legal and effective tax rate is detailed below:

	2019	2018
Profit before tax per statement of income	$ 17,453	$ 22,654
Reconciling items-		
Annual adjustment for inflation	(2,968)	(4,844)
Non-deductible expenses	764	733
Difference in stocks taxable cost	(92)	(631)
Result in subsidiaries	(610)	(1,152)
Other permanent items	413	1,080
Income before income taxes, plus reconciling items	14,960	17,840
Income tax rate	30%	30%
Income tax	4,488	5,352
ISR from prior years	8	178
Total current and deferred tax according to the statement of income	$ 4,496	$ 5,530
Effective ISR rate	25.8%	24.4%

ISR is calculated considering as taxable or deductible certain inflation effects, such as depreciation which was calculated on Mexican pesos. The inflation effects of certain monetary assets and liabilities are accumulated and deducted through the annual inflation for adjustment.

27. Liabilities arising from cash collateral received

Guaranteed cash deposits from OTC derivative contracts, especially with swaps, are required to comply with obligations from counterparties. As of December 31, 2019 and 2018, the credit balances were $268 and $4,180, respectively.

As of December 31, 2019, the Financial Group has not balance of creditors for listed swap margin accounts, as of December 31, 2018, the balance was $529.

28. Sundry creditors and other payables

As of December 31, were as follows:

	2019	2018
Value added tax payable	$ 1,427	$ 3,413
Sundry creditors	3,334	2,366
Employee retirement obligation provision	435	-
Orders on behalf of clients	12	3
Guaranteed deposits	3	2
Money orders to pay	39	49
Cash checks	221	248
Provisions for other obligations	250	135
Certified checks	57	69
Contributions to the contingency fund	87	83
Current account agents	137	120
Unearned commissions	433	435
Provision for clearinghouse	222	210
Provision for memberships	5	5
Taxes withheld by third parties	44	114
Others	85	40
	$ 6,791	$ 7,292

29. Benefits to employees

In compliance with the accounting standard NIF D-3, the actuarial valuation was carried out which considers that the actuarial losses and / or gains are no longer amortized, that is to say, they are immediately recognized at the time they occur in the capital in the concept of "Other Comprehensive Income", as well as the recycling of the provision as derived from "Prior year results", both items reflect the difference between labor liabilities and the recognition already exercised in previous years based on the employees' labor life; the labor cost in net interest will be included in the consolidated statement of income.

As of December 31, 2019 and 2018, the net periodic cost for obligations under pension plan and seniority premiums and termination benefits were $21 and $78, respectively.

The Financial Group has a pension plan with defined benefits covering all employees who reach 65 years of age, who have 20 years of service at least and who joined before 1 October 1998. The plan is to provide supplementary pension granted by the Mexican Social Security Institute, according to the years of service in the Financial Group. From the effective date of retirement, the participant under this plan, receive a retirement annuity whose amount is calculated at 2.5% for each year of service, calculated on the average earnings of the past 24 months for salaries, compensation for seniority and annual bonus.

This plan also covers seniority premiums, which consist of a single payment of 12 days for each year worked based on the final salary, limited to twice the minimum wage established by the Federal Labor Law (LFT). Also, the provision of employment termination benefits in accordance with the LFT and the terms of the benefit plan is included. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the method of projected unit credit.

a. As of December 31, the main concepts of actuarial calculation were as follows:

		2019		2018
Defined benefit obligation (DBO)		2,475	$	1,946
Plan assets		2,132		1,999
Net projected liability (asset)		343		53
Charges to results in excess of contributions		75		104
Retained earnings (past service)		(45)		(60)
Other comprehensive income (OCI)		(394)		(19)
Net periodic cost	$	21	$	78

b. Additional information used in the actuarial calculations:

	2019 %	2018 %
Discount rate:		
Seniority premium	7.25	8.50
Legal compensation	6.75	9.50
Pension plan	6.75	9.50
Rate of wage increases	5.25	5.25
Rate of increase in the minimum wage	4.00	4.00

c.. Net periodic cost are as follows:

		2019		2018
Service cost for the year	$	123	$	69
Financial cost		6		3
Recycling of remeasurement of NDBL or NDBA		3		-
Past service cost		(111)		6
Net periodic cost	$	21	$	78

As of December 31, the types of instruments and in which plan assets have invested and related amounts were:

		2019		2018
Variable income	$	561	$	771
Fixed income		386		492
Government securities		339		-
Net valuation		838		721
		2,124		1,984
Interest receivable		3		2
Mortgage loans		5		13
	$	2,132	$	1,999

The main concepts that give rise to the balance of the (asset) liability for deferred PTU are:

	2019	2018
Liability (asset) deferred PTU:		
Property, plant and equipment	$ 139	135
Customer advances	(50)	-
Allowance for doubtful accounts	(883)	-
Surplus from valuation of risk reserve	183	335
Others, net	260	185
Total (asset) liabilities deferred PTU, net	$ (351)	$ 655

The amount of the deferred PTU recognized in the results for the period amounts to $926 and $99 in 2019 and 2018, respectively

30. Deferred taxes, net

As of December 31, deferred taxes were as follows:

	2019	2018
Deferred tax liability:		
Valuation of shares	$ 4,706	$ 479
Valuation of financial instruments	2,988	1,839
Derivative financial instruments	688	1,422
Others	1,214	5,903
	9,596	9,643
Deferred tax asset:		
Tax on assets paid	48	171
Fiscal losses to be amortized	504	414
Commercial loans amortization	7	7
Valuation of financial instruments	984	30
Derivative financial instruments	13	(322)
Others	6,187	5,756
	7,743	6,056
Deferred tax liability, net	1,853	3,587
Deferred employee profit sharing (asset) liability	(351)	655
Total	$ 1,502	$ 4,242

Deferred tax expense or benefit reported in the consolidated statements of income for the years ended December 31, 2019 and 2018, were $(220) and $54, respectively.

To determine the deferred tax related to the allowance for loan losses, as of December 31, 2019, Banco Inbursa applies miscellaneous rule 3.23.1, which specifies that the loan portfolio losses that it has as of January 1, 2014, no matter if they are of a portfolio generated before or after said date, they will not be deductible until they reach an amount equivalent to the balance of the global preventive reserve held by Banco Inbursa as of December 31, 2013. As of December 31, 2019, Banco Inbursa still has a balance pending redemption of $26,201 (updated value), so that, in the future, only the portfolio losses can be deductible when said redemption balance has been consumed.

The tax rate of 30% was applied to temporary differences as of December 31, 2019 and 2018.

31. Commitments and contingencies

a. ***Liability agreement*** **-** According to Article 28 of the Law Regulating Financial Groups, the Financial Group and its subsidiaries signed a liability agreement whereby the Financial Group accepts responsibility jointly and severally and without limitation for the performance of the obligations of its subsidiaries and for the losses derived from the performance of their own activities, even for those obligations incurred prior to the incorporation of the related subsidiaries into the Group.

The Financial Group shall similarly be liable for their monetary obligations due to third parties, bankruptcy declared by the regulatory authorities, and the deterioration of their consolidated balance sheets to the point that they are unable to meet legally specified capital requirements.

b. ***Leasing*** **-** The Financial Group has several leasing contracts from the bank branches facilities, parking lots and computer systems. Some of these contracts were celebrated by the affiliated companies and are not considered to be not material in relation to the consolidated financial statements taken as a whole. For the years ended December 31, 2019 and 2018, the leasing expenses were $111 and $91, respectively.

Considering the leasing contracts as of December 31, 2019 and 2018, the Financial Group expects to pay $712 and $675, respectively for leasing obligations over the next five years.

c. ***Credit commitments -***

- **Letters of credit**

  The Financial Group grants letters of credit to borrowers, which can generate a collection or delivery obligation at any time. Some of these operations are entered into with related parties. As of December 31, 2019 and 2018, letters of credit granted by the Financial Group amounted to $16,907 and $22,686, respectively.

- **Credit lines**

  The Financial Group has granted lines of credits that have not yet been exercised. As of December 31, 2019 and 2018, the total amounts of credits granted by the Financial Group were $104,278 and $131,917, respectively. Of such amounts, $64,485 and $71,518, remained undrawn as of December 31, 2019 and 2018, respectively.

d. ***Review of tax statutory*** - As of December 31, 2019, as result of reviews by the Financial Industry section of the Tax Administration Service (SAT) for fiscal years 2007, 2009 and 2012, the Financial Group has presented on time all documentation required to the SAT's Administration of Major Taxpayers. As of this date there is no evidence of the result of the disputed taxes. The Financial Group, based on the opinion of its legal counsel, believes that the final result of the tax reviews will be favorable.

At the date of issuance of these consolidated financial statements, SAT is reviewing tax filings on the tax statutory report of Banco Walmart, S.A. for the year 2015.

e. ***Claims on contractual obligations*** - Various lawsuits and claims have been filed against the Financial Group in the courts, and with the CNSF. At the present time, it is not possible to predict what the final outcome of these cases will be. In some cases, the Financial Group has provided for these potential losses through charges to reinsurers and its retained business, if applicable, and these provisions include accrued interest computed as required under the established rules.

f. **Labor -** The Financial Group is party to a number of labor disputes filed against it with different local and Federal labor conciliation and arbitration boards. Such cases are currently in different stages and pending resolution or settlement.

g. ***Lawsuits*** **-** Over the normal course of business, the Financial Group and its subsidiaries have been involved in certain lawsuits which are not expected to significantly affect their financial position or future results of operations. As of December 31, 2019 and 2018, the Financial Group does not have provisions for contingencies, based on the opinion of its internal and external legal advisors.

32. Stockholders' equity

a. **Capital Stock** - As of December 31, 2019 and 2018, authorized capital stock consists of 6,667,027,948 Series "O" shares with a nominal value of $0.4137108 Mexican pesos each.

As of December 31, 2019 and 2018, the historical value of stockholders' paid capital stock was $2,758. The book value as of December 31, 2019 and 2018 is $14,167 and $14,177, respectively, due to share repurchases as well as to the incorporation of the effects of inflation that were recognized up to December 31, 2007.

The additional share capital will be represented by Series "L" shares which, in accordance with the Law to Regulating Financial Groups, may be issued up to 40% of the ordinary share capital, subject to prior authorization by the Commission.

Representative Series "L" shares have limited voting rights, as their holders may only vote in matters involving a change in the Financial Group's corporate purpose, as well as mergers, spin-offs and the Financial Group's transformation, dissolution, liquidation, and cancellation of stock exchange registration. Such Series "L" shares may also confer the right to a cumulative preferred dividend, and a higher dividend than the one paid to holders of shares representing ordinary capital stock. In no circumstances may the dividends paid on Series "L" shares be less than those paid on the other series of shares.

In accordance with the LIC, the minimum stockholders' equity paid for credit institutions must be 90 million UDI. As of December 31, 2019 and 2018, the Financial Group was in compliance with this regulatory requirement.

	Number of shares		Amount	
	2019	2018	2019	2018
Fixed capital-				
Series "O" shares subscribed and paid	6,614,620,183	6,639,630,720	$ 2,736	$ 2,747
Series "O" shares in treasury	52,407,765	27,397,228	22	11
Total authorized	6,667,027,948	6,667,027,948	$ 2,758	$ 2,758

b. ***Stockholders' equity entries*** **-** A Stockholders' Ordinary General Meeting held on April 23, 2019 approved the result of the year as of December 31, 2018, and authorized its transfer to retained earnings, and also approved the payment of a dividend for the amount of $9,946.

A Stockholders' Ordinary General Meeting held on April 27, 2018 approved the result of the year as of December 31, 2018, and authorized its transfer to retained earnings, and also approved the payment of a dividend for the amount of $3,188.

c. ***Restrictions to stockholders' equity***

Beneficial ownership - At no time may foreign entities that hold shares may perform official functions in the Financial Group. This restriction is also applicable to Mexican financial entities, even those which belong to the Financial Group, unless acting as institutional investors per Article 19 of the Law.

Any individual or corporate person can acquire by one or several operations, Series "O" shares control, from a multiple purpose financial entity, in all cases with previous authorization from SHCP, and favorable opinion from the Commission.

Capital reserve - As of December 31, 2019 and 2018, capital reserves were $2,224 and $3,563, respectively, of which $1,043 and $2,382 corresponding to the reserve for repurchase of own shares and $1,181 in both years of legal reserve.

Reserve for repurchase own shares - The reserve for the repurchase of own shares, has its origin in the agreements of the Shareholders' Meeting, allocating part of the accumulated profits for its constitution. At the Ordinary General Shareholders' Meeting held on April 30, 2019, it was ratified that the maximum amount of resources that may be allocated to the acquisition of own shares is $1,000.

Legal reserve - In conformity with the Mexican Corporations Act, the Financial Group is required to appropriate at least 5% of the net income of each year to increase the legal reserve until it reaches a fifth of the value of the Financial Group's capital stock. Such reserve may not be distributed to shareholders during the life of the Financial Group, except in the form of a stock dividend.

Capital reductions - In the event of a capital reduction, the reimbursement to shareholders in excess of the amount of the restated capital contributions, in accordance with the ISR Law, shall be subject to taxation at the enacted rate at the time of such reduction.

d. ***Availability of earnings***

ISR Law establishes that dividends derived from net income that has been subject to ISR will not be subject to additional ISR. In order to qualify for this exclusion, tax income must be controlled with the Tax Net Income Account (CUFIN). Distributions in excess of the balance of CUFIN will be subject to ISR.

In accordance with the ISR Law, the Financial Group must regulate in a separate account known as Contributed Capital Account (CUCA), all capital contributions and net premiums due to shares´ subscriptions and all capital reductions as well. This account must be updated according to Mexican annual inflation from the date in which the capital contribution was made until there is a capital reduction.

In accordance with the ISR Law, the amount of capital reduction is not subject to taxes, only if it does not exceed the CUCA balance; otherwise the difference must be considered as distributed income which is subject to tax payable by the Financial Group.

As of December 31, 2019 and 2018, tax equity balances were as follows:

	2019	2018
CUCA	$ 44,674	$ 43,449
CUFIN 2013	$ 771	$ 4,340
CUFIN 2014	$ 23,829	$ 1,660

e. ***Capital management***

As of December 31, 2019, the Financial Group has sufficient capital to cover the risks assumed and that of its subsidiaries, which is greater than the minimum required by current regulations. Likewise, the Financial Group has an Integral Risk Unit that is in charge of monitoring and verifying that, prior to carrying out each of the operations, these comply with the methodology and policies established in the Assets and Liabilities Committee and that the moment, capital adequacy is maintained with respect to the minimum requirements of the regulatory authorities. During the 2019 and 2018, there were no situations that represented any deviation from the guidelines established by the Financial Group on capital adequacy, so the implementation of a preventive action plan was not necessary.

33. Earnings per share and other comprehensive income

a. ***Earnings per share*** - The earnings per share for years ended December 31, were as follows:

	2019	2018
Net controlling interest income	$ 12,926	$ 17,100
Weighted average number of common shares outstanding	6,626,000,956	6,628,387,237
Earnings per share (Mexican pesos)	$ 1.9508	$ 2.5798

b. ***Other comprehensive income*** - For the years ended December 31, 2019 and 2018, other comprehensive income was as follows:

	2019	2018
Net income	$ 12,926	$ 17,100
Participation in other capital accounts of subsidiaries	(2,908)	682
Non-controlling interest	11	6
Other comprehensive income	$ 10,029	$ 17,788

34. Information by segments

The Financial Group's operations by business segment were as presented in the tables below. Balances presented below are classified differently from the presentation adopted for the consolidated financial statements as they were grouped according to operation and accounting records.

	2019	2018
a) Loan portfolio transactions:		
Income-		
Interests from loans (Note 35a)	$ 29,850	$ 29,263
Exchange rate and UDI (Note 35a)	507	448
Commissions from opening of credit lines (Note 35a)	218	302
Commissions income (Note 36)	1,868	2,229
Other operating income	2,863	4,112
	35,306	36,354
Expenses		
Exchange rate and UDI (Note 35b)	348	140
Allowance for credit losses (Note 13f)	7,293	6,903
Interests from deposits (Note 35b)	17,464	17,010
Commissions expense	3,923	1,690
Other operating expenses	740	1,229
Valuation derivatives and primary hedge position (Note 11)	34	(24)
Amortization from loan portfolio valuation (Note 11)	43	148
	29,845	27,096
Results from lending operations	$ 5,461	$ 9,258
a) Money market and capital market operations		
Income-		
Interest from investments (Note 35a)	$ 14,089	$ 12,832
Premiums from sale and repurchase agreements (Note 35a)	3,888	3,721
Commissions income (Note 36)	965	1,119
Results from securities operations (Note 37)	1,565	562
Results from investment in securities (Note 37)	1,543	(334)
Interest income and returns from margin accounts (Note 35a)	67	40
	22,117	17,940
Expenses		
Discount for debt placement	52	47
Awards for securities lending operations	13	-
Premiums from sale and repurchase agreements (Note 35b)	2,906	2,792
Commissions expense	92	2,924
	3,063	5,763
Results from money market and capital market operations	$ 19,054	$ 12,177

	2019	2018
a) Derivatives and foreign currency operations (Note 37)		
Results from foreign exchange transactions	$ (445)	$ 107
Results from foreign currency exchange	81	(477)
Results from financing derivative operations	(2,560)	(230)
Results from valuation of financing derivative operations	(2,586)	2,213
	$ (5,510)	$ 1,613
d) Reconciliation		
Loan portfolio transactions	$ 5,461	$ 9,258
Money market and capital market transactions	19,054	12,177
Derivatives and foreign currency transactions	(5,510)	1,613
Insurance, pensions and securities	5,992	6,232
Commissions from management of retirement accounts (Note 36)	1,192	1,137
Other commissions and fees	2,866	2,767
Administrative and promotional expenses	(12,195)	(11,434)
Result of operations	$ 16,860	$ 21,750

The aforementioned segment information refers to credit, money market and capital market, and insurance and bonding transactions carried out mostly by the subsidiaries of the Financial Group.

35. Financial margin

For the years ended December 2019 and 2018, the main items comprising the financial margin was as follows:

a. Interest income

	2019	2018
Loan portfolio (1) (Note 34a):		
Commercial loans-		
Commercial or corporate activity	$ 13,904	$ 15,926
Loans to financial entities	3,052	577
Loans to government entities	1,360	1,144
Consumer loans	10,943	10,974
Housing loans	591	642
Funds available interests	12	-
Commissions from opening of loan lines (Note 34a)	218	302
Premiums from repurchase agreements (Note 9b)	3,888	3,721
Investments securities (Note 34b)	12,671	11,602
Deposits in Central Bank (Note 34b)	712	723
Financing on national and foreign banks (Note 34b)	223	95
Amortization from loan portfolio valuation (Note 11)	(77)	(124)
Valuation of foreign currency and UDI (Note 34a)	507	448
Dividends from equity instruments, net (Note 34b)	431	412
Others	40	-
From margin accounts	67	40
	$ 48,542	$ 46,482

(1) Interest from foreign exchange rate were as follows:

	2019	2018
Simple	$ 4,933	$ 8,935
Investment project	6,042	4,636
Unsecured loans	1,453	842
Restructures	837	891
Subject to VAT	199	263
Other discounted loans	22	11
Housing loans	591	642
Discounted loans	357	324
Pledged loans	59	19
Consumer loans	10,943	10,974
Leasing	2	5
Financing entities	3,052	577
Government entities	1,360	1,144
	$ 29,850	$ 29,263

b. Interest expense

	2019			2018		
	Mexican pesos and UDI	Moneda extranjera	Total	Mexican pesos and UDI	Moneda extranjera	Total
Premiums from repurchase (Note 9)	$ 2,906	$ -	$ 2,906	$ 2,792	$ -	$ 2,792
Time deposits (Note 22b)	177	18	195	309	1	310
Promissory notes returns at maturity (Note 22b)	1,727	-	1,727	1,606	-	1,606
From banking loans and from other organisms (Note 23)	3,080	3	3,083	3,060	-	3,060
For demand deposits (Note 22a)	8,963	3	8,966	7,279	-	7,279
For debt securities (Note 22c)	1,982	1,511	3,493	3,225	1,529	4,754
Discounts debt issuance	8	43	51	5	42	47
Premiums charged in securities lending operations	13	-	13	-	-	
Interest expenses of insurance and surety companies	1	-	1	1	-	1
Valuation of foreign currency and UDI	348	-	348	140	-	140
	$ 19,205	$ 1,578	$ 20,783	$ 18,417	$ 1,572	$ 19,989

c. Premium income, net

	2019	2018
Premium issued (1)	$ 21,311	$ 21,837
Ceded premium	(5,211)	(4,858)
	$ 16,100	$ 16,979

(1) Below is the composition of the premiums broken down by operation and branch:

Branch	Number of policies per operation and branch	
Year:	2019	2018
Individual life	2,396,470	2,539,965
Life group	1,818	1,942
Total life operation	2,398,288	2,541,907
Personal accidents	3,749	2,909
Medical expenses	54,563	56,479
Total operation of accidents and diseases	58,312	59,388
Civil liability and professional risks	52,577	60,310
Maritime and transport	1,194	1,291
Fire	47,436	51,971
Cars	423,715	469,770
Catastrophic risks	24	28
Various	41,001	44,253
Total damage operation	565,947	627,623
Pensions derived from the Social Security Laws	394	393
Fidelity	253	244
Judicial	20,780	23,432
Administrative	12,831	15,137
Credit	16	16
Total bail bonds operation	33,880	38,829
Total consolidated	3,056,821	3,268,140

(1) Information without consolidation eliminations

Net increase in technical reserves

	2019	2018
Reserve for unexpired risks	$ 137	$ 297
Catastrophic risk reserve	(470)	(1,455)
Others	(16)	(9)
	$ (349)	$ (1,167)

Certificates / Incidents / Insured / Pensioners / Sureties		Premium issued	
2019	2018	2019	2018
2,421,171	2,564,875	$ 3,873	$ 4,258
3,496,361	3,764,052	1,406	1,477
5,917,532	6,328,927	5,279	5,735
713,794	1,504,007	60	72
2,401,735	2,615,316	4,003	3,815
3,115,529	4,119,323	4,063	3,887
4,240,515	4,290,786	1,022	1,080
991	1,063	805	1,108
1,199,733	1,096,008	3,127	2,855
1,915,733	2,000,941	3,373	4,105
909,016	990,856	19	21
36,861	4,399,107	1,700	1,144
8,302,849	12,778,761	10,046	10,313
595	545	6	9
253	244	2,004	1,893
20,780	23,432	1	2
12,831	15,137	146	124
16	16	2	1
33,880	38,829	2,153	2,020
17,370,385	23,266,385	$ 21,547	$ 21,964

Losses, claims and other contractual obligations, net

		2019		2018
Claims and contractual obligations	$	8,812	$	9,868
Net claims		1,622		1,571
Social security pensions		23		475
	$	10,457	$	11,914

36. Commission and fee income

For the years ended December 31, 2019 and 2018, the heading is comprised as follows:

		2019		2018
Retirement account management	$	1,192	$	1,137
From loan portfolio (1)		1,868		2,229
Intermediation in money market		550		619
Intermediation in the stock market		415		500
Reinsurance and re-guarantee		170		44
Other commissions		2,696		2,724
	$	6,891	$	7,253

(1) The loan portfolio commissions balance is comprised as follows:

		2019		2018
Commercial	$	235	$	519
Consumer		1,569		1,560
Letter of credit		64		150
	$	1,868	$	2,229

37. Gain/losses on financial assets and liabilities

As of December 31, the net gain on financial assets and liabilities were as follows:

		2019		2018
Other products and benefits from purchase-sale of securities				
From foreign exchange transactions	$	(445)	$	107
From transactions in securities		1,565		562
From transactions in financial derivatives		(2,560)		(230)
		(1,440)		439
Results from valuation at market				
From foreign exchange transactions		81		(477)
From transactions in securities		1,543		(334)
From transactions in financial derivatives		(2,586)		2,213
		(962)		1,402
	$	(2,402)	$	1,841

38 Memorandum accounts

As of December 31, 2019 and 2018, the main off-balance sheet accounts are shown below. These accounts represent rights and obligations of the Financial Group arising from transaction with third parties, and the recording unit values, mandates and custodies arising from own operations.

a. Transactions on behalf of third parties:

i. **Customer securities in custody**

	Securities		2019	Securities		2018
Government debt	14,729,945,757	$	185,007	11,671,868,780	$	146,055
Bank debt	72,258,846,363		69,761	39,209,642,471		95,089
Other debt securities	298,327,148		66,909	406,018,256		85,329
Equity instruments, net	119,431,893,353		1,622,844	115,197,949,022		1,515,581
	206,719,012,621	$	1,944,521	166,485,478,529	$	1,842,054

For the years ended December 31, 2019 and 2018, custodial income amounted to $19 and $17, respectively (unaudited).

b. ***Transactions on own behalf:***

i. **Contingent assets and liabilities**

As of December 31, the values of contingent assets and liabilities were as follows:

		2019		2018
Societal values given in custody				
Shares of variable capital	$	3,158	$	10,110
Marketable certificates		15,203		12,499
Treasury Bills (CETES)		18,025		2,094
Bank bonds		936		-
Promissory note with yield payable at maturity		1,466		187
	$	38,788	$	24,890

ii. **Assets in trust or mandate (unaudited)**

As of December 31, the balances of operations in which the Financial Group acts as the fiduciary are as follows:

		2019		2018
Trusts funds				
Management	$	312,745	$	309,682
Investment		69,593		68,213
Guarantee		41		42
Transfer of title of property		95		95
		382,474		378,032
Mandates		1,285		1,111
	$	383,759	$	379,143

For the years ended on December 31, 2019 and 2018, income from activities performed in its capacity as trustee were $41 and $35, respectively.

c. ***Custody and management assets (unaudited)***

As of December 31, the balance was as follows::

		2019		2018
Custody assets (1)	$	134,225	$	135,728
Guarantee assets		139,282		194,344
Notes subject to collection		31,250		27,029
Others		1,726		1,799
	$	306,483	$	358,900

(1) As of December 31, the Financial Group has custody of ADR's, whose integration and fair value of the issuances is as follows (unaudited):

		2019			2018		
Issuer	Series	Securities		Fair value	Securities		Fair value
AMX	L	6,367,688,638	$	96,152	6,730,197,808	$	94,021
AMX	A	133,914,646		2,008	142,448,226		2,051
GCARSO	A1	308,058		21	437,384		31
GFINBUR	O	2,659,875		62	2,879,265		81
MFRISCOA-1	CPO	475,616		1	467,264		3
Total		6,505,046,833	$	98,244	6,876,429,947	$	96,187

39. Other operating income (expenses), net

For the years ended December 31, were as follows:

		2019		2018
Lease income	$	345		387
Impairments and write-offs		(178)		(337)
Income from administrative services		1,903		1,515
Rights on products or policies		2		302
Loan portfolio acquisition		11		12
Cancellation of liabilities and reserves		-		773
Others		41		230
Total	$	2,124	$	2,882

40. Operations with related parties

According with Criterion C-3 “Related parties” issued by the Commission, operations with related parties subject to disclosure are those that represent more than 1% of net capital prior month of the date of preparation of financial reporting. As of December 31, 2019 and 2018, the balance was $700 and $868, respectively.

Operations with related parties are done using market terms, according to existing conditions at the date of the operation.

a. ***Contracts*** - The most important contracts entered into with related parties are described below:

- Open-ended brokerage intermediation agreements with each Group entity for the safekeeping of securities through which Inversora Bursátil renders intermediation services for the trading and the safekeeping and management of financial instruments.

- Stock distribution agreement entered into with Operadora Inbursa de Fondos de Inversión, whereby the Group promotes and sells shares in the related party's investment funds. This agreement is for an indefinite term.

- The Financial Group has entered into administrative trust agreements with its related parties.

- The Financial Group has loans granted to related parties

- The Financial Group issues letters of credit to related parties.

- The Financial Group has demand deposits and time deposits with related parties; however, the balances for these deposits do no exceed the limit established by the Commission.

- Permanent investments in stock as of December 31, 2019 and 2018 are described in detail in Note 20.

b. ***Operations*** - As of December 31, 2019 and 2018, main operations celebrated with related parties were as follows:

Relation	Operation	2019	2018
Revenue:			
Affiliate	Interest income	$ 2,785	$ 3,058
Affiliate	Premiums collected from sale and repurchase operations	257	587
Affiliate	Commissions and fees income	61	105
Affiliate	Share distribution commission	284	285
Affiliate	Utilities from derivatives	1,529	320
Affiliate	Fiduciary transactions	26	35
		$ 4,942	$ 4,390
Expenses:			
Affiliate	Interest expense	$ 134	$ 222
Affiliate	Premiums paid from sale and repurchase agreements	521	138
Affiliate	Personnel service administration	1,866	2,822
Affiliate	Leasing	111	91
Affiliate	Commissions from public share offering	256	261
		$ 2,888	$ 3,534
Entries in equity:			
Stockholders	Repurchase of shares	652	338
Stockholders	Dividends paid	9,946	3,188

c. ***Benefits for key officials and relevant management -*** The Financial Group's Management is performed by the CEO and top-level managers. The amount paid to such officers and directors in the year 2019 and 2018, corresponding to short-term benefits, amounted to $281 and $250 respectively. There are no stock payment benefits.

d. ***Balances*** - Main accounts receivable and payable with related parties as of December 31, 2019 and 2018, were as follows:

Relation	Operation		2019		2018
Affiliate and associate	Derivative financial instruments (1)	$	(127)	$	(222)
Affiliate	Loan portfolio		20,369		25,781
Affiliate	Repurchase agreements		-		14,803
Affiliate	Deposits		3,023		1,942
Affiliate	Time deposits		119		252
Affiliate	Loan commitments (letters of credits)		101		1,344
Affiliate	Custody and management securities		592,021		622,655
		$	615,506	$	666,555

(1) As of December 31, 2019 and 2018, the Financial Group has forward and swaps contracts with related parties. Regarding forward contracts with related parties as of December 31, 2019 and 2018, Banco Inbursa has 4 and 3 respectively, with notionals of $5,145 and $8,122 respectively; regarding swap contracts with related parties as of December 31, 2019 and 2018, the Financial Group has 34 and 111, with notionals of $19,504 and $29,226, respectively.

41. Risk management (unaudited information)

To prevent the risks to which the Financial Group is exposed as a result of its transactions, management has prepared policies and procedures manuals that adhere to the guidelines established by the Commission and Central Bank.

The Provisions issued by the Commission establish the obligation whereby credit institutions must disclose, through notes to their consolidated financial statements, information on the policies, procedures, methodologies and other measures adopted for risk management purposes, together with data regarding the potential losses they face by risk type in the different markets in which they participate.

The Provisions issued by the Commission establish that the Internal Audit Department conduct at least once a year or the end of each fiscal year a comprehensive risk management audit. The results obtained were presented to the Board of Directors at the meeting held on January 28, 2019.

- ***Environment*** - Through comprehensive risk management, the Financial Group promotes the corporate governance structure used to support the Comprehensive Risk Management Unit (UAIR) and the Risks Committee. Similarly, through these entities, the Financial Group identifies, measures, controls and monitors its quantifiable and unquantifiable operating risks.

  The Risk Committee analyzes the information systematically provided by operating departments.

  It also has a contingency plan focused on mitigating the weaknesses detected at the operating, legal and recording levels as a result of performing transactions that exceed the maximum risk tolerances approved by the Risks Committee.

- ***Market risk*** - Market Risk is defined as the potential loss due to changes in the risk factors that affect the valuation or the expected results of the asset, liability or contingent liability operations, such as interest rate, exchange rates, indices of prices among others.

Market Risk management consists of identifying, measuring, monitoring, limiting, controlling, reporting and disclosing the different risks to which the Financial Group is exposed by existing movements in the market.

The Market Risk objectives are:

1. Comply with the Desired Risk profile subscribed by the Board of Directors.
2. Report timely and in due form to the General Directorate.
3. Maintain an adequate monitoring of Market Risk.
4. Quantify through the model authorized by the Risk Committee the Exposure to Market Risk.
5. Quantify the vulnerability of the Financial Group in extreme market conditions and consider results for decision making according to the nature and complexity of the operations

The Market Risk policies are:

1) The Risk Committee is the body empowered to approve specific limits to the Market Risk.
2) The Risk Committee is the body empowered to approve models, methodologies and procedures to measure, monitor, monitor, limit, control Market Risk.
3) New products subject to market risk should be evaluated and approved through the guidelines of new products approved by the Risk Committee.
4) Compare once a month the estimates of Market Risk exposure against the results actually observed for the same measurement period and, if necessary, carry out the necessary corrections by modifying the model when they show deviations.
5) Evaluate at least once a year that the market and systems risk model remains adequate.

To make the measurement and evaluation of the risks taken in its financial operations, the Financial Group has computational tools to calculate the value at risk (VaR), performs retrospective analysis referring to the back testing, in addition to carrying out sensitivity analyzes and stress tests under extreme conditions.

To verify statistically that the Market Risk measurement model yields reliable results, the Financial Group performs a hypothesis test on the level of confidence, with which this measurement is made. The hypothesis test consists of a Chi-Square test (Kupiec test) on the proportion of the number of times the loss actually observed exceeds the estimated risk level.

The exposure to Market Risk of financial instruments is quantified through the Historical VaR methodology with a time horizon of 1 day with a 95% confidence level and 252 observations.

Currently, Market Risk is calculated for money market portfolios, international bonds, equities and derivatives.

The value at risk at the end of 2019, was as follows:

Type of Risk	Market Value	Historical Var (1) o	%VAR (M) vs Basic capital
Variable income	5,538	25	0.04%
Rate swaps	1,425	18	0.06%
Currency swaps	(704)	191	0.05%
Listed swaps	(514)	0.4	0.00%
Nominal rate	41,070	89	0.10%
Real rate	15,694	22	0.09%
Futures	(198)	88	0.00%
Forwards	(1,451)	23	0.02%
Foreign Exchange	11,740	38	0.15%
Total Banco Inbursa	$ 72,600	153	0.47%
Basic capital (2)	$ 69,219		

(1) Value at Historical Risk at one day, with 95% confidence
(2) Basic Capital as of September 30, 2019

The sensitivity analysis - Given that the risk measure (VaR) shows the potential losses under normal market conditions, the sensitivity analysis complements the risk analysis under extreme conditions in order to measure the impact on the Financial Group positions given important movements in the factors risky.

Type of Risk		Market Value	Market Value 100BP	Market Value 500BP
Variable income		5,538	1,532	1,593
Rate swaps		1,425	1,902	2,826
Currencies swaps		(704)	(307)	635
Listed swaps		(514)	204	2,757
Nominal real		41,070	41,109	41,173
Real rate		15,694	14,658	11,276
Futures		(198)	(133)	124
Forwards		(1,451)	(1,485)	(1,623)
Foreign exchange		11,740	11,111	10,835
Total Banco Inbursa	$	72,600	68,591	69,596
Basic capital	$	69,219		

(1) Using a sensitivity scenario of 100 basis points (bps) and 500 bps, the shortfalls that would be recognized if the derivative instrument positions in effect at December 31, 2019, would be of $(4,009) and $(3,004), respectively.

The VaR or Value at Risk estimates the maximum loss that could be recorded by the exchange market, fixed rate, derivatives and variable income portfolios.

A monthly summary of Market Risk exposures is presented below:

Date		VaR
01/31/2019		205
02/28/2019		249
03/31/2019		231
04/30/2019		237
05/31/2019		114
06/30/2019		370
07/31|/2019		319
08/31/2019		289
09/30/2019		204
10/31/2019		180
11/30/2019		175
12/31/2019		153
VaR average	$	227

The Financial Group's most significant risk position is its derivatives position, which is composed by futures and forward currency, action forward, options and swaps in Mexican pesos and US dollars. The presented information includes the market value of these positions, the generated surplus value/shortfall and the daily Value at Risk with a 95% reliance level.

The model assumes the normality of the distribution of risk factor variations; back testing is utilized to validate this assumption.

Market Risk management is supplemented with stress tests based on two sensitivity scenarios of 100bps and 500bps, respectively, together with the replication of historical catastrophic conditions with up to four standard deviations, as Credit Crunch 2008, September 11, 2001, Russian Crisis 1998, Asian Crisis 1997, Mexican Crisis 1994, which simulate the manner in which adverse movements will have an accumulated effect on the portfolio at the calculation date. The new stressed risk factor conditions are used to value portfolios and determine their Value at Risk and new mark-to-market.

Under the new conditions stressed of the risk factors the portfolio valuation is made, as well as its risk value and its new brand to market.

Sensitive analysis of hedge swaps

Type of risk	Market value	Market value 100BP	Market value 500BP
Swaps IRS	102	536	1,985
Swaps CCS	(3,808)	(4,138)	(5,416)
Swaps listados	(126)	3	452
Total Banco Inbursa	(3,832)	(3,599)	(2,979)

(2) With a sensitivity scenario of 100 basis points (bps) and 500 bps, the losses that would be recognized in the event of materialization by the hedging swap positions in effect as of December 31, 2019, would be $232 and $852, respectively.

1) ***Concentration risk*** - Potential loss attributed to the high and disproportionate exposure to particular risk factors within the same category or between different risk categories. The objective is to maintain adequate levels of concentration of the portfolio of financial instruments within the following limits of risk VaR.

The concentration in risk factors in the portfolio of financial instruments is as follows:

Portafolio	Historic Limit VaR
Nominal Rate	6%
Real Rate	6%
Currency and Synthetics	10%
Variable Income	15%
Swaps	15%
Options	6%

The observed VaR by the risk factor at the end of December 2019 is:

Portafolio	Montecarlo Limit VaR
Nominal Rate	0.10%
Real Rate	0.09%
Currency and Synthetics	0.15%
Variable Income	0.04%
Swaps	0.03%
Options	0.00%

2) ***Liquidity risk*** – It is defined as the inability to meet present and future cash flow needs affecting the daily operation or the financial conditions of the Financial Group; The potential loss due to the impossibility or difficulty of renewing liabilities or contracting others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet their obligations or, due to the fact that a position does not it may be opportunely alienated, acquired or hedged through the establishment of an equivalent counter position, the potential loss due to the change in the structure of the Financial Group's balance sheet due to the difference in terms between assets and liabilities.

Coefficient of Liquidity Coverage (CCL)

In order to have a strong and adequate liquidity management, the Financial Group calculates the Liquidity Coverage Ratio, a short-term metric with the purpose to guarantee that the Financial Group maintains a sufficient level of high-quality liquid assets and free of charge, that could be transformed into cash to satisfy liquidity needs in a 30-day horizon.

Computable liquid assets		Unweighted amount (Average)	Weighted Amount (Average)
1	Total of Computable Liquid Assets	Does not apply	49,751
2	Non-guaranteed retail financing	125,627	9,116
3	Stable financing	68,945	3,447
4	Less stable financing	56,683	5,668
5	Non-guaranteed wholesale financing	20,813	9,398
6	Operational deposits	-	-
7	Non-operational deposits	20,661	9,247
8	Unsecured debt	152	152
9	Guaranteed wholesale financing	No aplica	17
10	Additional requirements	83,531	8,891
11	Outputs related to derivative financial instruments and other guarantee requirements	3,657	3,576
12	Outflows related to financing losses of debt instruments	-	-
13	Lines of credit and liquidity	79,874	5,315
14	Other contractual financing obligations	675	18
15	Other contingent financing obligations	-	-
16	**Total cash outputs**	Does not apply	27,439
17	Cash entries for guaranteed transactions	29,612	-
18	Cash entries from unsecured operations	40,046	19,575
19	Other cash entries	743	743
20	**Total cash entries**	70,401	20,317
21	Total computable liquid assets	Does not apply	49,751
22	Total net of cash outflows	Does not apply	8,734
23	Coefficient of liquidity coverage	Does not apply	598.45%

(a) ***The main causes of the results of the Liquidity Coverage Ratio and the evolution of its main components***

During the last quarter of 2019 the CCL has remained above the minimum requirement of the Accounting Criteria regarding the Liquidity Requirements for Credit Institutions of 90%, due to the fact that Banco Inbursa has a liquid assets position, 1, 2A and 2B sufficient to cover the 30-day liquidity needs.

(b) ***Changes of the main components within the quarter that is reported***

Components	3rd. Quarter 2019	4th. Quarter 2019	Variation	%
Liquid assets	43,740	49,751	6,011	13.7%
Cash inflows	19,010	20,317	1,307	6.9%
Cash outflows	29,540	27,439	(2,101)	(7.1)%

(c) ***Evolution of the composition of assets Liquids Eligible and Computable***

The liquidity model considers the liquidity quality of portfolio assets, as well as the collateral exposure of assets and liabilities and their condition during the period.

Assets level	3rd. Quarter 2019	4th. Quarter 2019	Variation	%
Total	43,740	49,751	6,011	14%
Level I	38,353	44,113	5,760	15%
Level II-A	3,908	4,056	148	4%
Level II-B	1,480	1,582	102	7%

Liquidity assets

Nivel de activos	Oct. 2019	Nov. 2019	Dec. 2019
Total	43,337	51,380	54,587
Nivel I	37,760	45,589	49,039
Nivel II-A	4,035	4,200	3,936
Nivel II-B	1,543	1,591	1,612

Currency mismatch

Additionally, the liquidity risk in foreign currency is monitored in accordance with Central Bank's foreign currency investment and acceptance regime, which represents Banco Inbursa's capacity to meet its short-term liquidity needs (1 to 60 days).

	2019	
	Coefficient amount	Coefficient
January	$ 125	0.38%
February	996	2.06%
March	1,478	3.83%
April	1,501	4.88%
May	4,564	17.25%
June	4,414	19.99%
July	3,081	10.50%

	2019		
	Coefficient amount		Coefficient
August		9,469	32.91%
September		7,131	27.00%
October		1,774	8.51%
November		117	0.44%
December		497	2.65%
Average	$	2,929	10.87%

For the determination of the liquidity ratio, the Financial Group considers the liquid assets in foreign currency in accordance with the provisions of Circular 3/2012 issued by Central Bank in order to cover its liabilities in foreign currency in the maturity dates of the operations.

Degree of centralization of liquidity management and interaction between group's units;

Operationally, there are specialized departments that are responsible for monitoring possible mismatches between assets and liabilities operations, timely informing the operating departments (Treasuries) for the proper management of this risk.

The Financial Group has a Back Office Department that is responsible for supervising cash requirements, liquidations, custody and any operation related to the Treasury. The Treasury participates in managing national and international balance risk, including contingent accounts and irrevocable credits.

I. ***Quantitative information:***

(a) ***The limits of concentration with respect to the different groups of guarantees received and the main sources of financing***

The Bank can receive bank guarantees, rights derived from bank deposit instruments or other guarantees.

The Bank follows a process of administration of all its operations with real guarantees, the responsible departments keep a record of all the guarantees of entry and exit. These guarantees are valued daily in order to know and anticipate possible losses due to a decrease in their value due to changes in the market positions, ratings or the Financial Group's financial position. If any guarantee received loses value or increases the possibility of not being able to execute it, the counterparty will be asked to cover the loss of the guarantee or replace it with another of equal or greater value.

(b) ***Exposure to Liquidity risk and financing needs at the Bank level***

Within the process for managing liquidity risk, the legal and operational restrictions that may exist to transfer and receive resources, including the passive and investment admission regimes for foreign currency passive operations of Central Bank, are considered. Regulatory reports are considered (ACLME Investment Regime, Liquidity Coverage Coefficient CCL).

(c) ***Balance sheet operations broken down by maturity dates and the resulting liquidity gaps, including transactions recorded in memorandum accounts***

With respect to liquidity risk, derivative financial instruments are presented below, an analysis of the assets and liabilities maturities of the liquidity gaps, which shows the remaining contractual maturities.

The risk system uses the traditional asset and liability management model, which consists in characterizing the asset and liability components of each instrument in the portfolio for the different maturity windows. For example, a long position in foreign currency forwards will contain in the analysis in US dollars the asset component in dollars to be received at the Spot exchange rate plus the interest generated by the cost of carrying the liability rate in dollars and in the analysis of national currency the interest of the portion of the cost of carrying the asset position in weights, that is, liquidity risk analysis can be constructed for different windows and time horizons classified by market type and by currency.

The liquidity model considers the quality of liquidity of the portfolio assets, as well as, the mismatch between assets and liabilities and their condition in the term.

Category	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Greater than 360 days
Assets	167,326	5,151	17,110	32,931	11,509	13,316	294,722
Liabilities	197,789	16,472	10,984	5,847	2,789	6,615	195,943
Gap	(30,463)	(11,322)	6,126	27,084	8,720	6,700	98,779
Cum.Gap	(30,463)	(41,785)	(35,659)	(8,575)	145	6,845	105,624

II. ***Qualitative information:***

The Liquidity Risk objectives are:

- Comply with the Desired Risk Profile defined by the Board of Directors.
- Promote and strengthen an adequate supervision of liquidity risk.
- Quantify liquidity risk through various methodologies.
- Contribute to reduce the risk of financing.
- Promote and strengthen adequate supervision of the Foreign Exchange Position, Pass-Through Admission Regime and Liquid Asset Requirement to offset foreign currency liabilities.
- Maintain an inventory of liquid assets susceptible to be delivered as collateral.
- Determine the extraordinary liquidity requirements in different stress scenarios.
- Report in a timely manner the liquidity risk exposure to the business units, address generates risk committee, board of directors and audit.

The manner in which the liquidity risk is managed in the Financial Group, considering for this purpose the tolerance to said risk; the structure and responsibilities for the management of liquidity risk; internal liquidity reports; the liquidity risk strategy and the policies and practices through the business lines and with the board of directors.

By policy and given current market conditions, the treasury covers short-term liquidity needs. The Financial Group is seeking to provide stability to deposits in the medium and long-terms, with issuances.

The UAIR, for the fulfillment of its purpose, will verify the observance of the Desired Risk Profile and the Risk Exposure Limits, as well as the Risk Tolerance Levels acceptable by type of quantifiable risk considering the Consolidated Risk, broken down by Business Unit or Risk Factor, cause or origin of these, using, for this purpose, models, parameters, scenarios, assumptions, including those referring to stress tests and indicators on liquidity risk, to which the Section VIII of Article 81 of the Provisions, for the measurement and control of risk approved by said committee.

The Liquidity Risk reports presented to the Risk Committee, Business Department, the General Manager and the Board of Directors have the purpose of monitoring, measuring, monitoring and controlling the liquidity risks of the main business units. These are the following:

Position Limit Reports, Total Requirement of Liquid Assets in foreign currency (Liquidity Coefficient in foreign currency), Calculation of liquidity Coverage coefficient, Assets that can be delivered as guarantee, Liquidity Risk Report in MXP (ALM), Diversification Report of the sources of Financing, Advance Sale of Assets and Renewal of Liabilities.

(a) ***The techniques for mitigating liquidity risk used by the Financial Group***

The Financial Group has different indicators that provide useful information to anticipate situations in which liquidity risk increases, these indicators allow detecting the variables that triggered an increase in the liquidity requirement. Which are the following:

1) Total Requirement of Liquid Assets in foreign currency (Liquidity Coefficient in foreign currency).
2) Advance or forced sale of assets at unusual discounts.
3) Potential loss due to the impossibility of renewing liabilities.
4) Evaluation of the diversification of funding sources.
5) ALM.
6) Coefficient of Liquidity Coverage.
7) Net Stable Funding Ratio.
8) Actives' inventory

(b) ***Explanation of how stress tests are used;***

Stress tests are a management tool for the Bank designed to warn the various social bodies and the Bank's decision-making personnel about possible adverse impacts on liquidity, considering the inherent risks to the operation, as well as the risks generated by factors exogenous to Banco Inbursa.

Consequently, these tests allow to the Bank to periodically calibrate both its risk measurement models, as well as the Risk Exposure Limits and the Risk Tolerance Levels established, and so that it can carry out its activity under favorable conditions, in accordance with the risks to which to the Bank is exposed.

These tests will not only serve in the processes of the Integral Risk management, but will also be a support tool in the business planning processes, as well as in the definition of the Desired Risk Profile.

(c) ***Description of contingent financing plans***

In order to ensure that the Bank maintains its liquidity in times of financial volatility, in case of unexpected liquidity requirements or when there are problems to liquidate assets, a Contingency Financing Plan (PFC) is established, where the set of strategies is documented, Policies and procedures that will be carried out to achieve the objective.

The PFC includes those responsible, the events that will trigger the plan, the actions to correct the liquidity, as well as the internal and external communication plan that Inbursa will implement.

(d) ***Description of the Contingency Plan***

The Bank in order to comply with the provisions of Article 119 of the LIC and with the provisions of Article 172 Bis 37 of the Provisions, has developed the Contingency Plan (PC), which details the actions specific measures that will be carried out by the institution to restore its financial situation to adverse scenarios that could affect its liquidity or solvency.

The Contingency Plan is integrated as follows:

- Governing bodies. Participation of administrative units and Bank officials in the development, execution and monitoring of PC implementation, description of the policies and procedures for approval of the Plan, the way in which the PC is integrated into the integral management of Risks, internal and external communication in case of activation of the plan.

- Description of the Bank. General description of the Bank and its business strategies that identify and explain its business lines, essential functions, as well as the relationship between Inbursa and its financial subsidiaries.

- Quantitative and qualitative indicators of Solvency and Liquidity. Definition of quantitative and qualitative indicators to monitor the solvency and liquidity situation of the Bank.

- Recovery Actions. It includes a list of the applicable recovery actions to maintain the Bank's financial viability.

Operations with derivative financial instruments

With respect to liquidity risk, an analysis of the asset and liability maturities of liquidity gaps is presented below for derivative financial instruments, which shows the remaining contractual maturities.

The risk system uses the traditional asset and liability management model, which consists of characterizing for the different windows of maturities the asset and liability components of each instrument in the portfolio, for example, a long position in currency forwards will contain in the analysis in US dollars the asset component in dollars to be received at the Spot exchange rate plus the interest generated by the carrying cost at the liability rate in dollars and in the national currency analysis the interest on the part of the carrying cost for the asset position in Mexican pesos, that is, liquidity risk analyzes can be constructed for different windows and horizons over time classified by market type and currency.

The liquidity model considers the liquidity quality of the assets in the portfolio, as well as the mismatch between assets and liabilities and their condition in the term.

Category	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Greater than 360 days
Assets	167,326	5,151	17,110	32,931	11,509	13,316	294,722
Liabilities	197,789	16,472	10,984	5,847	2,789	6,615	195,943
Gap	(30,463)	(11,322)	6,126	27,084	8,720	6,700	98,779
Cum.Gap	(30,463)	(41,785)	(35,659)	(8,575)	145	6,845	105,624

III. ***Credit risk –***

The Credit Risk is defined as the potential loss due to the non-payment of an accredited or counterparty in the operations carried out by the Financial Group, including the real or personal guarantees granted to them.

The objectives of Credit Risk are:

1) Comply with the profile of Desired Risk subscribed by the Board of Directors.

2) Report timely and in due form to the General Directorate.

3) Carry out Credit Risk measurements with models and methodologies authorized by the Risk Committee.

4) Know the quality of the portfolio and take timely measures that reduce potential losses due to credit risk.

The Credit Risk policies are:

1) The Credit Committee is the body empowered to approve specific limits for derivative transactions with counterparts.

2) The Risk Committee is the body empowered to approve models, methodologies and procedures to measure, monitor, monitor, limit, control credit risk.

3) Evaluate at least once a year that the credit and systems risk model remains adequate.

The Financial Group analyzes credit risk models based on the estimation of the probability of default of each borrower. In addition, in order to manage the risk, the Financial Group considers a number of quantifiable economic factors and variables, as well as qualitative factors that cannot be quantified, and the overall effect of these factors on total portfolio exposure.

In the case of borrowers, the expected loss is calculated using the regulatory model, whose components include the probability of default, severity of loss and exposure to default. The unexpected loss (PNE) is calculated using the Monte Carlo methodology by means of simulations and stress is tested by considering different percentiles of the simulated distribution of losses.

The value at risk and its classification as of December 31, 2019 are as follows:

	Balance expected loss	Reserve: VaR (95%)	VaR (95%) PNE	PNE
Housing	$ 5,899	$ 418	$ 424	$ 6
Consumer	2,292	202	208	5
Commercial	224,247	2,613	7,969	5,356
Total	$ 232,438	$ 3,233	$ 8,601	$ 5,367

Currency	Performing loan portfolio	Non-performing loan portfolio	Expected loss (PE)	Number of times of PE to non-performing loans	% of PE to Performing loan portfolio
Mexican pesos	$ 221,811	$ 5,209	$ 8,085	1.6	3.6%
UDI	3,791	-	19	0	50.12%
US dollars	73,240	135	794	5.9	1.08%

The average value of the risk credit exposure is as follow:

Expected impairment as of	Total
31/01/2019	$ 3,657
28/02/2019	3,542
31/03/2019	3,565
30/04/2019	3,607
31/05/2019	3,614
30/06/2019	3,458
31/07/2019	3,424
31/08/2019	3,415
30/09/2019	3,414
31/10/2019	3,340
30/11/2019	3,425
31/12/2019	3,233
Average	$ 3,516

Details of the performing portfolio are presented below:

Concept	Total
Non-revolving consumer	$ 2,165
Revolving consumer	-
Corporative	90,510
Financial entities	46,295
Mortgage to housing	-
MyPyMes	5,007
PyMes	19,030
	$ 230,354

Potential Credit Risk to Maturity, as of December 31, 2019 are as follows:

Type of risk	Market Value	Potential Credit Risk to maturity	% Potential Credit Risk vs Basic CAP
Options	$ -	-	0.00%
Variable income	5,538	-	0.00%
Rate swaps	1,425	44	0.06%
Currencies swaps	(704)	35	0.05%
Listed swaps	(514)	-	0.00%
Nominal real	41,070	70	0.10%
Real rate	15,694	62	0.09%
Futures	(198)	-	0.00%
Forwards	(1,451)	13	0.02%
Foreign exchange	11,740	102	0.15%
Banco Inbursa	72,600	325	0.47%
Basic capital	$ 69,219		

Furthermore, the Credit Analysis Department performs quarterly portfolio quality follow-up by rating borrowers; it also prepares a daily sectorial analysis of Mexico's main economic sectors. Aside from this quarterly credit follow-up, credit risk concentrations are determined by borrower, group and economic activity.

When executing transactions involving futures and forwards contracts, the Financial Group acts in its own name with financial intermediaries and participants authorized by Central Bank, as well as with other participants, which must guarantee the obligations detailed in the contracts executed with the involved parties.

- ***Credit management***

  The credit management evaluation and analysis activities performed by the Financial Group for credit granting, portfolio control and recovery purposes are described below:

- ***Credit analysis***

  Credit control and analysis begin when information is received and continue until the credit is fully paid; during this period, this information passes through the filters applied by the Financial Group's different departments.

  In the case commercial credits, a detailed analysis is performed of the company's financial situation and qualitative aspects; the Financial Group also reviews the borrower's background and consults a credit bureau.

  As regards consumer and housing credits and certain products granted to small and medium enterprises (SMEs), the Financial Group performs parametric analyses and verifies the credit background of each borrower by consulting a credit bureau.

  Credit follow-up and evaluation is performed monthly by issuing regulatory reports to ensure fulfillment of the requirements established by the Financial Group's regulatory authorities. Likewise, it prepares monthly internal reports and updates.

  The Financial Group has developed specific credit granting policies according to the requested product or credit type. As regards commercial credits: i) the empowered entities (Credit Committee) determine basic credit conditions involving amounts, guarantees, periods, rates and commissions, among others; ii) the Credit Operation Department ensures the proper documentation of approved credits; iii) credits cannot be utilized without the approval of the credit operation.

  With regard to the evaluations performed before granting consumer credits, the Credit Committee authorizes the retail credit analysis department to approve or reject credits requested for up to the amount of ten million Mexican pesos, albeit with specific limits regarding amounts, periods, rates, and guarantees, among others. In this regard, the Retail Credit Analysis Department is responsible for the authorization, instrumentation, custody and provision of documentation follow-up for this type of credit.

  The Financial Group has established different credit recovery procedures, which includes credit restructuring negotiations and legal collection procedures.

- ***Risk concentration determination***

The policies and procedures used by the Financial Group to determine the credit portfolio risk concentrations are summarized below:

- Financial Group requires that borrowers with authorized credit lines equal to or exceeding the amount of thirty million UDI provide the information detailed in instruction guidelines to determine joint risks. This data is included in a customer association process to determine and update credit portfolio risks.

- Before credit lines are authorized, the Credit Analysis Department verifies that not exceed the maximum quarterly financing levels established by the Financial Group or those determined by the regulatory authorities.

- If a credit transactions exceed the limits established by the Financial Group for reasons other than credit granting, the involved departments are notified of the implementation of the required corrective measures.

- The Credit Analysis Department is responsible to notifying the Commission whenever joint risk limits are exceeded.

- ***Distressed portfolio identification***

The Financial Group monthly analyzes the economic environment in which its borrowers operate so as to timely identify any indications of a distressed portfolio.

The Financial Group has the policy of identifying and classifying commercial credits in which, based on current information and facts and the credit review process, the principal and interest established according to the originally agreed terms and conditions are unlikely to be fully recovered. Both performing and non-performing portfolios may be identified as distressed portfolios.

a. ***Políticas de riesgo en productos derivados*** - When performing transactions with derivative financial instruments, the Financial Group's objectives include the following: i) ensuring active short and medium-term participation in these markets; ii) providing derivative market products to fulfill its customers' requirements; iii) identifying and taking advantage of derivative product market conjunctures; and iv) hedging against the risks derived from any unusual underlying variations (currencies, rates, shares, etc.) to which it is exposed.

In general terms, the risk assumed by the Financial Group when performing currency derivative transactions involves the Mexican peso rate because US dollar futures are placed as a credit portfolio or other assets. These transactions involve a counterparty risk.

The Financial Group's policies establish that risk positions in securities and derivative financial instruments cannot be taken by a broker. The decision to assume risks is exclusively made by senior Management through its collegiate entities. The Risks Committee determined that the Financial Group's positions must be adjusted as follows:

	Maturity less than a year (*)
Nominal rate	2.5
Real rate	2.5
International bonds	2.5
Derivatives	2.5

(*) Multiplied by the basic capital of the third quarter calculated by Central Bank.

- ***Documentation of hedge files***

  In the case of derivative financial instruments held for hedging purposes, the Financial Group's Management documents hedge file so as to demonstrate their efficiency according to the considerations detailed in the accounting criteria issued by the Commission. Hedges file are designated when a transaction involving a derivative financial instrument is contracted or at a later date, provided the instrument can be classified as such and the formal documentation conditions established by accounting standards are fulfilled.

  The documentation prepared by the Financial Group regarding hedge ratios includes the following aspects:

1) The risk management strategy and objective, as well as the rationale used to perform the transaction.

2) The specific risk or risks to be hedged.

3) The identification of the primary position covered by the hedge and the derivative financial instrument utilized for this purpose.

4) The manner in which hedge effectiveness is initially evaluated (prospectively) and subsequently measured (retrospectively) by applying exposure to the fair value changes of the primary position attributed to hedged risks.

5) The treatment of the total gain or loss generated by the hedge instrument when determining its effectiveness.

The effectiveness of financial derivative instruments used for hedging purposes is evaluated monthly. If Management determines that a derivative financial instrument is not highly effective as a hedge, the Financial Group prospectively ceases to apply the hedge accounting scheme to it.

- ***Obligations with counterparties***

  Derivative financial transactions performed outside recognized markets are documented through an outline agreement that establishes the following obligations for the Financial Group and its counterparties:

  - Deliver the accounting and legal information agreed by the parties in the transaction supplement or confirmation.

  - Deliver any document agreed in the transaction supplement or confirmation to the other party.

  - Comply with applicable laws, regulations and provisions.

  - Ensure the validity of any internal, governmental or any other kind of authorization needed to comply with the obligations assumed under the terms of the executed contract; and

  - Immediately notify the other party in writing when obtaining knowledge of any situation implying the early termination of the outline agreement.

- *Regulatory standards*

According to the regulatory standards issued by Central Bank with regard to derivative financial instruments, the Financial Group must comply with Circular 4/2012. Aside from establishing rules for the operation of derivative financial instruments, these standards require that the Audit Committee of each credit bank issue an annual communique to confirm its compliance with the provisions issued by Central Bank for this purpose.

The Financial Group is also subject to the provisions issued by the Commission in relation to transactions performed with derivative financial instruments, which include aspects regarding the treatment, documentation and recording of these transactions and their respective risks, as well as other aspects involving the recommendations given to customers when executing this type of contract.

Transactions involving derivative financial instruments, whether intended for trading or hedge purposes, are recognized according to their use intention and valued at fair value.

b. *Technological risk* - La estrategia corporativa sobre el manejo del riesgo tecnológico, descansa en el plan general de contingencia y continuidad de negocio, que contempla el restablecimiento de las operaciones de misión crítica en los sistemas del Grupo Financiero, así como el uso de herramientas de protección (firewalls) y manejo confidencial de la información en línea y seguridad en el acceso a los sistemas.

c. *Legal risk -* The specific legal risk policy utilized by the Financial Group defines the following:

1. The Operational Risk Department will calculate the potential loss that the Financial Group could have due to the emission of adverse judicial or administrative resolutions or the application of sanctions by the competent authorities.

2. The UAIR monthly informs the Risks Committee of the legal risk for follow-up purposes.

3. In conjunction with the Documentation Traffic Department, the financial advisor is responsible for the complete and correct maintenance of customer files as regards legal documents, agreements or contracts.

4. The Legal Department must monitor the adequate execution of agreements or contracts, including the formalization of guarantees to avoid transaction performance defects.

5. It is the responsibility of the Litigation Legal Department to register, classify and quantify in the JIRA system all the Judgements in which the Financial Group is charged, as well as to keep the status of the same up to date.

Calculation of the potential loss due to legal risk

The calculation is made taking into consideration the following premises:

- Litigation in which the Financial Group is "accuser" or "defendant"
- Trial status at the close of the month is "in force"
- Classification of the trial in the field of probable result is "unfavorable"

Calculation methodology

Unfavorable frequency = (Total unfavorable judgments) / (Total judgments to litigate)
Severity unfavorable = (∑ unfavorable quantity demanded) / (Total unfavorable amount)
Potential loss = (∑ unfavorable quantity demanded) x (Unfavorable frequency)

As of December 31, 2019, the loss expected from unfavorable verdicts is for $55.81.

d. ***Operating risk -*** As regards non-discretionary risks, the risk tolerance level will be 20% of the average of the last 36 months of the net income month.

For the calculation of the capital requirement for operational risk, the method used by the Financial Group is the basic.

As internal operating risk models are not currently available, the occurrence of operating risks is estimated by means of the simple arithmetic average of the fine and bankruptcy accounts of the last 36 months.

As of December 31, 2019, the monthly average of the fine and bankruptcy, considering the last 36 months was $15.92.

e. ***Of the non-quantifiable risks -*** they are those that are derived from unexpected events, for which it is not possible to collect a history that allows to show what the losses would be that they could have. These include: Strategic Risk, Reputation Risk and Business Risk.

f. ***Strategic risk:*** are those losses that the Financial Group may face due to adverse business decisions, inappropriate application of decision making, or deficiency of the capacity to respond to changes in the industry, which may affect the objectives set forth in the budget.

This risk will be measured with reference to the evaluation of the effectiveness of the hedges of derivative financial instruments.

Indicator	Limit
Evaluation of the effectiveness of the coverage	80% ≤ Coef ≤ 125%

g. ***Reputation risk -*** are those losses that the Financial Group may confront, due to an action, situation or transaction, which may reduce confidence in the integrity and competence of customers, stockholders, employees or the general public, that is, there is a deteriorate of the perception of the Financial Group. This risk is measured in relation to complaints.

Indicator	Limit
Total of complaints	<= 10,000

h. ***Business risk:*** are those losses that the Financial Group may confront, resulting from the characteristics of its business, economic changes or in its environment..

Indicator	Limit
ICOR Commercial	At least 0.8 times
ICOR Consumer	At least 1 times
ICOR Mortgage	At least 0.4 times

As of December 31, 2019, no relevant events have been reported.

42. Leverage ratio (unaudited)

In accordance with the compliance with the Basel supervision agreements as of June 2019, the leverage ratio is calculated according to the methodology established by the Commission, in order to see if the capital of the Bank adequately supports the assets of the Bank itself.

The following is the leverage ratio as of 2019:

Reference	Description		Amount
On balance sheets exposure			
1	In-balance sheet items (excluding derivative financial instruments and securities lending and securities lending - including collaterals received as collateral and recorded on the balance sheet)	$	346,006
2	Amounts of assets deducted to determine Tier 1 capital of Basel III		(23,536)
3	In-balance sheet exposures (net) (excluding derivative financial instruments and FTS, sum of lines 1 and 2)		322,470
Exposure to financial derivative instruments			
4	Current replacement cost associated with all transactions with financial derivative instruments (net of the allowable cash variation margin)		3,224
5	Amounts of additional factors for potential future exposure associated with all derivative financial derivative transactions		6,017
6	Increase by collateral provided in transactions with derivative financial instruments when said collateral is derecognised from the balance sheet according to the operating accounting framework		-
7	Deductions from accounts receivable by margin of variation in cash provided in transactions with derivative financial instruments		(267)
8	Exposure to derivative financial instruments on behalf of clients, in which the liquidating partner does not grant its guarantee in case of non-compliance with the obligations of the Central Counterparty		-
9	Effective adjusted notional amount of the underwriting credit derivatives		-
10	Compensations made to the adjusted effective notional of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed		-
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)		8,974

Exposure to securities financing operations			
12	Gross SFT assets (without offsetting recognition), after adjustments for sales accounting transactions		28,165
13	Accounts Payable and Receivable for offset SFTs	-	
14	Exposure Risk of Counterparty by SFT	-	
15	Exhibitions by SFT acting on behalf of third parties	-	
16	Total exposures for securities financing operations (sum of lines 12 to 15)		28,165
Other off-balance sheet exposures			
17	Off-balance sheet exposure (gross notional amount)		53,167
18	Conversion adjustments to credit equivalents		(18,557)
19	Out-of-balance items (sum of lines 17 and 18)		34,610
Capital y exposiciones totales			
20	Level 1 capital		70,319
21	Total exposures (sum of lines 3, 11, 16 and 19)		394,219
Leverage ratio			
22	Basel III leverage ratio		17.84%

Explanatory notes for the leverage ratio

Reference	Explanation
1	Total assets of the Bank without consolidating subsidiaries or special purpose entities less the assets presented in said balance sheet by: 1) operations with derivative financial instruments, 2) repurchase transactions and 3) securities lending.
2	Amount of deductions of the basic capital established in items b) to r) of fraction I, of Article 2 Bis 6 of the General Provisions Applicable to Credit Institutions (the Accounting Criteria). The amount must be registered with a negative sign.

Reference	Explanation
3	Sum of lines 1 and 2
4	Current replacement cost (CR) of transactions with derivative financial instruments, as set out in Schedule 1-L of the Provisions, less partial cash settlements (margin of variation in cash) received, provided that Following conditions: a) In the case of counterparties other than the clearing houses mentioned in the second paragraph of Article 2 Bis 12 a, the cash received must be available to the Financial Group. b) The market valuation of the transaction is performed daily and the cash received is exchanged with the same frequency. c) The cash received as well as the operation with the derivative instrument are denominated in the same currency. d) The exchange variation amount in cash is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.

e) The framework contract with the counterparty must consider both the transaction and the margin of variation, and must stipulate explicitly that the liquidation, in case of default, bankruptcy, restructuring or insolvency, of any of the parties, will be made after clearing the operations and will consider the cash variation margins received. In any case, the maximum amount of cash variation margins that may be considered will be the one corresponding to the positive value of the current replacement cost of each counterparty.

5	Additional factor according to Annex 1-L of the Provisions, of operations with derivative financial instruments. In addition, in the case of credit derivative financial instruments in which credit protection is provided, the conversion value to credit risk must be included in accordance with Article 2 Bis 22 of the Provisions. Under no circumstances may the financial collateral received by the Financial Group be used to reduce the amount of the additional Factor reported in this line.
6	Does not apply. The accounting framework does not allow for the write-off of assets delivered as collateral.
7	Amount of cash variation margins delivered in transactions with financial derivative instruments that comply with the conditions indicated in line 4 to subtract the cash variation margins received. The amount must be registered with a negative sign.
8	Does not apply.
9	Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.
10	Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.

Reference	Explanation
11	Sum of lines 4 to 10
12	Amount of assets recorded on the balance sheet (accounts receivable recorded in books) of repurchase agreements and securities loan transactions. The amount must not consider any offsetting in accordance with the Accounting Criteria.

13	Positive amount resulting from deducting the accounts payable from the accounts receivable generated in repurchase agreements and security loan transactions, on its own account, with the same counterparty, subject to the following conditions: a) The respective transactions must have the same settlement date. b) There must be the right to settle the transactions at any time. c) The transactions must be settled in the same system and there must be a settlement mechanism or arrangements (lines or guarantees) which enable the settlement to be made at the end of the day on which the decision is taken to settle. d) Any problem related with the settlement of the flows of the collateral in the form of securities, must not hinder the settlement of the accounts payable and receivable in cash.
14	Credit risk conversion value of the repurchase agreements and securities loan transactions on its own account, in accordance with Article 2 Bis 22 of the Provisions applicable to Credit Institutions, when there is no framework offsetting contract; and in accordance with Article 2 Bis 37 when such contract exists. The above does not consider adjustments for admissible security interests which are applied to the collateral within the context of capitalization.
15	For repurchase agreements and securities loan transactions on account of third parties, in which the Financial Group provides collateral to its customers in the event of counterparty default, the amount which should be recorded is the positive difference between the value of the security or cash that the customer has paid and the value of the collateral which the recipient has provided. Furthermore, if the Financial Group can use the collateral delivered by its customers, on its own account, the amount equivalent to the value of the securities and/or cash delivered by the customer to the Financial Group.
16	Sum of lines 12 through 15
17	Amounts of credit commitments recognized in memorandum accounts in accordance with the Accounting Criteria.
18	Amounts of reductions in the value of credit commitments recognized in memorandum accounts for application of the credit risk conversion factors established in Title First Bis of the Provisions, on the basis that the minimum credit risk conversion factor is 10% (in those cases where the conversion factor is 0%) and in the case of transactions referred to in subsection IV of Article 2 Bis 22 of such Provisions, a credit risk conversion factor of 100%. The amount should be recorded with a negative sign.
19	Sum of lines 17 and 18
20	Basic capital calculated in accordance with Article 2 Bis 6 of the Accounting Criteria
21	Sum of lines 3, 11, 16 and 19.
22	Leverage Ratio. Coefficient of line 20 divided by line 21.

Adjusted assets

Explanatory notes for the adjusted assets

Reference	Description		Amount
1	Total assets	$	362,284
2	Adjustment for investments in the equity of banks, financial banks, insurance companies or commercial entities which consolidate for accounting purposes, but remain outside the scope of regulatory consolidation.		(21,892)
3	Adjustment related to fiduciary assets recognized on the balance sheet in accordance with the accounting framework, but excluded from the measurement of the exposure of the leverage coefficient.		-
4	Adjustment for financial derivatives.		2,740
5	Adjustment for repurchase agreements and securities loans transactions.		18,121
6	Adjustment for items recognized in memorandum accounts.		34,616
7	Other adjustments.		(1,644)
8	Exposure to the leverage coefficient		394,225

Reference	Description
1	Total assets of the Bank without consolidating subsidiaries or special purpose entities.
2	Amount of deductions of basic capital contained in subsections b), d), e), f), g), h), i), j) and l) of section I, Article 2 Bis 6 of the Provisions. The amount should be recorded with a negative sign.
3	Not applicable. The scope of application is for the Bank, without consolidating subsidiaries or special purpose entities.
4	Amount equivalent to the difference between the figures contained in row 11 of Table I.1 and the figures presented in transactions with financial derivatives contained on the balance sheet of the Bank. The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative.
5	Amount equivalent to the difference between the figures contained in row 16 of Table I.1 and the figure presented for repurchase agreements and loan securities transactions contained on the balance sheet. The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative.
6	Amount recorded in row 19 of Table I.1. The amount should be recorded with a positive sign.
7	Amount of the deductions of basic capital contained in subsections c), k), m), n), p), q) and r) of section I of Article 2 Bis 6 of the Provisions. The amount should be recorded with a negative sign.
8	Sum of lines 1 to 7, which should match line 21 of table I.1.

Reconciliation between Total Assets and the exposure within the Balance

Reference	Description		Dec-19
1	Total assets	$	362,284
2	Transactions in derivative financial instruments		(6,234)
3	Repurchase transactions and securities lending		(10,044)
4	Fiduciary assets recognized in the balance sheet in accordance with the accounting framework, but excluded from the exposure measure of the leverage ratio		-
5	Exhibitions within the Balance		346,006

Explanatory notes to the reconciliation between the Total Asset and the exposure within the Balances

Reference	Description
1	Total Financial Group assets without consolidating subsidiaries or specific purpose entities
2	The amount corresponding to transactions in derivative financial instruments presented in the assets of the latest consolidated financial statements. The amount must be recorded with a negative sign
3	The amount corresponding to repurchase transactions and securities lending presented in the assets of the last consolidated financial statements. The amount should be recorded with negative sign.
4	Not applicable. The scope of application is without consolidating subsidiaries or specific purpose entities.
5	Sum of lines 1 to 4, which must coincide with line 1 of Table I.1

Main causes of the most important variations of the elements (numerator and denominator of the leverage ratio)

Concept/quarter	Sep-19	Dec-19	Variation (%)
Basic capital 1/	69,219	70,319	1.6%
Attached assets 2/	391,033	394,219	1.8%
Leverage ratio 3/	17.70%	17.84	0.14%

43. Subsequent events

i) Contracts for the purchase-sale of shares

On November 20, 2019, Capital Inbursa, S.A. de C.V., ("Capital Inbursa") a subsidiary of Sinca Inbursa, executed the following five contracts for the purchase-sale of shares with related parties, subject to a condition precedent:

- Representing the common stock of CRS Morelos, S.A. de C.V. with Impulsora del Desarrollo y Empleo en América Latina, S.A.B. de C.V. ("IDEAL") and Desarrollo en América Latina, S.A. de C.V. ("DEAL"), for the total amount of $0.009 for all the following shares:

Seller	Buyer	Series "A" shares	Series "B" shares
IDEAL	Capital Inbursa	1	874
DEAL	Capital Inbursa	1	874

- Representing the common stock of Promotora de Infraestructura de Readaptación Social, S.A. de C.V., with IDEAL and DEAL, for the total amount of $5,780.16, for all the following shares:

Seller	Buyer	Series "A" shares	Series "B" shares
DEAL	Capital Inbursa	49,999	749,985,000
IDEAL	Inbursa Ventures	1	-
IDEAL	Capital Inbursa	-	15,000

- Representing the common stock of Makobil, S. de R.L. de C.V., with IDEAL and DEAL, for the total amount of $4.82, for all the following shares:

Vendedora	Compradora	Partes sociales
IDEAL	Capital Inbursa	1
DEAL	Capital Inbursa	1

- Representing the common stock of Operadora Mtto para la Infraestructura Social, S.A. de C.V., with DEAL, for the total amount of $2, for a total of 1 share:

- Representing the common stock of Servicios de Personal para Proyectos SIS, S.A. de C.V. with DEAL, for the total amount of $1, for a total of 1 share.

The aforementioned contracts executed for the sale of shares were recognized on February 17, 2020, the date on which the shares were paid.

ii) Accounting Changes

On March 13, 2020, the Commission published a series of amendments to Criterion B-6, "Credit portfolio", as a result of the adaptation process of the application applicable to regulated entities under the new international framework. The adoption date of this standard will be January 1, 2021, albeit with the exception of the amendments to articles 2 Bis 98 c., 39 Bis, first and second paragraphs, 51 Bis and 51 Bis 3, as well as the substitution of Appendix 71, which will take effect as of March 14, 2020.

The main amendments are as follows:

a) The concepts of the current portfolio and overdue portfolio are replaced by the concept of a portfolio in stages 1, 2 or 3, which will allow credit institutions to improve their control of the credit risk to which they are subject and consistently determine their allowances for loan losses based on these risks;

b) The level of credit portfolio impairment must be identified before default by considering the following main factors, among others: significant increases in credit risk indicators, the downgrading of the external rating of the instrument or borrower, significant risk increases in other instruments pertaining to the same borrower, delinquency information, the significant impairment of market indicators, significant changes to the value of warranties or the borrower's operating results, including changes to the economic environment, while also allowing the inclusion of models to rate this credit portfolio based on internal rates or those detailed in NIF C-16, "Impairment of receivable financial instruments";

c) c) The allowance for expected credit losses would be determined by credit institutions by considering the three stages and depending on the level of asset credit impairment. Stage 1 includes financial instruments for which the credit risk has not significantly increased since their initial recognition and when the allowance must be created for a 12-month period. Stage 2 includes instruments for which the credit risk has increased significantly since their initial recognition. Finally, Stage 3 includes instruments for which there is objective evidence of impairment and which, during stages 2 and 3, establishes that credit institutions must create allowances for loan losses for the period until maturity;

d) Internal methodologies will have to be developed to more accurately measure the credit risk. Minimal guidelines are established for developing rating parameters and systems, including defined impairment stages with minimum criteria. These will also be indispensable for the credit institutions that have been or will be authorized by the Commission to utilize internal models to calculate capitalization requirements. Accordingly, credit institutions must submit a reserve methodology and capital model adoption plan for the entire credit portfolio that can be modeled so as to obtain the approval of the Commission.

44. New accounting pronouncements

As of December 31, 2019, the CINIF has enacted the following Improvements to the NIF with entry into force as of January 1, 2020, allowing their early adoption for the 2019 fiscal year, which generate accounting changes:

NIF D-4 Income taxes and NIF D-3 Employee benefits - Paragraphs related to uncertain tax treatments are included when considering the bases with which the ISR and the PTU are determined, evaluating the probability that the tax authority or in labor matters, accept or not an uncertain tax treatment.

NIF D-4 Income Taxes - Clarifies the accounting recognition of income taxes generated by a distribution of dividends, in relation to the transactions that generated distributable profits.

Likewise, the Improvements to the NIF 2020 include improvements to the NIF that do not generate accounting changes, whose fundamental intention is to make the regulatory approach more precise and clear.

Standardization of Accounting Criteria issued by the Commission:

On November 11, 2018, the Commission published amendments to Criterion A-2, “Application of particular standards”, for the adoption of the following provisions issued by the CINIF as of January 1 2020: B-17, “Determination of fair value”, C-3, “Accounts receivable”, C-9, “Provisions, contingencies and commitments”, C-16, “Impairment of receivable financial instruments”, C-19, “Payable financial instruments”, C-20, “Financial instruments for the collection of principal and interest”, D-1 “Revenue from contracts with customers”, D-2, “Costs of contracts with customers” and D-5, “Leases. On November 4, 2019, the Commission issued a ruling to amend the adoption date of these standards, which will be January 1, 2021.

As of the date of issuance of these consolidated financial statements, the Financial Group is in the process of evaluating and determining the effects of these new standards on its financial information.

45. Authorization of financial statements

On March 19, 2020 the accompanying consolidated financial statements and the corresponding notes were authorized by the Financial Group’s Management for issuance, consequently they do not reflect the events that occurred after that date and are subject to the approval of the Financial Group’s Ordinary General Stockholders’ Meeting, who can decide their modification in accordance with the General Law of Commercial Companies. Also, they are subject to review by the Commission, therefore they could be modified as a result of the review by this supervisory authority. The consolidated financial statements as of December 31, 2018 were approved by the Financial Group’s Stockholders’ Meeting held on April 30, 2019.contratos con clientes” y D-5 “Arrendamientos. El 4 de noviembre de 2019 la Comisión publicó una resolución que modifica la fecha de adopción de dichas normas, la cual será a partir del 1 de enero de 2021.

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INBURSA
Grupo Financiero

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